100833/240

Company Registration No. FC 026602

LIBRA NO 2 LIMITED

Report and Financial Statements
30 September 2011

REPORT AND FINANCIAL STATEMENTS 2011

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REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J M J M Jensen	Executive Director
P H Thompson	Non-executive Director

SECRETARY

Dominion Corporate Services Limited

REGISTERED OFFICE

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

SOLICITORS

Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester M1 5ES

BANKERS

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

AUDITOR

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 2011

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 2011 the Group owned the freehold and long leasehold interests in 294 care homes, three residential properties and two sites valued at £602,015,000 (2010 £795,893,000) The Market Valuation was £625,225,000 (2010 £827,149,000) if the individual properties had been valued as separate businesses

RESULTS

The results of the Group for the years ended 30 September 2011 and 30 September 2010 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

	2011	2010	Increase/ (decrease)
Turnover	£74 1m	£73 1m	£1 0m
Adjusted operating profit*	£72 0m	£71 4m	£0 6m
Operating cash flow after interest	£10 8m	£(2 5)m	£13 3m
Shareholders' deficit	£970 1m	£678 7m	£291 4m

Group turnover for the year ended 30 September 2011 was £74 1m as compared to £73 1m for the preceding year This increase in the Group turnover of £1 0m was principally due to a 2 5% rent uplift on the operators' leases

*Adjusted operating profit for the year ended 30 September 2011 is calculated as operating profit of £71 2m less exceptional income of £0 3m plus provision for permanent diminution in value of investment properties of £1 1m (2010 £68 3m plus £nil plus £3 1m)

The effective improvement in operating profit before exceptional costs and permanent diminution in value of £0 6m was primarily due to the favourable group turnover variance in the current year

Operating cash flow after interest for the year ended 30 September 2011 is calculated as net cash inflow from operating activities of £69 3m less net cash outflow from returns on investment and servicing of finance of £58 5m (2010 £71 2m less £73 7m)

DIRECTORS' REPORT (continued)

RESULTS (Continued)

Shareholders' deficit has increased from £678 7m at 30 September 2010 to £970 1m at 30 September 2011 The increased amount of £291 4m in shareholders' deficit was due to the following

(a) the loss for the year of £98 6m due to exceptional costs incurred during the year and the continuing net interest payable on bank debts, and

(b) the decline in the property valuation of the Group portfolio has continued in the year ended 30 September 2011 to £602 0m from £795 9m at 30 September 2010 The fall in the Group property valuation was primarily due to the continued impact of the current financial crisis and the demise of Southern Cross Healthcare Group plc, the principal tenant of the Group

DIVIDENDS

The Company has declared and paid a dividend of £nil for the year (2010 £nil)

DIRECTORS

The following Directors served during the year

Directors	Date appointed
P H Thompson	6 November 2010
J M J M Jensen	19 December 2008

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 14 to financial statements The Group does not use derivative financial instruments for speculative purposes

Credit risk

The Group's principal assets are bank balances and cash, trade and other receivables and tangible fixed assets

The Group's credit risk is primarily attributable to its trade receivables in relation to rents receivable from third party tenants and fees income from customers for the provision of care services, and will also be in relation to the fees receivable from local authorities and customers receiving care services in the homes to be operated by the group through HC-One, following the restructuring that took place in October 2011 as disclosed in note 25 to the financial statements The amounts presented in the balance sheet are net of allowances for doubtful receivable Due to austerity measures, some tenants are facing difficult operating conditions resulting in an increased risk that they may be unable to pay their rents However, a large number of our homes are geographically diverse and our occupational leases are long-term contracts, thus making the income relatively secure

The Group has no significant concentration of credit risk, with exposure spread over a number of third party tenants and customers At 30 September 2011, there is no outstanding amount due from tenants and/or customers

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

In order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future developments, the Group has continued to receive support from its lenders as disclosed in note 1 to the financial statements

Price risk

The Group has entered into a number of medium-term rental agreements with its tenants which some tenants are subject to fixed annual price increases and the other tenants are linked to RPI

The Group also faced uncertainties in relation to average weekly fee increases for the provision of care services

PROPERTY VALUATIONS

The Group's property portfolio is the largest component of the Group's net asset value The value of the Group's property portfolio is affected by the conditions prevailing in the property investment market, the general economic environment, and the growing pressure on the overall public sector spending consequently reducing admissions from local authorities Accordingly, the Group's net asset value can rise and fall due to external factors beyond management's control

The Group's property portfolio is valued in compliance with international standards by external professionally qualified valuers The primary source of evidence for valuations should be recent, comparable open market transactions at arm's length terms The current economic climate means that there have been few transactions for the types of property owned by the Group The Company's valuers, Jones Lang LaSalle commented in their valuation certificate as of 30 September 2011 that recent announcements in relation to the demise of Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and, in the opinion of Jones Lang LaSalle, were likely to affect market values going forward They further commented that as these events with particular reference to Southern Cross were so recent and circumstances continue to change they are not able accurately to assess the effect there will be on the market with the evidence available to them and had therefore applied their professional judgement

