

Southern Cross Fundco Limited
Annual report and financial statements
for the year ended 30 September 2010

Registered Number: 6491311

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Southern Cross Fundco Limited
Annual report and financial statements
for the year ended 30 September 2010
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Southern Cross Fundco Limited

Directors' report for the year ended 30 September 2010

The directors present their annual report together with the audited financial statements of the company for the year ended 30 September 2010. The company's registered number is 06491311.

Principal activity

The principal activity of the company during the current year and prior period was that of an intermediate holding company and to provide funding to its subsidiaries for the development of properties.

Business review and future developments

The loss for the financial year amounted to £3,574,000 (2009: profit of £84,000).

The directors have not proposed the payment of a final dividend (2009: £nil).

Following events which have taken place after 30 September 2010, the directors are anticipating that this company will cease to trade and as such have prepared these financial statements on a break-up basis. This basis of preparation is discussed below.

Basis of preparation

As stated above, the directors have prepared these financial statements on a break-up basis. This decision has been made in the context of recent announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably:

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.
- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results, the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's

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affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in note 1 to the financial statements on page 13.

All assets and liabilities as at 30 September 2010 have been classed as current.

Principal risks and uncertainties

The key business risks and uncertainties affecting the company have been assessed as being integrated with those of the group and are not identified separately. Further discussion of these risks and uncertainties and of future performance, in the context of the Southern Cross Healthcare Group PLC as a whole, is provided in the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

As these financial statements are being prepared on a break-up basis and the company is expected to cease trading the Directors are of the opinion that the presentation of KPIs is not necessary for an understanding of the development, performance and position of the business.

Financial risk management

The company's activities expose it to market risk (including cash flow interest rate risk). Risk management is carried out by the Southern Cross Healthcare Group PLC Risk Management Committee under policies approved by the board of directors.

Cash flow interest rate risk

The company's interest rate risk arises from intercompany borrowings and receivables and therefore the risk is considered minimal.

Directors

The directors, who held office during the period and up to the date of signing the financial statements, were as follows:

R Midmer	(Resigned 31 December 2010)
K Foulkes	(Resigned 31 December 2009)
W Buchan	
D Smith	(Appointed 11 December 2009)

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on a break-up basis. In the circumstances there are a number of uncertainties over the valuation of assets and liabilities and limitations in the amount of work that the company has been able to perform in preparing these accounts. These uncertainties are referred to by the company's auditors in their audit report, which also includes references to various disclaimers and limitations to the scope of their work.

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006 it is hereby stated, in the case of each director in office at the date the directors' report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



F McCormack
Company secretary

1 September 2011

Southern Cross Fundco Limited

Independent auditors' report to the members of Southern Cross Fundco Limited

We have audited the financial statements of Southern Cross Fundco Limited for the year ended 30 September 2010 which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in shareholders' (deficit)/equity, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion: Disclaimer on view given by the financial statements

The audit evidence available to us was limited because, as explained in note 15 to the financial statements, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis. As a result of the complexities arising from the implications for the company's financial statements following this decision, we have been unable to obtain sufficient appropriate audit evidence concerning the following matters:

- The carrying value of 'amounts owed by group undertakings', as disclosed in note 8, included in the balance sheet as at 30 September 2010 at an amount of £127,000
- The carrying value of 'current tax assets' receivable from fellow group companies included in the balance sheet at 30 September 2010 at an amount of £2,000

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and

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- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – significant uncertainties and basis of preparation

In seeking to form an opinion on the financial statements, we considered the adequacy of the disclosure in respect of the following

- the disclosures in note 15 to the financial statements regarding the basis of preparation of the financial statements As explained in note 15, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis, and in preparing the financial statements on a break-up basis, the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against All assets and liabilities as at 30 September 2010 have been classed as current

Opinion on other matter prescribed by the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the view given by the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

In respect solely of the limitation of our work resulting from matters arising after the company's year end referred to above

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit, and
- we were unable to determine whether adequate accounting records have been kept

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made



Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
1 September 2011

Southern Cross Fundco Limited

Income statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Loss on disposal of subsidiary undertakings	5	(3,568)	-
Operating loss		(3,568)	
Finance income	3	-	117
Finance costs	3	(8)	-
(Loss)/profit before taxation	2	(3,576)	117
Taxation	6	2	(33)
(Loss)/profit for the period attributable to the owners of the company		(3,574)	84

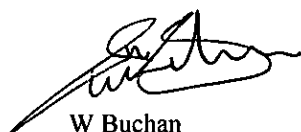
There is no other comprehensive income for the year

