

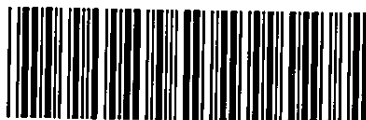
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Cayman Islands Company  
Registration No. FC 026602

**LIBRA NO.2 LIMITED**

**Report and Financial Statements  
30 September 2008**

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COMPANIES HOUSE

**REPORT AND FINANCIAL STATEMENTS 2008**

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**REPORT AND FINANCIAL STATEMENTS 2008**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

J M J M Jensen	Executive Director
D C Nicholson	Executive Director

**REGISTERED OFFICE**

Maples Corporate Services Limited  
PO Box 309  
Ugland House  
Grand Cayman KY1-1104  
Cayman Islands

**SOLICITORS**

Eversheds LLP  
Kett House  
Station Road  
Cambridge CB1 2JY

**BANKERS**

Barclays Bank PLC  
South East Corporate Banking Centre  
PO Box 112  
Horsham  
West Sussex RH12 1YQ

**AUDITORS**

Deloitte LLP  
Chartered Accountants  
London

## DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 30 September 2008.

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law which would apply if the Company was incorporated in Great Britain).

## PRINCIPAL ACTIVITY

The principal activity of the Group is the purchase and retention of freehold and long leasehold interests, in modern, purpose-built care homes.

The principal activity of the Company is to act as a holding company, which conducts corporate activities on behalf of the Group. The Directors intend to continue these activities in the forthcoming year.

## BUSINESS REVIEW

At 30 September 2008 the Group owned the freehold and long leasehold interests in 294 care homes, 3 residential properties and 2 sites valued at £894,625,000. The Market Valuation was £929,776,000 if the properties were sold as a business.

## RESULTS

The results of the Group for the years ended 30 September 2008 and 30 September 2007 are set out in the consolidated profit and loss account on page 9.

The principal Key Performance Indicators (KPIs) used by the Group to measure its own performance are shown below:

	2008	2007	Increase/ (decrease)
Turnover	£70.3m	£68.3m	£2.0m
Operating profit excluding exceptional costs	£67.7m	£65.4m	£2.3m
Operating cash flow after interest	£(5.4)m	£(12.7)m	£7.3m
Shareholders' (deficit) / funds	£(438.7)m	£87.9m	£(526.6)m

Group turnover for the year ended 30 September 2008 was £70.3m as compared to £68.3m for the preceding year. This produced an increase in the Group turnover by £2.0m which principally due to 2.5% rent uplift on the operators' leases.

Operating profit excluding exceptional costs for the year ended 30 September 2008 is calculated as operating profit of £66.6m plus exceptional costs of £1.1m (2007: £65.2m plus £0.2m).

The effective improvement in operating profit before exceptional costs of £2.3m was primarily due to favourable group turnover variance in the current year.

Operating cash flow after interest for the year ended 30 September 2008 is calculated as net cash inflow from operating activities of £67.5m less net cash outflow from returns on investment and servicing of finance of £72.9m (2007: £66.1m less £78.8m).

**DIRECTORS' REPORT (continued)****RESULTS (Continued)**

Shareholders' funds have reduced from £87.9m at 30 September 2007 to shareholders' deficit of £438.7m at 30 September 2008. The reduction of £526.6m in shareholders' funds was due to the following:

- (a) the loss for the year of £44.7m due to the continuing net interest payable on bank debts (see note 7 of the financial statements);
- (b) the Company declared and paid a dividend of £89.0m on 27 November 2007; and
- (c) the property valuation of the Group portfolio has fallen significantly from £1,287.3m at 30 September 2007 to £894.6m at 30 September 2008. The fall in the Group property valuation was primarily due to the impact of the current financial crisis.

**DIVIDENDS**

The Company has declared and paid a dividend of £89.0m on 27 November 2007 (2007: £nil).

**DIRECTORS**

The following Directors served during the year:

<b>Directors</b>	<b>Date appointed</b>	<b>Date Resigned</b>
P V Taylor	-	19 December 2008
D C Nicholson	-	-
J M J M Jensen	19 December 2008	-

No Director has, or had, any interests in the shares of the Company or of any subsidiary undertaking. None of the Directors hold a service contract with the Company or with any subsidiary undertakings. There is no Company share option scheme in existence.

None of the Directors has had any interests in the shares of the ultimate parent company, Delta Commercial Property LP.

**FINANCIAL RISK MANAGEMENT**

The Directors have the overall responsibilities for the Group in assessing risk and taking appropriate action.

**Cash flow risk**

The Group used derivative financial instruments to reduce the exposure to interest rate movements in line with the Group's risk management policies as approved by the Board of Directors. The interest rate swap agreement was signed with Credit Suisse on 15 January 2007 as disclosed in note 13 of the financial statements. The Group does not use derivative financial instruments for speculative purposes.

**Credit risk**

Credit risk is attributable to receivables in relation to rents receivable from third party tenants.

The Group has concentration of credit risk as the major tenant is Southern Cross Healthcare Group Plc; however, this is mitigated by the large number of geographically diverse homes and associated customers.

**Liquidity risk**

In order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future developments, the Group has reserved £11.2m in an interest bearing cash reserve account and £0.3m in capital expenditure reserve account at 30 September 2008.

**Price risk**

The Group has entered into a number of medium-term rental agreements with its tenants which are subject to fixed annual price increases.

**DIRECTORS' REPORT (continued)**

**FINANCIAL RISK MANAGEMENT (Continued)**

**Price risk**

The Group has entered into a number of medium-term rental agreements with its tenants which are subject to fixed annual price increases.

**GOING CONCERN**

As set out in note 13 to the financial statements, at 30 September 2008, the Group had bank loans of £1,172m (the 'Senior loan') and £70m (the 'Term Loan Facility') secured on the Group's investment properties and freehold land and buildings.

As at 29 September 2008, the portfolio was valued by King Sturge LLP at £929,776,000 (assuming costs of 1.75%). This results in a loan to value ratio of 126%, which puts the senior loan in breach of its Loan to Value ('LTV') covenant of 92.7%. There are also a number of breaches of other covenants to the loan, which mainly relate to the provision of information. Further, in the light of deteriorating conditions in the real estate investment market, another valuation was commissioned which shows that as at 15 December 2008 the value of the portfolio had dropped to £863,304,000 (assuming costs of 1.75%). This further diminution has not been reflected in the financial statements.