GOING CONCERN

As set out in note 14 to the financial statements, as at 30 September 2011, the Company (the "**Mezzanine Borrower**") had a term loan of £70 million (the "**Mezzanine Loan**") and LIBRA No 3 Limited (a subsidiary of the Company) (the "**Senior Borrower**") had a term loan of £1,172 million (the "**Senior Loan**") secured on the Group's investment properties and freehold land and buildings Nevertheless, the Group has been in technical breach of its loan covenants since 15 December 2008 due to the fall in property values and the Directors of the Company have been in restructuring negotiations with its lenders since 28 November 2008 and have entered into a series of standstill agreements which suspend the rights of creditors with respect to the Senior Loan and the Mezzanine Loan to enforce their rights under the loan documents and related security On 13 January 2012, a further standstill agreement was put in place, expiring 13 April 2012

Given these circumstances along with other matters disclosed in note 1, the Directors do not currently expect the Company to go into insolvent liquidation but there is a material uncertainty which may cast significant doubt as to the Group s ability to continue as a going concern, which casts the same doubt as to the Company s ability to continue as a going concern Nonetheless, at the present time, the Directors consider it appropriate to prepare the financial statements on the going concern basis See further details in note 1 to the financial statements

DIRECTORS' REPORT (continued)

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 average creditors' days for the Group at 30 September 2011 were equivalent to 25 (2010 15) Creditor days for the Company at 30 September 2011 were nil (2010 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

AUDITOR

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 auditor is 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor 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

J M J M Jensen
Director
Date 17th February 2012

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 that 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) 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 Group and of the profit and loss of the Group for that period In preparing these financial statements, the Directors are required to

(a) select suitable accounting policies and then apply them consistently,

(b) make judgements and accounting estimates that are reasonable and prudent, and

(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 will continue in business

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 provisions of the Companies Act 2006 applicable to overseas companies They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S 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 2011, 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 26 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body 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 auditor's 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 auditor

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on 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

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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Company's affairs as at 30 September 2011 and of the Group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the provisions of the Companies Act 2006 applicable to overseas companies

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's and the Company'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 Capita Asset 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 explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LIBRA NO 2 LIMITED (Continued)

Opinion on other matter prescribed by the provision of the Companies Act 2006 applicable to overseas companies

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

We have nothing to report in respect of the following matters where the provisions of the Companies Act 2006 applicable to overseas companies require us to report to you, if in our opinion

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

Deloitte LLP

Deloitte LLP
Chartered Accountants
London, United Kingdom
Date 17th February 2012

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
TURNOVER AND GROSS PROFIT			
Continuing operations	3	74,104	73,138
Provision for permanent diminution in value of investment properties		(1,098)	(3,098)
Administrative (expenses) / income - ongoing		(2,151)	(1,702)
- exceptional	5	353	(63)
Total administrative expenses		(2,896)	(4,863)
OPERATING PROFIT	6	71,208	68,275
Costs of a fundamental restructuring of continuing operations	7	(4,042)	-
Profit on sale of tangible fixed asset		-	25
Net interest payable and similar charges	8	(165,761)	(148,606)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(98,595)	(80,306)
Tax on loss on ordinary activities	9	-	-
LOSS FOR THE FINANCIAL YEAR	17	(98,595)	(80,306)

Results are derived wholly from continuing operations

BALANCE SHEETS
at 30 September 2011

	Notes	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
TANGIBLE FIXED ASSETS					
Investment properties	11	601,430	795,308	-	-
Other fixed assets	11	597	607	-	-
		602,027	795,915	-	-
INVESTMENTS	12	-	-	-	-
TOTAL FIXED ASSETS		602,027	795,915	-	-
CURRENT ASSETS					
Debtors	13	506	1,042	125	124
Short-term deposits		27,757	17,284	-	-
Cash at bank and in hand		488	174	-	-
		28,751	18,500	125	124
CREDITORS: amounts falling due within one year	14	(1,600,856)	(1,493,127)	(331,947)	(263,523)
NET CURRENT LIABILITIES		(1,572,105)	(1,474,627)	(331,822)	(263,399)
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET LIABILITIES		(970,078)	(678,712)	(331,822)	(263,399)
CAPITAL AND RESERVES					
Called up share capital	16	200	200	200	200
Revaluation reserve	17	(429,631)	(241,653)	-	-
Profit and loss account	17	(540,647)	(437,259)	(332,022)	(263,599)
SHAREHOLDERS' DEFICIT		(970,078)	(678,712)	(331,822)	(263,399)

These financial statements were approved and authorised for issue by the Board of Directors on 17th February 2012 The Company Registration number is FC026602

