Company Registration No. FC 026602

100793/240

LIBRA NO 2 LIMITED

Report and Financial Statements
30 September 2010

REPORT AND FINANCIAL STATEMENTS 2010

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REPORT AND FINANCIAL STATEMENTS 2010

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
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 2010

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 2010 the Group owned the freehold and long leasehold interests in 294 care homes, three residential properties and two sites valued at £795,893,000 (2009 £817,545,000) The Market Valuation was £827,149,000 (2009 £849,645,000) if the individual properties had been valued as separate businesses

RESULTS

The results of the Group for the years ended 30 September 2010 and 30 September 2009 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

	2010	2009	Increase/ (decrease)
Turnover	£73 1m	£71 7m	£1 4m
Adjusted operating profit*	£71 4m	£69 2m	£2 2m
Operating cash flow after interest	£(2 5)m	£(6 9)m	£4 4m
Shareholders' deficit	£678 7m	£579 9m	£98 8m

Group turnover for the year ended 30 September 2010 was £73 1m as compared to £71 7m for the preceding year This increase in the Group turnover of £1 4m was principally due to a 2 5% rent uplift on the operators' leases

Adjusted operating profit for the year ended 30 September 2010 is calculated as operating profit of £68 3m plus exceptional costs of £nil plus provision for permanent diminution in value of investment properties of £3 1m (2009 £68 4m plus £0 8m plus £nil)

The effective improvement in operating profit before exceptional costs of £2 2m was primarily due to the favourable group turnover variance in the current year

Operating cash flow after interest for the year ended 30 September 2010 is calculated as net cash inflow from operating activities of £71 2m less net cash outflow from returns on investment and servicing of finance of £73 7m (2009 £66 7m less £73 6m)

DIRECTORS' REPORT (continued)

RESULTS (Contınued)

Shareholders' deficıt has ıncreased from £579 9m at 30 September 2009 to £678 7m at 30 September 2010 The decreased amount of £98 8m ın shareholders' deficıt was due to the followıng

(a) the loss for the year of £80 3m due to the contınuıng net ınterest payable on bank debts (see note 7 of the financıal statements), and

(b) the declıne ın the property valuatıon of the Group portfolıo has contınued ın the year ended 30 September 2010 to £795 9m from £817 5 at 30 September 2009 The fall ın the Group property valuatıon was prımarıly due to the contınued ımpact of the current financıal crısıs

DIVIDENDS

The Company has declared and paıd a dıvıdend of £nıl for the year (2009 £nıl)

DIRECTORS

The followıng Dırectors served durıng the year

Dırectors	Date appoınted	Date Resıgned
P H Thompson	6 November 2009	-
M J Grant	2 July 2009	6 November 2009
J M J M Jensen	19 December 2008	-

PRINCIPAL RISKS AND UNCERTAINTIES

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Dırectors have the overall responsıbılıtıes for the Group ın assessıng rısk and takıng approprıate actıon

Cash flow rısk
The Group used derıvatıve financıal ınstruments to reduce the exposure to ınterest rate movements ın lıne wıth the Group's rısk management polıcıes as approved by the Board of Dırectors The ınterest rate swap agreement was sıgned wıth Credıt Suısse on 15 January 2007 as dısclosed ın note 13 of the financıal statements The Group does not use derıvatıve financıal ınstruments for speculatıve purposes

Credıt rısk
Credıt rısk ıs attrıbutable to receıvables ın relatıon to rents receıvable from thırd party tenants Due to austerıty measures, some tenants are facıng dıfficult operatıng condıtıons resultıng ın an ıncreased rısk that they may be unable to pay theır rents However, a large number of our homes are geographıcally dıverse and our occupatıonal leases are long-term contracts, thus makıng the ıncome relatıvely secure

The Group has a concentratıon of credıt rısk as the prıncıpal tenant ıs Southern Cross Healthcare Group Plc ("Southern Cross") At 30 September 2010, there ıs no outstandıng rent due from Southern Cross The Dırectors have been ın on-goıng dıscussıons wıth Southern Cross ın respect of a potentıal restructurıng of ıts oblıgatıons under the lease documents Such dıscussıons are at a prelımınary stage See note 1 to the financıal statements for further detaıls