In addition, at 15 January 2009, the loan amounts remained outstanding. The maturity date of the senior loan was 15 January 2009 (the original final maturity date) with an option to extend the loan to 15 January 2010 provided no default was outstanding at the original final maturity date. This failure to repay on the maturity date was an event of default which meant that the loan became instantly repayable.

As a result, the Directors of the Company commenced discussions with the loan Special Servicer, Capmark Services UK Limited ('Capmark'), about how best to resolve this situation. On 25 November 2008 a standstill agreement was put in place until 14 January 2009, and then further extended by all parties to 14 April 2009, which suspends the ability of Capmark and others to exercise their rights in relation to certain specified events of default. This allows the Group time in which to negotiate a solution to the problem of the breached covenants without threat of foreclosure.

The £70m term loan facility is also in breach as a result of the above. The lenders of this loan have also entered into the standstill agreement and have thus suspended their ability to exercise any rights they may have.

There is a provision in the standstill agreement for a Chief Restructuring Officer to be appointed to the board of the Group, whose role would be to represent the Company and Libra No. 3 Limited, its subsidiary undertaking, in its negotiations between the lenders and the Special Servicer. The Chief Restructuring Officer was appointed on 19 December 2008.

Further, the Directors have received an undertaking from Capmark that the cash flow required to operate the Group until the refinancing has been concluded will be forthcoming. The undertaking states that it is the intention of the Senior Creditors to provide the Group with the funds it requires to make payments falling due as a consequence of the Group carrying on its business, including without limitation (a) day-to-day operating costs; (b) restructuring costs; and (c) other exceptional costs incurred in relation to the Potential Restructuring.

Given these circumstances, the Directors do not currently believe there is a risk that the Group will go into insolvent liquidation, although this could change if the negotiations envisaged by the standstill agreement were to fail. Given the above, there is a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

**DIRECTORS' REPORT (continued)**

Nonetheless, at the present time, the Directors consider it appropriate to prepare the financial statements on the going concern basis. In the event that a going concern basis should become inappropriate, the assets of the Group would be written down to their recoverable value and provision made for any further liabilities that may arise. At this time it is not practicable to quantify such adjustments. See further details in note 1 to the financial statements.

**PAYMENT TO CREDITORS**

The Group's policy is to fix payment terms when agreeing the terms of each transaction. It is the Group's general policy to pay suppliers in accordance with the agreed terms and conditions, provided that the supplier has complied with those terms. The creditors' days for the Group at 30 September 2008, calculated in accordance with the Companies Act 1985 were 66 (2007: 32). Creditor days for the Company at 30 September 2008 were nil (2007: nil).

**EMPLOYMENT POLICY**

The Group supports the principle of Equal Opportunities in employment and opposes all forms of unfair and unlawful discrimination. The Group's employment policies are designed to attract, retain and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion or disability.

**THIRD PARTY INDEMNITY PROVISIONS**

The Group has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force to the date of this report.

**AUDITORS**

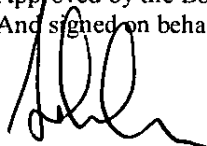
Each of the persons who is a Director at the date of approval of this report confirms that:

- 1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 2) the Director 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.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
And signed on behalf of the Board



D C Nicholson  
Director  
Date: 20 January 2009

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual 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 the law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law which would apply if the Company was incorporated in Great Britain). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit and loss of the Group for that period. In preparing these financial statements, the Directors have elected to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985 applicable to the overseas companies. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIBRA NO.2 LIMITED**

We have audited the Group and Parent Company financial statements of Libra No.2 Limited (the 'Company') for the year ended 30 September 2008, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholders' funds, the consolidated note of historical cost profits and losses and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 236 of the Companies Act 1985 applicable for overseas companies. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, which would apply if the Company was incorporated in Great Britain) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 applicable to overseas companies. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group and the Company's affairs as at 30 September 2008, and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF LIBRA NO.2 LIMITED (Continued)**

**Emphasis of matter – Going concern**

Without qualifying our opinion, we draw attention to the disclosures made in note 1 of the financial statements concerning the Group's ability to continue as a going concern.

The Group is in breach of the financial covenants in its loan agreement (as described in note 1). The Directors are in discussion with Capmark Services UK Limited regarding a resolution of the breach. However, the outcome of these discussions and the timing of their conclusion are uncertain.

These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have prepared the financial statements on the going concern basis. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern as it is not practicable to determine or quantify them.



Deloitte LLP  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
Date: 20 January 2009

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Year ended 30 September 2008**

	Notes	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
<b>TURNOVER AND GROSS PROFIT</b>			
Continuing operations	3	70,344	68,254
Administrative expenses - ongoing		(2,626)	(2,850)
- exceptional	5	(1,141)	(215)
Total administrative expenses		(3,767)	(3,065)
<b>OPERATING PROFIT</b>	6	66,577	65,189
Loss on disposal of Secured Notes		-	(48,740)
Net loss on disposal of investments in Swap Deposit Agreements and Zero Coupon Notes		-	(8,363)
Loss on disposal of tangible fixed assets		-	(16)
Net interest payable and similar charges	7	(111,546)	(149,045)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(44,969)	(140,975)
Tax on loss on ordinary activities	8	-	(19)
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND LOSS FOR THE FINANCIAL YEAR</b>	18	(44,969)	(140,994)

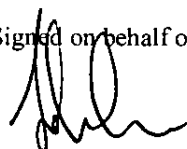
Results are derived wholly from continuing operations.