Signed on behalf of the Board of Directors

J M J M Jensen
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Net cash inflow from operating activities	19	69,276	71,210
Return on investments and servicing finance			
Interest paid		(54,408)	(73,995)
Other similar charges paid		(4,100)	(1)
Interest received		19	279
Net cash outflow from returns on investments and servicing of finance		**(58,489)**	**(73,717)**
Taxation			
Corporation tax received		-	2,038
Capital expenditure and financial investment			
Purchase of tangible fixed assets	11	-	(30)
Proceeds on disposal of other fixed assets		-	25
Net cash outflow from investing activities		-	(5)
Net cash inflow / (outflow) before use of liquid resources and financing		**10,787**	**(474)**
Management of liquid resources			
Short-term deposit withdrawal		(10,473)	608
Increase in cash in the year	20	314	134

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Loss for the year	17	(98,595)	(80,306)
Net deficit on revaluation of properties	17	(192,771)	(18,545)
Total recognised loss for the year		(291,366)	(98,851)

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Loss for the year	17	(98,595)	(80,306)
Net deficit on revaluation of properties	17	(192,771)	(18,545)
Net decrease in shareholders' funds		(291,366)	(98,851)
Shareholders' deficit at the beginning of year		(678,712)	(579,861)
Shareholders' deficit at end of year		(970,078)	(678,712)

CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 30 September 2011

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Loss on ordinary activities before taxation	(98,595)	(80,306)
Realisation of property revaluation losses of previous years	(4,793)	(12,565)
Historical cost loss on ordinary activities before taxation	(103,388)	(92,871)
Historical cost loss retained for the year	(103,388)	(92,871)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

1. GOING CONCERN

The Group has been in breach of the covenants on its term loans since November 2008 and as at 30 September 2011 and at 17 February 2012 the term loan amounts remain outstanding (see note 14 for further details) Since November 2008 the term loans have been under a series of standstill agreements and on 13 January 2012 a further standstill agreement was put in place, expiring on 13 April 2012

During the year, HC-One Limited ("HC-One"), a new subsidiary undertaking of the Group was formed as a new care home operator On 31 October 2011 HC-One took over the operation of 242 care homes through assignment of the operating leases from Southern Cross Healthcare Group plc ("Southern Cross") following the conclusion of its restructuring process (the *Southern Cross Restructuring*)

In order to protect the Group's investment and ensure funds were available to underwrite a substantial investment programme in the quality of care in its care homes, the Directors of the Company and of the Group have retained the rental income monies received from the Group's tenants during 2011 through a series of non full interest payments (which have been acknowledged in the standstill agreements) to the Group's lenders This has enabled the Group to provide a total amount of £30 million to HC-One by way of capital contribution and inter-company loans in October 2011 Furthermore, the rents payable by HC-One were reset at £40 million per annum, which is on average 38% below the previous amount charged to Southern Cross

Unlike Southern Cross, the Group now controls both the property and the operations of 242 care homes and can therefore ensure that HC-One is able to operate those homes without the burden of uneconomic rent obligations As announced by the Libra Group lenders on 1 November 2011, the Group intends the level of rent payable by HC-One to be reviewed periodically in line with the trading performance of the business

The discussions with respect to restructuring the term loan of the Company and of the Group with its lenders are on-going (the *Potential Restructuring*)

The Directors of the Group and of the Company and Capita Asset Services (UK) Limited, the Special Servicer to the senior loan continue to explore methods to maximise recoveries to the lenders, including the sale of the whole or part of the Group and/or the properties (the *Disposal Options*)

Whilst the Group must resolve its outstanding debts in the medium term, in the opinion of the Directors of the Company and of the Group, the financing of the Group's operating company, HC-One is secure and will not be compromised, since the long-term value of the Group can only be achieved through the success of the care home operations at HC-One

The Libra Group lenders have confirmed by a letter that it is their intention to provide the Group with the funds it requires including, without limitation, reasonable (a) day-to-day operating costs and expenses, (b) restructuring and/or disposal costs, (c) other exceptional costs incurred in relation to the Southern Cross Restructuring, the Disposal Options and/or the Potential Restructuring, and (d) ensuring that HC-One has sufficient funds to ensure continuity of care services at the homes and investment for the future Based on this assumption, the Directors have prepared a forecast cash flow up to 30 June 2013 which reveals that the Group remains cash positive throughout the period to that date

Given these circumstances, the Directors do not currently expect the Group to go into insolvent liquidation, although this position could change if the negotiations for which the current 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 indicate that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business

At the present time, the Directors consider it appropriate to prepare the Group and the Company financial statements on the going concern basis In the event that the going concern basis should become inappropriate, the assets of the Group and the Company 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 FINANCIAL STATEMENTS
Year ended 30 September 2011

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 Section 406 of the Overseas Companies Regulations 2010 The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (as issued by ASB) The financial statements have been audited in accordance with International Standards on Auditing (UK and Ireland)