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Balance sheet as at 30 September 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Investments in subsidiary undertakings	7	-	-
Total non-current assets		-	-
Current assets			
Other current assets	8	127	20,163
Current tax asset	6	2	-
Total current assets		129	20,163
Total assets		129	20,163
Liabilities			
Current liabilities			
Financial liabilities	9	-	(19,613)
Payables	10	(3,535)	(349)
Current tax liability		-	(33)
Total liabilities		(3,535)	(19,995)
Net (liabilities)/assets		(3,406)	168
Equity			
Ordinary shares	12	-	-
(Accumulated deficit)/retained earnings		(3,406)	168
Total (deficit)/equity		(3,406)	168

The financial statements on pages 6 to 21 were approved by the board of directors on 1 September 2011 and signed on its behalf by



W Buchan
Director

Southern Cross Fundco Limited

Cash flow statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	13	23,222	(11,074)
Interest received	3	-	117
Interest paid	3	(8)	-
Tax paid		(33)	(33)
Net cash generated from/(used in) operating activities		23,181	(10,990)
Cash flows from financing activities			
Increase in bank borrowings		-	10,990
Proceeds from sale of investments in subsidiary undertakings		21,153	-
Repayment of intercompany borrowings		(23,167)	-
Cost of investments in subsidiary undertakings	7	(1,554)	-
Repayment of bank borrowings	9	(19,613)	-
Net cash (used in)/generated from financing activities		(23,181)	10,990
Net increase in cash and cash equivalents		-	-
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		-	-

Statement of changes in shareholders' (deficit)/equity

	Ordinary shares £'000	(Accumulated deficit)/ retained earnings £'000	Total (deficit)/ equity £'000
At 29 September 2008	-	84	84
Profit for the year attributable to the owners of the company	-	84	84
At 27 September 2009	-	168	168
Loss for the year attributable to the owners of the company	-	(3,574)	(3,574)
At 30 September 2010	-	(3,406)	(3,406)

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Statement of accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards ("IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

At the start of the financial year the company changed its internal reporting cycles and now reports on a calendar monthly basis. The results for the period ended 30 September 2010 are therefore for a period of 368 days (2009: 364 days).

The Board presents these financial statements on a break-up basis. This decision has been made in the context of recent announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably:

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.
- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

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In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in note 1 to the financial statements on page 13

All assets and liabilities as at 30 September 2010 have been classed as current

Adoption of new and revised International Financial Reporting

The following new standards, amendments and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements

Effective for periods commencing on or after

IFRS9 'Financial instruments' 1 January 2013

IAS24 Revised 'Related party disclosures' 1 January 2011

Amendment to IFRS7 'Financial instruments Disclosures' 1 July 2011

Amendment to IFRIC14 'Pre-payments of a Minimum Funding Requirement' 1 January 2011

IFRIC18 'Transfer of Assets from Customers' 30 October 2009

IFRIC19 'Extinguishing Financial Liabilities with Equity Instruments' 1 July 2010

Annual improvements 2010 1 January 2011

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the company

From 28 September 2009, the following standards, amendments and interpretations became effective and were adopted by the company

IFRS8 'Operating segments'

IAS1 Revised 'Presentation of financial statements'

IAS23 Revised 'Borrowing costs'

IAS27 Revised 'Consolidated and separate financial statements'

IFRS1 Revised 'First time adoption of IFRS'

IFRS3 Revised 'Business combinations'

IFRIC13 'Customer Loyalty Programmes'

IFRIC14 'The Limit on a Defined Benefit Asset'

IFRIC15 'Agreements for the Construction of Real Estate'

IFRIC16 'Hedges of a Net Investment Including Foreign Operations'

Amendment to IAS39 'Financial instruments Recognition and measurement', and IFRS7 'Financial instruments Disclosures' on the reclassification of financial assets

Amendment to IFRIC9 and IAS39 regarding embedded derivatives

Amendment to IFRS1 'First time adoption of IFRS' and IAS27 'Consolidated and separate financial statements' on the cost of an investment in a subsidiary, jointly controlled entity or associate

Annual improvements to IFRSs (2008)

Amendment to IAS32 'Financial instruments Presentation' and IAS1 'Presentation of financial statements on puttable financial instruments and obligations arising on liquidation'

Amendment to IFRS2, 'Share-based payments' on vesting conditions and cancellations

Annual improvements 2009

Amendment to IFRS2 'Share-based payments - Group cash-settled share-based payment transactions'

Amendments to IFRS1 for additional exemptions

Amendments to IAS32 'Financial instruments Presentation on classification of rights issues'

Amendment to IAS39 'Financial instruments Recognition and measurement' on eligible hedged items

IFRIC17 'Distribution of Non Cash Assets to Owners'

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The adoption of these standards, amendments and interpretations has not had a significant impact on the company's result for the year or equity

Consolidated accounts

The financial statements contain information about Southern Cross Fundco Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Southern Cross Healthcare Group PLC, a company registered in England and Wales