**BALANCE SHEETS**  
**at 30 September 2008**

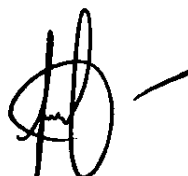
	Notes	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
<b>TANGIBLE FIXED ASSETS</b>					
Investment properties	10	894,025	1,286,565	-	-
Other fixed assets	10	600	735	-	-
		<u>894,625</u>	<u>1,287,300</u>	<u>-</u>	<u>-</u>
<b>INVESTMENTS</b>	11	-	-	-	187,659
		<u>894,625</u>	<u>1,287,300</u>	<u>-</u>	<u>187,659</u>
<b>TOTAL FIXED ASSETS</b>		<u>894,625</u>	<u>1,287,300</u>	<u>-</u>	<u>187,659</u>
<b>CURRENT ASSETS</b>					
Debtors	12	4,032	92,287	124	105,183
Short-term deposits		23,440	28,968	-	-
Cash at bank and in hand		89	403	-	-
		<u>27,561</u>	<u>121,658</u>	<u>124</u>	<u>105,183</u>
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(1,316,530)</u>	<u>(31,660)</u>	<u>(128,320)</u>	<u>(78,488)</u>
<b>NET CURRENT (LIABILITIES) / ASSETS</b>		<u>(1,288,969)</u>	<u>89,998</u>	<u>(128,196)</u>	<u>26,695</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(394,344)</u>	<u>1,377,298</u>	<u>(128,196)</u>	<u>214,354</u>
<b>CREDITORS: amounts falling due after more than one year</b>	14	<u>(43,600)</u>	<u>(1,289,364)</u>	<u>(43,600)</u>	<u>(126,420)</u>
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	15	<u>(792)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET (LIABILITIES) / ASSETS</b>		<u>(438,736)</u>	<u>87,934</u>	<u>(171,796)</u>	<u>87,934</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	17	200	200	200	200
Revaluation reserve	18	(158,601)	234,064	-	110,320
Profit and loss account	18	(280,335)	(146,330)	(171,996)	(22,586)
<b>TOTAL SHAREHOLDERS' (DEFICIT) / FUNDS</b>		<u>(438,736)</u>	<u>87,934</u>	<u>(171,796)</u>	<u>87,934</u>

These financial statements were approved and authorised for issue by the Board of Directors on 20 January 2009.

Signed on behalf of the Board of Directors



D C Nicholson  
Director



J M J M Jensen  
Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 30 September 2008**

		<b>Year ended 30 September 2008 £000</b>	<b>Year ended 30 September 2007 £000</b>
<b>Net cash inflow from operating activities</b>	<b>Note 20</b>	<b>67,551</b>	<b>66,045</b>
<b>Return on investments and servicing finance</b>			
Interest paid		(73,986)	(67,947)
Other similar charges paid		(4)	(17,784)
Interest received		1,098	6,970
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(72,892)</b>	<b>(78,761)</b>
<b>Taxation</b>			
Income tax paid		(101)	(31)
Corporation tax paid		(400)	646
<b>Taxation paid</b>		<b>(501)</b>	<b>615</b>
<b>Capital expenditure and financial investments</b>			
Purchase of tangible fixed assets		-	(95)
<b>Net cash outflow from investing activities</b>		<b>-</b>	<b>(95)</b>
<b>Acquisitions and disposals</b>			
Proceeds from the disposal of Swap Deposit Agreements and Zero Coupon Notes		-	182,038
Acquisition of Care Homes Holding Limited		-	(40)
Disposal of Care Homes Holding Limited		-	40
<b>Net cash inflow from acquisitions and disposals</b>		<b>-</b>	<b>182,038</b>
Equity dividends paid		(89,036)	-
<b>Net cash (outflow) / inflow before use of liquid resources and financing</b>		<b>(94,878)</b>	<b>169,842</b>
<b>Management of liquid resources</b>			
Short-term deposit withdrawal / (investment) (net)		5,528	(12,469)
<b>Net cash (outflow) / inflow before financing activities</b>		<b>(89,350)</b>	<b>157,373</b>
<b>Financing</b>			
<b>Loan finance</b>			
Bank loans drawn down		-	1,810,935
Bank loans repaid		-	(1,105,601)
Secured Notes repaid		-	(751,169)
Less: financing costs		-	(27,150)
<b>Net cash outflow from the loan finance</b>		<b>-</b>	<b>(72,985)</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 30 September 2008**

(Continued)

	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
<b>Financing (Continued)</b>		
<b>Loan Notes</b>		
Repaid / (Issue) of loans from / to Delta G-Co Limited and Starsign Limited	89,036	(89,036)
Issue of loans by Delta G-Co Limited and Starsign Limited	-	4,590
Loan issued by The Royal Bank of Scotland plc	-	40
Repaid of loan issued by the Royal Bank of Scotland plc	-	(40)
<b>Net cash inflow / (outflow) from the issue of loans</b>	<u>89,036</u>	<u>(84,446)</u>
<b>Net cash inflow / (outflow) from financing activities</b>	<b>89,036</b>	<b>(157,431)</b>
Decrease in cash in the year	21 <u>(314)</u>	<u>(58)</u>

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**Year ended 30 September 2008**

	Notes	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
Loss for the year	18	(44,969)	(140,994)
Net (deficit) / surplus on revaluation of properties	18	(392,665)	91,533
Total recognised loss for the year		<u>(437,634)</u>	<u>(49,461)</u>

**CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**Year ended 30 September 2008**

	Notes	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
Loss for the year	18	(44,969)	(140,994)
Dividend paid		(89,036)	-
Net (deficit) / surplus on revaluation of properties	18	(392,665)	91,533
Net decrease in shareholders' funds		(526,670)	(49,461)
Shareholders' funds at the beginning of year		87,934	137,395
Shareholders' (deficit) / funds at end of year		<u>(438,736)</u>	<u>87,934</u>

**CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES**  
**Year ended 30 September 2008**

	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
Loss on ordinary activities before taxation	(44,969)	(140,975)
Historical cost loss on ordinary activities before taxation	(44,969)	(140,975)
Historical cost loss retained for the year	<u>(44,969)</u>	<u>(140,994)</u>

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2008

#### 1. GOING CONCERN

At 30 September 2008, the Group had bank loans of £1,172 million (the 'Senior Loan') and £70 million (the 'Term Loan Facility') secured on the Group's investment properties and freehold land and buildings. At 16 January 2009, the loan amounts remain outstanding. The maturity date of the senior loan was 15 January 2009 (the original final maturity date) with an option to extend the loan to 15 January 2010 provided no default is outstanding at the original final maturity date.

The Company declared a dividend on 27 November 2007 of £89,035,586, and there was a deficit on the revaluation of properties of £392,665,000 in the year ended 30 September 2008. As a result, the Group is now in a net liability position.

Under the terms of the Senior Loan, the Group has to comply with a number of financial covenants, of which the two most material are a Loan to Value ('LTV') covenant and an Interest Cover Ratio ('ICR') covenant. Further, in order for the Group to continue to trade as a going concern, the Directors of each of the entities in the Group need to be satisfied that they will continue to be able to meet their operating costs and expenses as they fall due.

The Directors have prepared cash flow forecasts covering the period to 31 March 2010 which show that there is a shortfall in the operational cash flow of the Company in the period. However, the Directors have received an undertaking from Capmark Services UK Limited ('Capmark'), the Special Servicer to the Senior Loan, that the cash flow required to operate the Group will be forthcoming whilst discussions with respect to the Potential Restructuring are continuing. The cash flow forecasts also indicate that the ICR test will not be met throughout the testing period. The undertaking states that it is the intention of the Senior Creditors to provide the Group with the funds it requires to make payments falling due as a consequence of the Group carrying on its business, including without limitation (a) day-to-day operating costs and expenses; (b) restructuring costs; and (c) other exceptional costs incurred in relation to the Potential Restructuring.