The consolidated financial statements incorporate the financial statement of the Company and its subsidiary undertakings for the year ended 30 September 2011

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 30 September each year The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed

Acquisitions are accounted for under the acquisition method

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 The Company recognises turnover when the amount can be reliably measured

Valuation of land and building

Investment properties

Investment properties are revalued annually Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account

Depreciation is not provided in respect of freehold investment properties or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years The Directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 'Accounting for Investment Properties' 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 Under the terms of the Group's leases, freehold and long leasehold investment properties are required to be maintained to a high standard by its tenants

Other fixed assets – land and buildings

Freehold land and buildings (other than investment properties) are revalued every year with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves The estimated useful lives are as follows

Freehold land	no depreciation
Freehold building	50 years

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

2. **ACCOUNTING POLICIES (Continued)**

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

Investments

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 provision for impairment is charged to the profit and loss account

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

Finance costs

Costs which are incurred directly in connection with the raising of bank loans are amortised at a constant rate over the lives of the loan facility in accordance with FRS 4 Capital Instruments'

Interest

Interest receivable and interest payable are recognised in the financial statements on an accruals basis

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, 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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

2. **ACCOUNTING POLICIES (Continued)**

Bank loans

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

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 2011 £000	Year ended 30 September 2010 £000
Pavement rent	73,601	72,255
Turnover rent	333	735
Commissions and fees receivable	170	148
	74,104	73,138

4 **STAFF COSTS**

The aggregate payroll costs (excluding executive Director) were as follows

Group	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Wages and salaries	339	413
Social security costs	43	51
Pension – defined contribution	23	22
	405	486

Average number of employees (excluding executive Director):	Year ended 30 September 2011	Year ended 30 September 2010
Group		
	No.	No
Administrative	3	3

J M J M Jensen is an executive director of the Company and the Group On 19 December 2008, the Company and LIBRA No 3 Limited, its subsidiary undertaking, have entered into an engagement letter with Aaronite Partners Limited ('Aaronite'), where J M J M Jensen is an employee Aaronite has agreed to make available J M J M Jensen's services to the Company and LIBRA No 3 Limited and their subsidiary undertakings Total fees (including VAT) of £612,000 (2010 £295,000) were incurred for year ended 30 September 2011 The total fees amount is not disclosed within the staff costs but it is included in the total administrative expenses

P H Thompson is a non-executive director of the Company and of the Group On 6 November 2009, LIBRA No 2 Limited and LIBRA No 3 Limited have entered into an engagement with The Aaronite Partnership LLP, where P H Thompson is a partner Total fees (including VAT) of £217,000 were incurred for year ended 30 September 2011 (for the period from 6 November 2009 to 30 September 2010 £32,000) The total fees amount is not disclosed within the staff costs but it is included in the total administrative expenses

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

4. STAFF COSTS (Continued)

Company

There are no staff costs incurred by the Company during the current or the preceding year All employees are employed by NHP Management Limited, a group undertaking

5. EXCEPTIONAL INCOME / (COSTS)

The following exceptional income / (costs) have been incurred or provided for and are included in total administrative expenses

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Restructuring expenses	-	(63)
Bad and doubtful debts	(59)	-
Tenant receivership support costs refunded	412	-
	353	(63)

6 OPERATING PROFIT

Group operating profit is arrived after charging

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Depreciation of other fixed assets	19	17
Operating lease rentals - buildings	53	36
Bad and doubtful debts	59	-
The analysis of auditor's remuneration is as follows		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	12	12
Fees payable to the Company's auditor for the audit of the Group s annual accounts	100	100
Fees payable to the Company's auditor and their associates for other services to the Group		
- The audit of the Company's subsidiaries pursuant to regulations	56	48
- Corporate finance services	379	68
- Tax services*	90	116
	637	344

* The tax fees included amounts of £nil (2010 £6,000) payable to the Group's auditor 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 FINANCIAL STATEMENTS
Year ended 30 September 2011

7. COSTS OF A FUNDAMENTAL RESTRUCTURING OF CONTINUING OPERATIONS

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Costs of a fundamental restructuring of continuing operations	(4,042)	-
	(4,042)	-

The costs of a fundamental restructuring of continuing operations arose in respect of the Group's participation in the Southern Cross Healthcare Group plc, the Group's principal tenant's restructuring which would help to stabilise the business of the homes leased to Southern Cross, going forward The restructuring in Southern Cross without the participation of its principal landlords of which the Group is one, would have led to an uncontrolled outcome for the Group, which would have had a material effect on the nature and focus of the Group's operations going forward

On 31October 2011, a new subsidiary of the Group, HC-One Limited took on the assignment of the operating leases from Southern Cross, and consequently the Group now operates majority of its nursing home portfolio by itself