Lıquıdıty rısk
In order to maıntaın lıquıdıty and to ensure that suffıcıent funds are avaılable for ongoıng operatıons and future developments, the Group has reserved £4 3m ın an ınterest bearıng cash reserve account and £0 3m ın capıtal expendıture reserve account at 30 September 2010

Prıce rısk
The Group has entered ınto a number of medıum-term rental agreements wıth ıts tenants whıch are subject to fixed annual prıce ıncreases

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

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 arms 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 commented in their valuation report as at 30 September 2010 that the recent announcements in relation to Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and 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 to accurately assess the effect there will be on the market with the evidence available to them and they had therefore applied their professional judgement

GOING CONCERN

As set out in note 13 to the financial statements, as at 30 September 2010, 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 December 2010, a further standstill agreement was put in place, expiring 14 February 2011

Since January 2009, the Directors have been relying on a confirmation from Capita (the special servicer to the Senior Loan under the securitisation structure) that for so long as discussions with respect to a potential reorganisation of the affairs of the Group and a restructuring of its debt obligations are continuing, and on the understanding that such funds shall not be applied in contravention of the terms relating to the Senior Loan, it is the intention of the creditors with respect to the Senior Loan to provide the Group with the funds it requires to make payments falling due as a consequence of the group carrying on its business from the Senior Borrowers' cash reserve account within a reasonable time upon request

Given these circumstances along with other matters disclosed in note 1, the Directors do not currently expect the Company and the Group 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 Nonetheless, at the present time, the Directors consider it appropriate to prepare the Group and the Company financial statements on a going concern basis 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 average creditors' days for the Group at 30 September 2010 were equivalent to 25, (2009 15) Creditor days for the Company at 30 September 2010 were nil (2009 nil)

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 2010 were equivalent to 25, (2009 15) Creditor days for the Company at 30 September 2010 were nil (2009 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 s418 of the Companies Act 2006

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

J M J M Jensen
Director
Date 8 February 2011

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 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 2010, 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 25 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 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

As explained more fully in the Directors' Responsibilities Statement, 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 (APB'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

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 2010 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 qualified, 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 AUDITORS' 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 and Registered Auditors
London, United Kingdom
Date 8 February 2011

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 September 2010

	Notes	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
TURNOVER AND GROSS PROFIT			
Continuing operations	3	73,138	71,726
Provision for permanent diminution in value of investment properties		(3,098)	-
Administrative expenses - ongoing		(1,702)	(2,521)
- exceptional	5	(63)	(814)
Total administrative expenses		(4,863)	(3,335)
OPERATING PROFIT	6	68,275	68,391
Profit on sale of tangible fixed asset		25	-
Net interest payable and similar charges	7	(148,606)	(132,444)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(80,306)	(64,053)
Tax on loss on ordinary activities	8	-	-
LOSS FOR THE FINANCIAL YEAR	16	(80,306)	(64,053)

Results are derived wholly from continuing operations

BALANCE SHEETS
at 30 September 2010

	Notes	Group 2010 £000	Group 2009 (Reclassified*) £000	Company 2010 £000	Company 2009 £000
TANGIBLE FIXED ASSETS					
Investment properties	10	795,308	816,962	-	-
Other fixed assets	10	607	583	-	-
		795,915	817,545	-	-
INVESTMENTS	11	-	-	-	-
TOTAL FIXED ASSETS		795,915	817,545	-	-
CURRENT ASSETS					
Debtors	12	1,042	2,707	124	124
Short-term deposits		17,284	17,892	-	-
Cash at bank and in hand		174	40	-	
		18,500	20,639	124	124
CREDITORS: amounts falling due within one year	13	(1,493,127)	(1,418,045)	(263,523)	(211,947)
NET CURRENT LIABILITIES		(1,474,627)	(1,397,406)	(263,399)	(211,823)
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET LIABILITIES		(678,712)	(579,861)	(263,399)	(211,823)
CAPITAL AND RESERVES					
Called up share capital	15	200	200	200	200
Revaluation reserve	16	(241,653)	(235,673)	-	-
Profit and loss account	16	(437,259)	(344,388)	(263,599)	(212,023)
SHAREHOLDERS' DEFICIT		(678,712)	(579,861)	(263,399)	(211,823)

*See notes 12 and 13 for details on the reclassification

These financial statements were approved and authorised for issue by the Board of Directors on 8 February 2011 The Company Registration number is FC026602

Signed on behalf of the Board of Directors

J M J M Jensen
Director

P H Thompson
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 September 2010