The Directors have also considered the LTV test, and note that this was not met as at 30 September 2008. The Directors have been advised by their valuers, King Sturge LLP, that they consider that as at 29 September 2008 the appropriate yield for the Group's property portfolio is 7.42%, and the value of the portfolio is £929,767,000 after costs of 1.75%, on the basis of the properties being sold as a business, resulting in an LTV ratio of 126%.

This breaches the LTV covenant which is set at 92.7%, and the Group was not therefore in a position to obtain the extension of the loan as at 15 January 2009 unless this breach, and other breaches chiefly concerning information covenants which remain unremedied, had been waived. The effect of these breaches was that the loan became immediately repayable as at 15 January 2009. The failure to comply with these covenants has also resulted in a default in the £70 million term loan facility.

However, the Directors of the Company have initiated discussions with Capmark under the securitisation structure which operates alongside the bank loan and have entered into a standstill agreement which suspends the rights and remedies of the loan servicer against specified breaches of the loan until 14 April 2009.

Given these circumstances, the Directors do not currently believe there is a risk that the Company will go into insolvent liquidation, although this could change if the negotiations for which the standstill agreement allows were to fail. Given the above, there is a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, at the present time, the Directors consider it appropriate to prepare the financial statements on the going concern basis. In the event that a going concern basis should become inappropriate, the assets of the Group would be written down to their recoverable value and provision made for any further liabilities that may arise. At this time it is not practicable to quantify such adjustments.



## NOTES TO THE ACCOUNTS

### Year ended 30 September 2008

#### 2. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

##### **Basis of accounting**

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties and land and buildings, and in accordance with all applicable United Kingdom law and accounting standards. The consolidated financial statements incorporate the financial statement of the Company and its subsidiary undertakings for the year ended 30 September 2008.

##### **Basis of consolidation**

Acquisitions are accounted for under the acquisition method.

The financial statements consolidate the financial statements of the Company and its subsidiaries. Prior to 1 December 2006 Care Homes No. 1 Limited, Care Homes No. 2 (Cayman) Limited and Care Homes No. 3 Limited were not subsidiary undertakings of the Group; however, by reason of contractual arrangement between the Group and the Care Homes Group, under FRS 5 'Reporting the Substance of Transactions', the financial statements of Care Homes Group are required to be consolidated as part of the Group.

##### **Turnover**

Turnover represents amount receivable for goods and services provided and are attributable to the principal activity of the Group. Rental income includes a base pavement rent plus an additional turnover rent element calculated and recognised at the end of each individual lease anniversary year.

##### **Valuation of land and building**

##### **Investment properties**

The cost of investment properties is purchase cost, any incidental costs of acquisition and the cost of capital improvements. Investment properties represent freehold and long leasehold properties held for long-term retention. In accordance with SSAP No.19 'Accounting for Investment Properties', these investment properties are valued by King Sturge LLP, the qualified external valuers on an individual basis at Market Value. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

##### **Other fixed assets – land and buildings**

The residential properties are held to provide accommodation to care employees of Southern Cross Healthcare Group Limited, a tenant of the Group and are valued by King Sturge LLP, the qualified external valuers.

##### **Capital expenditure on the investment properties portfolio assets**

Capital expenditure incurred on a leased care home, which improves the physical condition above the level required in the lease and which enhances the property's value, is capitalised. Otherwise such capital expenditure is charged to the profit and loss account.

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2008

#### 2. ACCOUNTING POLICIES (Continued)

##### Depreciation

In accordance with SSAP No.19, no depreciation is provided in respect of investment properties. Under the terms of the Group's leases, freehold and long leasehold properties are required to be maintained to a high standard by its tenants.

The fact that no depreciation is provided in respect of the investment properties is a departure from the requirements of the Companies Act 1985, which requires all fixed assets to be depreciated over their effective useful lives. However, such properties are not held for consumption, but for investment, and the Directors consider that systematic depreciation would be inappropriate and would not give a true and fair view. The accounting policy adopted and departure from the Companies Act 1985 are therefore necessary for the accounts to give a true and fair view. Depreciation is one of the factors reflected in the annual revaluation, and amounts, which might otherwise have been charged, cannot be separately identified or quantified.

Land and buildings within other fixed assets are depreciated in equal instalments over the estimated useful economic lives of each category of asset. The amount of depreciation, the calculation of which is based on the valuation (previously based on cost) less estimated residual value, is charged to the profit and loss account with an appropriate adjustment made to the revaluation reserve by the transfer of a sum from the revaluation reserve to the profit and loss account. The estimated useful lives are as follows:

Freehold land	no depreciation
Freehold building	50 years

##### Investments and disposals

Investments held by the Company as fixed assets are revalued to the amounts of the underlying net assets of the individual subsidiaries. Any surplus or deficit arising on revaluation is transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

The profit or loss on disposal of investments arising from the difference between the carrying amount of the investment and the proceeds of sale was charged to the profit and loss account at the date of disposal.

##### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which have originated at the balance sheet date and which could give rise to an obligation to pay more or less tax in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognised in respect of gains and losses on revalued assets unless the company has entered into a binding agreement to sell the assets and the gains or losses have been recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2008

#### 2. ACCOUNTING POLICIES (Continued)

##### Secured Notes

The profit or loss of secured notes arising from the difference between the cost and redemption amount was charged to the profit and loss account at the date of redemption.

##### Finance costs

Costs which are incurred directly in connection with the raising of bank loans and secured notes are amortised at a constant rate over the lives of the loan facility and secured notes in accordance with FRS 4 'Capital Instruments'. The cost was written off fully when the existing facility is cancelled or when the secured notes were redeemed.

##### Interest

Interest receivable and interest payable are recognised in the financial statements on an accruals basis. Interest on Deposit Swap Agreements, Zero Coupon Bonds and Guaranteed Investment Contract was capitalised on a monthly basis over their respective lives. Discount on secured notes, being interest paid in advance, were amortised over the lives of the secured notes or had been written off when the secured notes were redeemed.

##### Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange for sterling ruling at the dates of the transactions. All monetary assets and liabilities in foreign currencies are expressed in sterling at the year end rates. Gains and losses arising from the movements in exchange rates during the period are dealt with in the profit and loss account.