8 NET INTEREST PAYABLE AND SIMILAR CHARGES

Group	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Interest receivable		
Interest receivable on deposits	18	17
Other interest receivable	1	262
	19	279
Interest payable:		
Interest payable on bank loans*	(152,989)	(140,812)
Interest payable – shareholders loans	(275)	(275)
Interest payable on accrued dividend of preference shares	(3,182)	(2,564)
Dividends – redeemable preference shares	(5,232)	(5,232)
Other interest payable	-	-
Finance costs	(4,102)	(2)
	(165,780)	(148,885)
Net interest payable and similar charges	(165,761)	(148,606)

*On 15 January 2010 the Group failed to repay the £1,172 million term loan of the Senior Facility Agreement and on 15 February 2010 the Company also failed to repay the £70 million term loan Default interest amounts of £27,765,000 were charged on the overdue amounts and have been included within the interest payable on bank loans for the year ended 30 September 2011 (2010 £26,549,000)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

9 TAX ON LOSS ON ORDINARY ACTIVITIES

Group	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Corporation tax	-	-
Income tax	-	-
Current tax charge	-	-
Deferred tax charge	-	-
Total tax charge on loss on ordinary activities	-	-
Effective tax rate	-	-
Reconciliation of current tax charge		
Loss on ordinary activities before taxation	(98,595)	(80,306)
Tax on loss at standard rate of 27% (2010 28%)	(26,621)	(22,485)
Factors affecting the change		
Non deductible expenses	3,031	2,298
Decrease in value of property interests	-	867
Capital allowances for period in excess of depreciation	5	5
Investment written off	303	-
Utilisation of brought forward losses	(52)	(141)
Increase in losses carried forward	23,334	19,456
Group tax charge for the current year	-	-

The tax charge for the current year is higher than that resulting from applying the standard rate of corporation tax due to an increase in losses carried forward

10. PARENT COMPANY PROFIT AND LOSS ACCOUNT

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Loss for the financial year, including after taxation	(68,423)	(51,576)

The Company has taken the advantage of section 408 of the Companies Act 2006 and consequently a profit and loss account for the Company alone is not presented

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

11. TANGIBLE FIXED ASSETS

Investment properties Group	Freehold investment properties £000	Long leasehold investment properties £000	Total £000
Cost or valuation			
At 30 September 2010	774,950	20,358	795,308
Net deficit on revaluation	(189,412)	(3,368)	(192,780)
Provision for permanent diminution in value of investment properties	(1,098)	-	(1,098)
At 30 September 2011	584,440	16,990	601,430

Investment properties are stated at market value as at 30 September 2011 as valued by professionally qualified external valuers The Group's properties were valued by Jones Lang LaSalle, Chartered Surveyors The valuations have been prepared in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors In their valuation report, Jones Lang LaSalle have confirmed that the opinions and values stated therein represent their objective view as at 30 September 2011

Jones Lang LaSalle commented in their valuation certificate as of 30 September 2011 that recent announcements in relation to the demise of Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and, in the opinion of Jones Lang LaSalle, were likely to affect market values going forward They further commented that as these events with particular reference to Southern Cross were so recent and circumstances continue to change, they were not able accurately to assess the effect there will be on the market with the evidence available to them and had therefore applied their professional judgement

Jones Lang LaSalle further stated in their valuation certificate that in respect of Southern Cross properties, given the assignment of the existing leases to HC-One Limited they have applied an approach based upon a capitalisation of their opinion of Market Rent This was because they did not believe the over-rented properties let to Southern Cross could have been assigned at their passing rent

The Directors have reviewed Jones Lang LaSalle's valuation at 30 September 2011 and are of the opinion that there is a deficit of £1,098,000 (2010 £3,098,000) on closed homes which represents a permanent fall in value, which has consequently been charged in the profit and loss account

The Market Valuation of the investment properties valued by Jones Lang LaSalle was £624,640,000 if the individual properties were valued as separate businesses at 30 September 2011 (2010 £826,564,000)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

11. TANGIBLE FIXED ASSETS (Continued)

Other fixed assets

Group	Freehold land and building £000	Office equipment £000	Computer equipment £000	Total £000
Cost or valuation				
At 30 September 2010	585	6	24	615
Net surplus on revaluation of land and buildings	-	-	-	-
At 30 September 2011	585	6	24	615

Accumulated depreciation	Freehold land and building £000	Office equipment £000	Computer equipment £000	Total £000
At 30 September 2010	-	2	6	8
Charge for the year	9	1	9	19
Net surplus on revaluation of land and buildings	(9)	-	-	(9)
At 30 September 2011	-	3	15	18
Net book value:				
At 30 September 2011	585	3	9	597
At 30 September 2010	585	4	18	607

The Market Valuation of the freehold land and buildings valued by Jones Lang LaSalle was £585,000 if the other fixed assets were sold as separate businesses at 30 September 2011 (2010 £585,000)