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provision for impairment. A provision is made for permanent or temporary diminution in value

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the carrying value of investments in subsidiary undertakings as at 30 September 2010 has been fully impaired

Taxation

The current tax is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been in force during the period

Finance income

Finance income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable

Other current assets

Other current assets comprise amounts owed by group undertakings, which are measured at the best estimate of the income required to settle the obligation

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

Payables

Payables comprise accruals, which are measured at the best estimate of the expenditure required to settle the obligation

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

Fair value estimation

The carrying value less impairment provision of other current assets and payables are assumed to approximate their fair values

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Financial risk management

The company's activities expose it to market risk (including cash flow interest rate risk) Risk management is carried out by the Southern Cross Healthcare Group PLC Risk Management Committee under policies approved by the board of directors

Cash flow interest rate risk

The company's interest rate risk arises from intercompany borrowings and receivables and therefore the risk is considered minimal

Liquidity risk

As regards liquidity, the policy of the company has throughout the year been to maintain a mix of short and long-term borrowings with short-term flexibility achieved through overdraft and revolving credit facilities Borrowings are monitored on a group, not a company basis

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Notes to the financial statements for the year ended 30 September 2010

1 Impairment of investments in subsidiary undertakings

The decision has been made to fully impair the carrying value of investments in subsidiary undertakings and as a result an impairment of £3 has been recognised in the income statement for the current year

2 (Loss)/profit before taxation

Audit fees in the current and prior year have been borne by another group company, Southern Cross Healthcare Limited

3 Net finance (costs)/income

	2010	2009
	£'000	£'000
Bank loan interest	(103)	(482)
Other finance costs	(261)	-
Finance costs	(364)	(482)
Interest receivable on amounts owed by group undertakings	356	599
Finance income	356	599
Net finance (costs)/income	(8)	117

4 Employees and directors

The company has no employees other than its directors (2009 none) Directors' emoluments in the current and prior year were paid by Southern Cross Healthcare Limited, another group company Their services to this company and to a number of other subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company

5 Loss on disposal of subsidiary undertakings

During the year the company disposed of three subsidiary undertakings (note 6) The loss recognised on disposal of Portishead Fundco Limited was £682,000, the loss on disposal of Faversham Fundco Limited was £1,807,000 and the loss on disposal of Copthorne Fundco Limited was £1,079,000

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6 Taxation

	2010 £'000	2009 £'000
Current tax		
– current period	(2)	33
Taxation	(2)	33

The current rate applicable to the company for the year ended 30 September 2010 was 28% (2009 28%)

The tax for the current differs to (2009 is in line with) the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
(Loss)/profit before taxation	(3,576)	117
(Loss)/profit before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	(1,001)	33
<i>Effects of</i>		
Expenses not deductible for tax purposes	999	-
Tax (credit)/charge for the year	(2)	33

The change in the standard rate of corporation tax from 28% to 27% in April 2011 will impact on the current tax charge going forward

7 Investments in subsidiary undertakings

	£
Shares in subsidiary undertakings	
Cost and net book amount at 28 September 2008 and 27 September 2009	6
Additions	1,554,046
Disposals	(1,554,049)
Impairment	(3)
At 30 September 2010	-

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During the current year the company disposed of three subsidiary undertakings – Portishead Fundco Limited, Faversham Fundco Limited and Copthorne Fundco Limited. The remaining subsidiaries are detailed below

Property development companies

Mendip Fundco Limited

Havant Fundco Limited

Taunton Fundco Limited

The additions during the year relate to additional share capital which was purchased in respect of the three subsidiary undertakings disposed of

Following the decision to prepare these financial statements on a break-up basis the carrying value of investments in subsidiary undertakings has been fully impaired resulting in an impairment being recognised in the income statement of £3

8 Other current assets

	2010	2009
	£'000	£'000
Amounts owed by group undertakings	127	20,163

Amounts owed by group undertakings were formerly underwritten by the undertaking of the Southern Cross Healthcare Group to provide financial support across the Group. Given the statements made regarding going concern throughout these financial statements the Group can no longer undertake to provide this financial support and therefore the recoverability of amounts owed by group undertakings are subject to significant doubt.

The directors note that the auditor's report includes a disclaimer of opinion in respect of the above balance.

9 Financial liabilities - borrowings

	2010	2009
	£'000	£'000
Bank loans	-	19,613

The bank loans were secured by a fixed and floating charge over the assets of its subsidiaries. Interest on the bank loans was charged at margins between 1.25% and 2.5% above LIBOR.

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10 Payables

	2010	2009
	£'000	£'000
Accruals	71	13
Amounts owed to group undertakings	3,464	336
	3,535	349

Accruals are not subject to interest. Amounts owed to group undertakings are unsecured, repayable upon demand and interest is charged at 4% (2009: 5%).