##### Leased assets

Rental paid under operating leases are charged to the profit and loss account on an accrual basis over the life of the lease.

##### Pension

The Group contributes to the defined contribution pension schemes of their staff at rates of 10% to 20% of basic salary, which is charged to the profit and loss account as incurred.

##### Financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements in line with the Group's risk management policies. The Group does not enter into derivative financial instruments for speculative purposes. Amounts payable or receivable in respect of the interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

##### Redeemable Preference Shares

Redeemable preference shares are classified according to the substance of the contractual arrangements entered into.

##### Bank loans

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**3. TURNOVER AND GROSS PROFIT**

Turnover, which is stated net of value added tax, comprises the following from the Group's ordinary activities, which take place wholly within the United Kingdom:

	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
Pavement rent	69,169	67,562
Turnover rent	1,002	563
Commissions and fees receivable	173	129
	<u>70,344</u>	<u>68,254</u>

**4. STAFF COSTS**

The aggregate payroll costs (including Directors) were as follows:

Group	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
Wages and salaries	316	525
Termination payments* - cash	-	215
Social security costs	39	65
Pension – defined contribution	28	61
	<u>383</u>	<u>866</u>

\* Termination payments in respect of the Group's restructuring have been disclosed under note 5 'Exceptional costs'.

For the period from 12 December 2006 to 28 June 2007, R N Midmer was a Director. He received £398,420 from the Group. This included pension contribution of £30,917 and termination payment in cash amount of £204,170. These amounts have been included in the administrative expenses. None of the other Directors during the year and at the year end received emoluments from the Company or the Group during the current and preceding year.

**Company**

There are no staff costs incurred by the Company during the current or the preceding year. All staff costs have been borne by NHP Management Limited, a group undertaking.

**Average number of employees (including Directors):**

	Year ended 30 September 2008 No.	Year ended 30 September 2007 No.
Group		
Administrative	4	4
Director	-	1
	<u>4</u>	<u>5</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**5. EXCEPTIONAL COSTS**

The following exceptional costs have been incurred or provided for and are included in total administrative expenses:

	<b>Year ended 30 September 2008 £000</b>	<b>Year ended 30 September 2007 £000</b>
Termination payments	-	215
Tenant receivership support costs	1,141	-
	<u>1,141</u>	<u>215</u>

**6. OPERATING PROFIT**

Group operating profit is arrived after charging:

	<b>Year ended 30 September 2008 £000</b>	<b>Year ended 30 September 2007 £000</b>
Depreciation of other fixed assets	10	24
Operating lease rentals - buildings	137	137
Provision for bad and doubtful debts	860	-
Auditors' remuneration		
- Group audit – current year	154	141
- Company audit	12	12
- Auditing accounts of subsidiaries pursuant to regulations	10	9
- Tax services*	302	107
	<u>478</u>	<u>269</u>

\* The tax fees include amounts of £176,250 payable to the Group's auditors in respect of the tax services provided on the 2004 and 2005 tax returns enquiry made by the HM Revenue and Custom.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**7. NET INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 30 September 2008 £000	Year ended 30 September 2007 £000
<b>Group</b>		
<b><u>Interest receivable:</u></b>		
Interest receivable on deposits	1,095	945
Interest receivable on Guaranteed Investment Contracts	-	391
Interest receivable from Deposit Swap Agreements and Zero Coupon Notes	-	1,148
Other interest receivable	188	203
	<u>1,283</u>	<u>2,687</u>
<b><u>Interest payable:</u></b>		
Interest payable on bank loans	(98,261)	(81,072)
Interest payable on secured notes	-	(6,503)
Interest payable – shareholders loans	(276)	(221)
Interest payable on accrued dividend of preference shares	(1,308)	(680)
Dividends – redeemable preference shares	(5,236)	(5,232)
Other interest payable	(5)	(1)
Amortisation of discount and issue costs on secured notes*	-	(22,990)
Finance costs **	(7,743)	(35,033)
	<u>(112,829)</u>	<u>(151,732)</u>
Net interest payable and similar charges	<u>(111,546)</u>	<u>(149,045)</u>

\* includes discount and issue costs on secured notes of £nil (2007: £22,643,000) written off following the redemption of secured notes on 4 December 2006.

\*\* facility costs of £nil (2007: £11,077,000) incurred in respect of facility agreement with The Royal Bank of Scotland plc have been written off to 'Finance costs' following the replacement of that facility with a new facility with CS Funding 1 Limited on 15 January 2007 (see note 13). Further to this, £nil (2007: £17,778,000) was paid to The Royal Bank of Scotland plc under a profit share agreement.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**8. TAX ON LOSS ON ORDINARY ACTIVITIES**

<b>Group</b>	<b>Year ended 30 September 2008 £000</b>	<b>Year ended 30 September 2007 £000</b>
Corporation tax	-	-
Income tax	-	19
	<hr/>	<hr/>
Current tax charge	-	19
Deferred tax charge	-	-
	<hr/>	<hr/>
Total tax charge on loss on ordinary activities	-	19
	<hr/>	<hr/>
Effective tax rate	-	-
<b>Reconciliation of current tax charge</b>		
Loss on ordinary activities before taxation	(44,969)	(140,975)
Tax on loss at standard rate of 29% (2007: 30%)	(13,041)	(42,293)
Factors affecting the change:		
Non-taxable income	-	(10,610)
Non deductible expenses	1,548	41,821
Capital allowances for period in excess of depreciation	3	(2,311)
Utilisation of brought forward losses	(1,186)	(2,934)
Imputed interest	-	1,739
Differences in tax rate	-	(7)
Increase in losses carried forward	12,676	14,614
	<hr/>	<hr/>
Group tax charge for the current year	-	19
	<hr/>	<hr/>

The tax charge for the current year is higher than that resulting from applying the standard rate of corporation tax principally because certain items of expenditure are not deductible for tax purposes.