12 INVESTMENTS

Company

	Shares Libra No. 3 Limited £'000
At Cost or valuation	
At 30 September 2010 and 30 September 2011	77,339
Provision	
At 30 September 2010 and 30 September 2011	(77,339)
Net book value	
At 30 September 2011	-
At 30 September 2010	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

12. INVESTMENTS (continued)

At 30 September 2011, the Company held investments either directly or indirectly in the following principal subsidiary undertakings

Name	Country of incorporation	% Holdings	Principal activity
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
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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

12. INVESTMENTS (continued)

Name	Country of incorporation	% Holdings	Principal activity
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
Libra Intermediate Holdco Limited	Jersey	100%	Investment company in care home operating Company
HC-One 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

13 DEBTORS

Group	2011 £000	2010 £000
Other debtors	145	901
Prepayments and accrued income	361	141
	506	1,042

Company	2011 £000	2010 £000
Amounts due by Delta G-Co Limited and Starsign Limited	123	123
Prepayment	2	1
	125	124

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

14. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
Group	**£000**	**£000**
Bank loan	1,172,000	1,172,000
Bank loan	70,000	70,000
Cumulative interest capitalised	157,340	106,717
	227,340	176,717
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
Interest payable on bank loan *	110,652	62,694
Interest payable on accrued dividend of preference shares	9,775	6,593
Dividend payable on preference shares	29,203	23,971
Loan from Delta G-Co Limited and Starsign Limited	4,590	4,590
Other amounts due to Delta G-Co Limited and Starsign Limited	1,149	1,149
Loan interest payable to Delta G-Co Limited and Starsign Limited	1,323	1,047
Other creditors	722	89
Taxation and social security	10	8
Accruals and deferred income	492	669
	1,600,856	1,493,127

* On 15 January 2009 the Group has failed to repay the £1,172 million term loan of the Senior Facility Agreement and on 15 February 2009 the Company has also failed to repay the £70 million term loan As at 30 September 2011, default interest amounts of £72,506,000 (2010 £44,741,000) were charged on the overdue amounts and have been included within the interest payable on bank loans

Bank Loans

On 15 January 2007 a £1,172 million loan was fully drawn on a Senior 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 original maturity date of the loan was on 15 January 2009 with an option to extend the loan to 15 January 2010, the final maturity date, provided no default was outstanding at the original final maturity date 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

On 4 April 2007 CS Funding 1 Limited's rights and obligations under the £1,172 million term loan agreement were assigned to Libra NHP (2007) Limited, who in turn assigned £638 million to Titan Europe 2007-1 (NHP) Limited on 24 May 2007

At 30 September 2011 the £1,172 million term loan remains outstanding

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

14. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR (Continued)

Bank Loans (Continued)

LIBRA No 3 Limited has entered into a 10 year interest rate swap agreement with Credit Suisse for a notional amount of £1,172 million, split into a three year from 15 January 2007 to 15 January 2011, and a forward seven year from 15 January 2010 to 15 January 2017 It fixes the interest rate at 4 813% per annum The three year interest rate swap agreement matured on 15 January 2010 Mark to market valuation on the seven year interest rate swap agreement at 30 September 2011 was of £207 25 million out-of-money (2010 £194 67 million) This valuation does not reflect any adjustments in respect of the credit risk of the Company and the Group as, due to the circumstances set out in note 1, it is neither practicable nor meaningful to quantify the effect of any such adjustments

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 original maturity date of the loan was on 15 February 2009 with an option to extend the loan to 15 February 2010, the final maturity date, provided no default was outstanding at the original final maturity date 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 is capitalised and added to the principal loan amount At 30 September 2011 the £70 million term loan remains outstanding and the capitalised interest amount was £227,340,000 (2010 106,717,000)

The impact of the financial crisis in 2008 was a decline in the Group property valuation, which led to a breach of the loan to value ('LTV') financial covenant in respect to the £1,172 million term loan (resulting in an automatic cross-default with respect to the £70 million term loan) As a result, LIBRA No 3 Limited was required to make repayment of the £1,172 million term loan on the original maturity date on 15 January 2009 and the Company was required to make repayment to the term loan of £70 million on 15 February 2009 The Company and the Group were not in a position to make repayments and therefore its lenders have imposed an additional 2% default interest with respect to the overdue amounts The default interest amounts have led to a breach of the interest cover ratio ('ICR') financial covenant to the £1,172 million term loan (resulting in an automatic cross-default with respect to the £70 million term loan)

Since November 2008, the Group has entered into a series of standstill agreements which suspend the rights of creditors to enforce their rights under the loan documents and related security, whilst discussions with respect to restructuring the term loan of the Company and of the Group with its lenders are on-going On 13 January 2012 by way of a Standstill Agreement, the term loan has been extended with a maturity date on 13 April 2012

As at 30 September 2011 the Group continues to be in breach of its LTV and ICR financial covenants

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 by its shareholders or the date falling 20 years from the date on which the preference shares are issued on 2 March 2006, 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 above