11 Financial instruments

Numerical financial instruments disclosures are set out below.

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", management has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives were found.

Financial instruments

The company's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources. The main purpose of these financial instruments is to manage the financing of the company's operations.

It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies remained unchanged throughout the periods presented.

Currency risks

The company is based in the United Kingdom, with its operations entirely within the United Kingdom. It does not hold any investment in overseas operations and consequently the balance sheet is not exposed to movements in currency exchange rates. The company does not have sales or purchase transactions in currencies other than the unit's functional currency and consequently does not have transactional currency exposures.

Numerical disclosures

Interest rate risk

The company has interest bearing liabilities. The company's policy and processes for managing interest rate risk are explained in the accounting policies.

After taking into account interest rate caps and collars entered into by the company, the interest rate and currency profile of the company's financial liabilities is:

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	2010	2009
Sterling	£'000	£'000
Floating rate borrowings		
Bank borrowings	-	19,613

The floating rate financial liabilities have comprised sterling denominated bank borrowings and overdrafts that bear interest at rates between 1.25% and 2.5% above UK bank base rates

Maturity of financial liabilities and undrawn commitments

The maturity profile of the company's financial liabilities is as follows

	2010	2009
	£'000	£'000
Within one year	-	20,113
In more than one year, but less than two years	-	300
	-	20,413

Included within the above is £nil of interest (2009: £0.8m)

The company's undrawn commitments expiry date profile is as follows

	2010	2009
	£'000	£'000
Within one year	-	3,000

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below

	2010	2009
	Loans and receivables	Loans and receivables
	£'000	£'000
Assets as per balance sheet		
Other current assets	127	20,163

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	2010 Other financial liabilities £'000	2009 Other financial liabilities £'000
Liabilities as per balance sheet		
Financial liabilities - borrowings	-	19,613
Payables	3,535	349
	3,535	19,962

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values

Interest rate cap and collar contracts have been marked to market to produce their fair value figures. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. For floating rate bank loans, fair values closely approximate to book values.

The fair value of short-term loans and overdrafts approximate to the fair carrying value because of the short maturity of these instruments. The fair value of long-term borrowings approximate to the carrying value reported in the balance sheet as the majority are floating rate.

Financial assets and financial liabilities are denominated in sterling.

12 Ordinary shares

	2010 £	2009 £
Authorised share capital		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted and fully paid		
1 ordinary share of £1 each	1	1

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13 Cash flows from operating activities

Reconciliation of operating loss before taxation to net cash flow from operating activities

	2010	2009
	£'000	£'000
Operating loss	(3,568)	-
<i>Adjustments for</i>		
Loss on disposal of investments in subsidiary undertakings	3,568	-
<i>Changes in working capital</i>		
Decrease/(increase) in other current assets	20,036	(10,935)
Increase/(decrease) in payables	3,186	(139)
Cash generated from/(used in) operating activities	23,222	(11,074)

14 Related party transactions

The majority of the transactions in the current year and prior period were funded through the bank account held in Southern Cross Healthcare Limited which is central to the group's treasury activities. The main transactions with group companies are disclosed below.

Year ended 30 September 2010

	Working capital movement decrease	Interest received	Net amount owed to
	£'000	£'000	£'000
Fellow subsidiary undertakings	(23,520)	356	(3,337)

Year ended 27 September 2009

	Working capital movement decrease	Funding for development costs	Interest received	Net amount owed by
	£'000	£'000	£'000	£'000
Fellow subsidiary undertakings	(172)	10,990	117	19,827

Southern Cross Fundco Limited

The funding in the prior year was provided to the following subsidiary undertakings

Copthorne Fundco Limited
Faversham Fundco Limited
Havant Fundco Limited
Mendip Fundco Limited
Portishead Fundco Limited
Taunton Fundco Limited

The key management of the company are deemed to be the Board of Directors who have authority and responsibility for planning and controlling all significant activities of the company

15 Post balance sheet events

Since the end of the current financial year there have been events and announcements made which have resulted in the directors deciding to prepare these financial statements on a break-up basis

This decision has been made in the context of the following events and announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.
- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in

Southern Cross Fundco Limited

the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

16 Ultimate parent company

The immediate parent company, ultimate parent undertaking and controlling party is Southern Cross Healthcare Group PLC, a company registered in England, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Southern Cross Healthcare Group PLC's consolidated financial statements can be obtained from its registered office.

Southgate House, Archer Street, Darlington, County Durham, DL3 6AH

17 Registered office and domicile

The company's registered office is Southgate House, Archer Street, Darlington, County Durham DL3 6AH and is registered in England and Wales.