**9. PARENT COMPANY PROFIT AND LOSS ACCOUNT**

	<b>Year ended 30 September 2008 £000</b>	<b>Year ended 30 September 2007 £000</b>
Loss for the financial year, including dividends from subsidiary undertakings, after taxation	(149,410)	(28,301)
	<hr/>	<hr/>

The Company has taken the advantage of section 230 of the Companies Act 1985 and consequently a profit and loss account for the Company alone is not presented.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**10. TANGIBLE FIXED ASSETS**

<b>Investment properties</b>	<b>Freehold investment properties £000</b>	<b>Long leasehold investment properties £000</b>	<b>Total £000</b>
<b>Group</b>			
<b>Cost or valuation</b>			
At 30 September 2007	1,253,531	33,034	1,286,565
Deficit on revaluation	(382,869)	(9,671)	(392,540)
At 30 September 2008	<u>870,662</u>	<u>23,363</u>	<u>894,025</u>

Investment properties represent properties held for long-term retention. King Sturge LLP, International Property Advisors, has valued the investment properties at 30 September 2008 (2007: King Sturge) at Market Value on an individual property basis in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

The Market Valuation of the investment properties valued by King Sturge LLP was £929,176,000 if the properties were sold as a business at 30 September 2008 (2007: £1,337,265,000).

**Other fixed assets**

	<b>Freehold Land and buildings £000</b>
<b>Group</b>	
<b>Cost or valuation</b>	
At 30 September 2007	735
Deficit on revaluation	(135)
At 30 September 2008	<u>600</u>
<b>Accumulated depreciation</b>	
At 30 September 2007	-
Charge for the year	(10)
Transferred to revaluation reserve	10
At 30 September 2008	<u>-</u>
<b>Net book value</b>	
At 30 September 2008	<u>600</u>
At 30 September 2007	<u>735</u>

The Market Valuation of the other fixed assets valued by King Sturge LLP was £600,000 if the other fixed assets were sold as a business at 30 September 2008 (2007: £735,000).



**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**11 INVESTMENTS**

**Company**

	<b>Shares in Libra No. 3 Limited £000</b>
<b>At valuation</b>	
At 30 September 2007	187,659
Deficit on revaluation transferred to revaluation reserve (note 18)	(110,320)
Amount written off investment for the year	(77,339)
	<hr/>
At 30 September 2008	<hr/> <hr/> -

At 30 September 2008, the Company held investments either directly or indirectly in the following principal subsidiary undertakings:

<b>Name</b>	<b>Country of incorporation</b>	<b>% Holdings</b>	<b>Principal activity</b>
Libra No.3 Limited*	Cayman Islands	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo Superholdco Limited	Cayman Islands	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo TopCo Limited	Cayman Islands	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo Equity Co Limited	Cayman Islands	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo CH2 PropCo Holdco Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo CH2 PropCo Limited	Great Britain	100%	Investment in care home properties
Libra CareCo CH3 PropCo Holdco Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo CH3 PropCo Limited	Great Britain	100%	Investment in care home properties
Libra CareCo Holdings Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo Investments 1 Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo Investments 2 Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra GuaranteeCo Limited	Great Britain	100%	Investment company in group undertaking with investment in care home properties
Libra CareCo Limited	Great Britain	100%	Parent company of subsidiary undertakings with investment in care home properties
NHP Limited	Great Britain	100%	Parent company of subsidiary undertakings with investment in care home properties
NHP Securities No.1 Limited	Great Britain	100%	Investment in care home properties
NHP Securities No.2 Limited	Great Britain	100%	Investment in care home properties
NHP Securities No.3 Limited	Great Britain	100%	Investment in care home properties
NHP Securities No.4 Limited	Great Britain	100%	Partner in LLNHP Partnership
NHP Securities No.5 Limited	Jersey	100%	Investment in care home properties

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**11. INVESTMENTS (continued)**

<b>Name</b>	<b>Country of incorporation</b>	<b>% Holdings</b>	<b>Principal activity</b>
NHP Securities No.6 Limited	Great Britain	100%	Investment in care home properties
NHP Securities No.8 Limited	Jersey	100%	Investment in care home properties
NHP Securities No.9 Limited	Jersey	100%	Investment in overriding leases of care home properties
NHP Securities No.10 Limited	Jersey	100%	Investment in care home properties
NHP Securities No.11 Limited	Jersey	100%	Parent company of NHP Securities No.9 Limited
NHP Securities No.12 Limited	Jersey	100%	Investment in care home properties
NHP Management Limited	Great Britain	100%	Management of care home property portfolios
NHP Operations (York) Limited	Great Britain	100%	Care home property development
Care Homes No.1 Limited	Cayman Islands	100%	Investment in care home properties
Care Homes No.2 (Cayman) Limited	Cayman Islands	100%	Investment in care home properties
Care Homes No.3 Limited	Cayman Islands	100%	Investment in care home properties
LLNH Limited	Great Britain	100%	Partner in LLHNP Partnership
Ultima Holdings Limited	Great Britain	100%	Immediate parent company of Ultima Group undertakings
Ultima Healthcare Limited	Great Britain	100%	Care home operator
Eton Hall Homes Limited	Great Britain	100%	Care home operator
Ultima Care Limited	Great Britain	100%	Care home operator
Platinum Healthcare Limited	Great Britain	100%	Care home operator

\* 100% held directly by Libra No.2 Limited. All others are held indirectly by the subsidiaries of Libra No.3 Limited.

Shares held are ordinary shares except Libra No.2 Limited further held 100% issued 12% cumulative redeemable preference share capital of Libra No.3 Limited.

**12. DEBTORS**

<b>Group</b>	<b>2008 £000</b>	<b>2007 £000</b>
Other debtors	204	129
Amounts due by Delta G-Co Limited and Starsign Limited	-	89,036
Corporation tax	3,295	2,894
Prepayments and accrued income	533	228
	<u>4,032</u>	<u>92,287</u>

<b>Company</b>	<b>2008 £000</b>	<b>2007 £000</b>
Other debtors	-	123
Amounts due by Delta G-Co Limited and Starsign Limited	123	89,036
Amount due from group undertaking	-	-
Dividend receivable on 12% cumulative £0.01 preference shares	-	14,633
Interest receivable on accrued dividend of preference shares	-	1,390
Prepayment	1	1
	<u>124</u>	<u>105,183</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

<b>Group</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Bank loan	1,172,000	-
Less: Unamortised finance costs	(2,019)	-
	<u>1,169,981</u>	<u>-</u>
Bank loan	70,000	-
Cumulative interest capitalised	32,106	-
Less: Unamortised finance costs	(201)	-
	<u>101,905</u>	<u>-</u>
Interest payable on bank loan	5,673	-
Loan from Delta G-Co Limited and Starsign Limited	4,590	4,590
Other amounts due to Delta G-Co Limited and Starsign Limited	1,026	1,149
Loan interest payable to Delta G-Co Limited and Starsign Limited	497	221
Interest payable – bank loans	15,814	15,590
Interest payable on accrued dividend of preference shares	2,094	786
Dividend payable on preference shares	13,507	8,271
Other creditors	773	318
Taxation and social security	10	16
Income tax	-	101
Accruals and deferred income	660	618
	<u>1,316,530</u>	<u>31,660</u>

**Bank Loans**

On 15 January 2007 a £1,172 million loan was fully drawn on a term loan facility agreement dated 15 January 2007 entered into by Libra No.3 Limited, a group undertaking with CS Funding 1 Limited, a group undertaking of Credit Suisse, London Branch. The maturity date of the loan is on 15 January 2009 with final maturity date be extended to 15 January 2010 provided a notice is received by Credit Suisse, the security agent no later than 90 days before the maturity date of 15 January 2009. The loan bears interest at LIBOR plus margin plus mandatory cost. The facility was secured by a fixed and floating charge on group assets and unlimited guarantee from its group undertakings.