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

14. CREDITORS· AMOUNTS FALLING DUE WITHIN ONE YEAR (Continued)

Company	2011 £000	2010 £000
Bank loan	70,000	70,000
Cumulative interest capitalised	157,340	106,717
Less Unamortised finance costs	-	-
	227,340	176,717
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
Interest payable on bank loan	11,522	6,809
Interest payable on accrued dividend of preference shares	9,775	6,593
Dividend payable on preference shares	29,203	23,971
Loan from Delta G-Co Limited and Starsign Limited	4,590	4,590
Loan from subsidiary undertaking	4,100	-
Amounts due to group undertakings	476	178
Loan interest payable to Delta G-Co Limited and Starsign Limited	1,323	1,047
Accruals	18	18
	331,947	263,523

Loan from subsidiary undertaking

Loan notes of £4,100,000 were issued by LIBRA No 3 Limited to enable the company to pay the First Fee to the PIK agent on 20 January 2011 The loan notes have no repayment dates and bear interest at LIBOR plus 1 75% per annum

15. DEFERRED TAXATION

Group	Provided 2011 £000	Provided 2010 £000	Unprovided 2011 £000	Unprovided 2010 £000
Deferred tax asset / (liability)				
Accelerated capital allowances	-	-	2,147	2,319
Losses carried forward	-	-	92,392	76,468
Revaluation of investment properties	-	-	1,543	(24,537)
	-	-	96,082	54,250

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

Company	Provided 2011 £000	Provided 2010 £000	Unprovided 2011 £000	Unprovided 2010 £000
Losses carried forward	-	-	(41,017)	(29,691)
	-	-	(41,017)	(29,691)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

15 DEFERRED TAXATION (Continued)

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

In July 2011, the UK Government announced that the main rate of corporation tax would reduce to 25% with effect from 1 April 2012 This tax rate reduction was substantively enacted at the balance sheet date and therefore deferred tax balances have been calculated using a rate of 25% The Government also announced subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014 These tax rates have not been substantively enacted and therefore have not been reflected in the financial statements The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted

16 CALLED-UP SHARE CAPITAL

Company	**£000**
Called, allotted and fully paid:	
200,000 ordinary shares at £1 each	200
At 30 September 2010 and 2011	200

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

17. RESERVES

Group	**Revaluation reserve £000**	**Profit and loss account £000**
At 30 September 2010	(241,653)	(437,259)
Net deficit on revaluation of properties (note 11)	(192,771)	-
Realisation of property revaluation losses of previous years	4,793	(4,793)
Loss for the year	-	(98,595)
At 30 September 2011	(429,631)	(540,647)

Company	**Profit and loss account £000**
At 30 September 2010	(263,599)
Loss for the year	(68,423)
At 30 September 2011	(332,022)

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

Company	**£000**
At 30 September 2010	(263,399)
Loss for the year	(68,423)
At 30 September 2011	(331,822)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

19. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	2011 £000	2010 £000
Operating profit	71,208	68,275
Depreciation of other fixed assets	19	17
Provision for permanent diminution in value of investment properties	1,098	3,098
Costs of a fundamental restructuring of continuing operations	(4,042)	-
Decrease / (Increase) in debtors	535	(373)
Increase in creditors	458	193
Net cash inflow from operating activities	69,276	71,210

20. ANALYSIS OF CHANGES IN NET DEBT

Group	At 30 September 2010 £000	Cash flow £000	Non-cash changes* £000	At 30 September 2011 £000
Cash at bank and in hand	174	314	-	488
Net cash at bank and in hand	174	314	-	488
Short term deposit investments	17,284	10,473	-	27,757
Bank loans due within one year	(1,348,717)	-	(50,623)	(1,399,340)
Loan from Delta G-Co Limited and Starsign Limited	(4,590)	-	-	(4,590)
Preference shares	(43,600)	-	-	(43,600)
	(1,379,449)	10,787	(50,623)	(1,419,285)

* Non-cash changes relate to the rolling of regular interest on a £70m term loan

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2011 £000	2010 £000
Increase in cash during the year	314	134
Net cash outflow / (inflow) from management of liquid resources	10,473	(608)
Changes in net debt resulting from cash flows	10,787	(474)
Non-cash changes in net debt*	(50,623)	(45,335)
Net debt at the beginning of year	(1,379,449)	(1,333,640)
Net debt at the end of the year	(1,419,285)	(1 379,449)

*Non-cash changes in net debt relate to the rolling of regular interest on a £70m term loan

22 OPERATING LEASE COMMITMENTS

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

	2011 £000	2010 £000
Office lease – expiring within one year	54	53

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

23. 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 On 4 April 2007 CS Funding 1 Limited's rights and obligations under the £1,172 million term loan agreement were assigned to Libra NHP (2007) Limited, who in turn assigned £638 million to Titan Europe 2007-1 (NHP) Limited on 24 May 2007