CS Funding 1 Limited's rights and obligations under the £1,172 million term loan agreement were ultimately transferred by way of novation to Titan Europe 2007-1 (NHP) Limited on 24 May 2007.

Libra No.3 Limited has entered into a 10 year interest rate swap agreement with Credit Suisse for notional amount of £1,172 million, split into a 3 year from 15 January 2007 to 15 January 2010, and a forward 7 year from 15 January 2010 to 15 January 2017. It fixes the interest rate at 4.813% per annum. Mark to market valuation at 30 September 2008 was £23.94 million (2007: £52.57 million).

On 15 January 2007 a further £70 million loan was fully drawn on a term loan facility agreement dated 15 January 2007 entered into by the Company and Credit Suisse. The maturity date of the loan is on 15 February 2009 with a final maturity date be extended to 15 February 2010 provided a notice is received by Credit Suisse, the security agent no later than 90 days before the maturity date of 15 February 2009. The loan bears interest at fixed rate of 26% per annum plus the applicable mandatory cost. Interest payable on each interest payment date 15 January, 15 April, 15 July and 15 October will be capitalised and added to the principal loan amount. At 30 September 2008 the capitalised interest amount was £32,106,000.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (Continued)**

**Loan notes due to Delta G-Co Limited and Starsign Limited**

On 13 December 2006 loan notes of £249,000 and £4,341,000 were issued by Delta G-Co Limited and Starsign Limited, the joint shareholders of the Company to finance part of the group restructuring costs in December 2006. The loans have no fixed repayment dates and carry interest at fixed rate of 6% per annum.

<b>Company</b>	<b>2008 £000</b>	<b>2007 £000</b>
Bank loan	70,000	-
Cumulative interest capitalised	32,106	-
Less: Unamortised finance costs	(201)	-
	<u>101,905</u>	<u>-</u>
Interest payable on bank loan	5,673	-
Loan from Delta G-Co Limited and Starsign Limited	4,590	4,590
Amounts due to group undertakings	33	64,595
Loan interest payable to Delta G-Co Limited and Starsign Limited	497	221
Interest payable on accrued dividend of preference shares	2,094	786
Dividend payable on preference shares	13,507	8,271
Accruals	21	25
	<u>128,320</u>	<u>78,488</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

<b>Group</b>	<b>2008 £000</b>	<b>2007 £000</b>
Bank loan due between one and two years (see note 13)	-	1,172,000
Less: Unamortised finance costs	-	(9,056)
	-	1,162,944
Bank loan due between one and two years (see note 13)	-	70,000
Cumulative interest capitalised	-	9,369
Less: Unamortised finance costs	-	(903)
	-	78,466
Interest payable on bank loan	-	4,354
12% Cumulative redeemable 43,600,557 preference shares at £0.01 each	436	436
Premium arising from the issue of 43,600,557 preference shares	43,164	43,164
	43,600	43,600
	43,600	1,289,364

**12% cumulative redeemable preference shares**

Preference shares are 12% cumulative redeemable preference shares with a nominal value of £0.01 each but issued at a premium of £0.99 per share on 2 March 2006. The preference shareholders shall not be entitled to vote at a general meeting of the Company unless the business of the meeting includes the consideration of a resolution for winding up the Company or for a reduction in the capital of the Company, or the purchase of any shares other than preference shares or any resolution directly or indirectly modifying or varying any of the special rights, privileges or restrictions attached to the preference shares, in which case the preference shareholders shall be entitled to vote in respect of such resolution. The preference dividend is accrued on daily basis at a rate of £0.12 per annum on each preference share and it is payable on redemption of the preference shares or the date falling 20 years from the date on which the preference shares are issued, whichever is the earlier. The preference dividend interest is accrued based on the accrued daily but unpaid preference dividend at a rate of 12% per annum. Preference dividend interest is payable on the preference dividend payment date.

<b>Company</b>	<b>2008 £000</b>	<b>2007 £000</b>
Term loan due between one and two years (see note 12)	-	70,000
Cumulative interest capitalised	-	9,369
Less: Unamortised finance costs	-	(903)
	-	78,466
Interest payable on bank loan	-	4,354
12% Cumulative redeemable 43,600,557 preference shares at £0.01 each	436	436
Premium arising from the issue of 43,600,557 preference shares	43,164	43,164
	43,600	43,600
	43,600	126,420

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**15. PROVISION FOR LIABILITIES AND CHARGES**

	At 30 September 2007 £000	Cost incurred in the year £000	Profit and loss account £000	At 30 September 2008 £000
Tenant's receivership support costs	-	(349)	1,141	792

As at 30 September 2008, the Group has incurred total commitments of £792,000 in relation to a tenant's receivership support costs, of which £650,000 was paid in the period from 1 October to 9 January 2009. The Group is anticipated to settle the remaining amount of £142,000 by the end of February 2009, subject to the leases of the care homes in receivership are successfully assigned to a new tenant by that time. The Group is not expecting any re-imbursement from the receivers.

**16. DEFERRED TAXATION**

Group	Provided 2008 £000	2007 £000	Unprovided 2008 £000	2007 £000
Accelerated depreciation over capital allowances	-	-	2,394	203
Losses carried forward	-	-	33,333	25,854
Revaluation of investment properties	-	-	(79,899)	(189,873)
	-	-	(44,256)	(163,816)

No deferred tax asset has been recognised in respect of the losses carried forward or accelerated capital allowances as it is uncertain whether the group will have sufficient taxable profits in the future to utilise the losses.

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £79,899,000 (2007: £189,873,000) is not recognised as the Group has no intention to sell these properties at this time and there is no binding agreement to dispose of them.

Company	Provided 2008 £000	2007 £000	Unprovided 2008 £000	2007 £000
Losses carried forward	-	-	(4,334)	(2,732)
	-	-	(4,334)	(2,732)

No deferred tax asset has been recognised in respect of the losses carried forward as it is considered that it is uncertain whether there will be sufficient taxable profits in the future to utilise the losses.

**Company**

There is no provided or unprovided deferred tax in respect of the Company.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**17. SHARE CAPITAL**

<b>Company</b>	<b>£000</b>
<b>Authorised</b>	
200,000 ordinary shares at £1 each	200
100,000,000 preference shares at 0.01 each	1,000
	<hr/>
At 30 September 2007 and 2008	1,200
	<hr/>
<b>Called, allotted and fully paid:</b>	
200,000 ordinary shares at £1 each	200
	<hr/>
At 30 September 2007 and 2008	200
	<hr/>

The redeemable preference shares are presented as a liability (see note 14) and accordingly are excluded from called up share capital in the balance sheet.

**18. RESERVES**

	<b>Revaluation reserve £000</b>	<b>Profit and loss account £000</b>
<b>Group</b>		
At 30 September 2007	234,064	(146,330)
Deficit on revaluation of properties (note 10)	(392,665)	-
Loss for the year	-	(44,969)
Dividend paid	-	(89,036)
	<hr/>	<hr/>
At 30 September 2008	(158,601)	(280,335)
	<hr/>	<hr/>

	<b>Revaluation reserve £000</b>	<b>Profit and loss account £000</b>
<b>Company</b>		
At 30 September 2007	110,320	(22,586)
Deficit on revaluation (note 11)	(110,320)	-
Loss for the year	-	(60,374)
Dividend paid	-	(89,036)
	<hr/>	<hr/>
At 30 September 2008	-	(171,996)
	<hr/>	<hr/>

**19. MOVEMENT IN SHAREHOLDERS' (DEFICIT) / FUNDS**

<b>Company</b>	<b>£000</b>
At 30 September 2007	87,934
Deficit on revaluation (note 11)	(110,320)
Loss for the year	(60,374)
Dividend paid	(89,036)
	<hr/>
At 30 September 2008	(171,796)
	<hr/>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**20. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Operating profit	66,577	65,189
Depreciation of other fixed assets	10	24
Increase in debtors	(196)	(49)
Increase in creditors	368	881
Increase in provision	792	-
	<u>67,551</u>	<u>66,045</u>
Net cash inflow from operating activities	<u>67,551</u>	<u>66,045</u>

**21. ANALYSIS OF CHANGES IN NET DEBT**

<b>Group</b>	<b>At 30 September 2007 £000</b>	<b>Cash flow £000</b>	<b>Non-cash changes £000</b>	<b>At 30 September 2008 £000</b>
Cash at bank and in hand	403	(314)	-	89
Net cash at bank and in hand	403	(314)	-	89
Short term deposit investments	28,968	(5,528)	-	23,440
Loan to Delta G-Co Limited and Starsign Limited	89,036	(89,036)	-	-
Bank loans due between one and two years	(1,241,410)	-	(30,476)	(1,271,886)
Loan from Delta G-Co Limited and Starsign Limited	(4,590)	-	-	(4,590)
Preference shares	(43,600)	-	-	(43,600)
	<u>(1,171,193)</u>	<u>(94,878)</u>	<u>(30,476)</u>	<u>(1,296,547)</u>

**22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Decrease in cash during the year	(314)	(58)
Net cash outflow from debt financing activities	-	72,985
Net cash (inflow) / outflow from the issue on loan notes	(89,036)	84,446
Net cash (inflow) / outflow from management of liquid resources	(5,528)	12,469
	<u>(94,878)</u>	<u>169,842</u>
Changes in net debt resulting from cash flows	(94,878)	169,842
Non-cash changes in net debt	(30,476)	(101,159)
Net debt at the beginning of year	(1,171,193)	(1,239,876)
	<u>(1,296,547)</u>	<u>(1,171,193)</u>
Net debt at the end of the year	<u>(1,296,547)</u>	<u>(1,171,193)</u>

**23. OPERATING LEASE COMMITMENTS**

The Group had the following annual commitments under non-cancellable operating leases:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Office lease – expiring within one year (note 25)	<u>15</u>	<u>137</u>



**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2008**

**24. CONTINGENT LIABILITIES AND GUARANTEES**

Libra No.3 Limited and all its subsidiary undertakings are guarantors to a £1,172 million term loan facility agreement entered into by Libra No.3 Limited with CS Funding 1 Limited, a group undertaking of Credit Suisse on 15 January 2007 as disclosed in note 13. The facility is secured by a fixed and floating charge on group assets and unlimited guarantee from its group undertakings. CS Funding 1 Limited's rights and obligations under the £1,172 million term loan agreement were ultimately transferred by way of novation to Titan Europe 2007-1 (NHP) Limited on 24 May 2007.

**25. RELATED PARTY TRANSACTIONS**

Delta Commercial Property LP is the common ultimate parent undertaking of the Company and Four Seasons Health Care Limited ('FSHC'), one of the Group's tenants. During the year, the Group received total rental income of £2,947,000 (2007: £2,875,000) from FSHC. The entire amount was fully paid at 30 September 2008 (2007: £nil)

**26. POST BALANCE SHEET EVENTS**

(a) On 28 October 2008, the Company assigned the office lease at Dukes Court, Duke Street, Woking, Surrey to Petrofac Engineering Limited. Originally, the lease had an unexpired term until November 2012;

(b) On 25 November 2008 a standstill agreement was put in place until 14 January 2009 and later extended until 14 April 2009, which suspends the ability of Capmark, the loan servicer to exercise its rights in relation to certain specified events of default. Also, it allows the Company time to negotiate a solution to the problem of the breached covenants without threat of foreclosure. See further details in note 1 to the financial statements.

**27. ULTIMATE PARENT COMPANY AND THE CONTROLLING PARTY**

Libra No.2 Limited is jointly owned by Delta G-Co Limited and Starsign Limited in equal share. The two corporate shareholders were incorporated and registered in the Isle of Man. The ultimate parent undertaking is Delta Commercial Property LP, a limited partnership incorporated and registered in the Isle of Man. In the opinion of the Directors, there is no ultimate controlling party of that company.

Copies of Libra No. 2 Limited consolidated financial statements to 30 September 2008 are available from Libra Group at 25 Hanover Square, London W1S 1JF.