24 RELATED PARTY TRANSACTIONS

(a) J M J M Jensen is an executive director of the Company and the Group On 19 December 2008, the Company and LIBRA No 3 Limited, its subsidiary undertaking, have entered into an engagement letter with Aaronite Partners Limited ('Aaronite'), where J M J M Jensen is an employee Aaronite has agreed to make available J M J M Jensen's services to the Company and LIBRA No 3 Limited and their subsidiary undertakings Total fees amount (including VAT) of £612,000 was incurred for the year ended 30 September 2011 (2010 £295,000) As at 30 September 2011 the amount £201,000 remained outstanding The full amount was settled by NHP Management Limited, the Company's subsidiary undertaking on 12 December 2011

(b) P H Thompson has been appointed as a non-executive director of the Company and Libra No 3 Limited on 6 November 2010 The Company and LIBRA No 3 Limited have entered into an engagement letter with The Aaronite Partners LLP ('Aaronite Partners') whereby Aaronite Partners would make available P H Thompson's services to the Company and LIBRA No 3 Limited and their subsidiary undertakings J M J M Jensen and P H Thompson are partners of Aaronite Partners Total fees amount (including VAT) of £217,000 (2010 £32,000) was incurred for the year ended 30 September 2011 As at 30 September 2011 the amount £20,000 remained outstanding but the full amount was settled by NHP Management Limited on 14 October 2011

(c) At 30 September 2011 the Company and the Group have total loans due to Delta G-Co Limited and Starsign Limited, the Company's shareholders Interest payable on the loans was £275,000 for the year ended 30 September 2011 (2010 £275,000) Further details on the loans can be found in note 14 to the financial statements

d) On 21 April 2011 Court Cavendish Healthcare Management Services Limited was retained as a managing agent under the Interim Agreement for the provision of Management Services entered into with the Company and its various group undertakings The key management of Court Cavendish Healthcare Management Services Limited are also directors of HC-One Limited, a company incorporated in July 2011 but became a group undertaking on 12 August 2011 Total retainer fees for the period from 19 April to 30 September 2011 were £1 1million (including VAT), which was borne by NHP Management Limited, the Company's group undertaking As at 30 September 2011 there was no outstanding amount The Interim Agreement was replaced by an Agreement for the Provision of Management Services on 29 September 2011 See note 25 for further details

e) No other related party transaction is noted

25. POST BALANCE SHEET EVENTS

a) On 28 October 2011 the Group had provided total loans of £25m to HC-One Limited, at interest rate of LIBOR plus 4% per annum The loan is due for repayment on 31 December 2014 The purpose of the loans was to finance the general corporate and working capital of HC-One Limited

b) On 28 October 2011 the Group had provided total loans of £5,000,000 to Libra Intermediate Holdco Limited, a group undertaking incorporated in August 2011 for the purpose of payment in full for the subscription for 5,000,000 ordinary shares of £1 each in the share capital of HC-One Limited

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

25. POST BALANCE SHEET EVENTS (Continued)

c) On 2 December 2011 an insurance settlement amount has been made by the insurance company for fire damaged at Culloden Court nursing home for £2,320,000 The receipt amount has been applied in accordance to the term of the £1,172 million Term Loan Agreement dated 15 January 2007

d) On 30 September 2011 the Group had reached a final form of restructuring with Southern Cross in respect of its business and the process of transferring its care homes to new operators, including to the new subsidiary of the Group, HC-One Limited (HC-One') The Group's care homes were ultimately assigned from Southern Cross to HC-One on 31 October 2011 See further details in note 1 to the financial statements

e) On 29 September 2011 the Group, including HC-One Limited entered into an Agreement for the Provision of Management Services with Court Cavendish Healthcare Management Services Limited for the provision of management services to HC-One Limited, a care home operator with effect from 1 November 2011, at management fees of £3 12 million per annum (including VAT) The Agreement for the Provision of Management Services replaced the Interim Agreement agreed on 21 April 2011

f) As of 1 November 2011, the Group has re-set its rents on care homes leased to HC-One at £40 million per annum based on market rent adjusted for catch up capital expenditure, on average 38% below the previous amount charged to Southern Cross Healthcare Group plc

g) On 13 January 2012 a standstill agreement was put in place until 13 April 2012 which suspends the ability of Capita Asset Services (UK) Limited, the loan servicer to exercise its rights in relation to certain specified events of default Also, it allows the Group time to negotiate a solution to the problem of the breached covenants without threat of foreclosure

26 ULTIMATE PARENT COMPANY AND THE CONTROLLING PARTY

LIBRA No 2 Limited is jointly owned by Delta G-Co Limited and Starsign Limited in equal shares 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 LIBRA No 2 Limited is the smallest and largest group the consolidated financial statements are drawn up

Copies of LIBRA No 2 Limited consolidated financial statements to 30 September 2011 are available from the Companies House at Crown Way, Cardiff, Wales CF14 3US