	Note	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Net cash inflow from operating activities	18	71,210	66,743
Return on investments and servicing finance			
Interest paid		(73,995)	(73,999)
Other similar charges paid		(1)	(2)
Interest received		279	404
Net cash outflow from returns on investments and servicing of finance		**(73,717)**	**(73,597)**
Taxation			
Corporation tax received		2,038	1,257
Capital expenditure and financial investment			
Purchase of tangible fixed assets	10	(30)	-
Proceeds on disposal of other fixed assets		25	-
Net cash outflow from investing activities		(5)	-
Net cash outflow before use of liquid resources and financing		**(474)**	**(5,597)**
Management of liquid resources			
Short-term deposit withdrawal		608	5,548
Increase / (decrease) in cash in the year	19	134	(49)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 September 2010

	Notes	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Loss for the year	16	(80,306)	(64,053)
Net deficit on revaluation of properties	16	(18,545)	(77,072)
Total recognised loss for the year		(98,851)	(141,125)

CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
Year ended 30 September 2010

	Notes	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Loss for the year	16	(80,306)	(64,053)
Net deficit on revaluation of properties	16	(18,545)	(77,072)
Net decrease in shareholders' funds		(98,851)	(141,125)
Shareholders' deficit at the beginning of year		(579,861)	(438,736)
Shareholders' deficit at end of year		(678,712)	(579,861)

CONSOLIDATED NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 30 September 2010

	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Loss on ordinary activities before taxation	(80,306)	(64,053)
Realisation of property revaluation losses of previous years	(12,565)	-
Historical cost loss on ordinary activities before taxation	(92,871)	(64,053)
Historical cost loss retained for the year	(92,871)	(64,053)

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

1 GOING CONCERN

As at 30 September 2010, 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 investment properties and freehold land and buildings (the "**Portfolio**") of the Company and its subsidiaries (the "**Group**") As at 8 February 2011, the loan amounts remain outstanding The original final maturity date of the Senior Loan was 15 January 2009 and of the Mezzanine Loan was 15 February 2009 (each, the "**original final maturity date**"), with an option to extend these loans to 15 January 2010 and 15 February 2010 respectively (each, the "**final maturity date**"), in each case provided (among other things) that no default was outstanding at the original final maturity date

However, a fall in property values in the period to 30 September 2008 and a further fall in the period to 15 December 2008 resulted in the breach of, among other things, the loan to value ('LTV') financial covenant with respect to the Senior Loan (resulting in an automatic cross-default with respect to the Mezzanine Loan) As a result, the Group was not in a position to extend the loans to the final maturity date Other breaches of the terms of the loan documents, chiefly concerning information covenants, also resulted in defaults with respect to the Senior Loan and the Mezzanine Loan

Under the terms of the respective loan documents, the Senior Borrower was required to make repayment of the Senior Loan on 15 January 2009 and the Mezzanine Borrower was required to make repayment of the Mezzanine Loan on 15 February 2009 These repayments were not made As a result, the respective borrowers have become liable for an additional 2% default interest with respect to the overdue amounts The default interest amounts have contributed to a breach of the interest cover ratio ('ICR') financial covenant in relation to the Senior Loan (resulting in an automatic cross-default with respect to the Mezzanine Loan)

Since November 2008, the Directors of the Group and the Company have been in ongoing discussions with Capita Asset Services (UK) Limited ("**Capita**"), the special servicer to the Senior Loan under the securitisation structure (which operates on a back-to-back basis with the Senior Loan) and have entered into a series of standstill agreements which suspend the rights of the creditors with respect to the Senior Loan and the Mezzanine Loan to enforce their rights under the loan documents and related security On 13 December 2010 a further standstill agreement was put in place, expiring 14 February 2011 On 17 January 2011 the Senior Borrower was unable to satisfy its interest payment in full on the interest payment date The non full interest payment has been acknowledged in the Amendment to Standstill Agreement dated 19 January 2011

The Directors of the Group and of the Company and Capita continue to explore alternative options to maximise the recoveries of the Senior Loan, including the sale of the whole or part of the Group and/or the properties (the "**Disposal Options**")

On 7 December 2010 the Group's principal tenant, Southern Cross Healthcare plc ("Southern Cross"), announced as part of its preliminary full year results that it had engaged Morgan Stanley to review its lease arrangements with landlords Since then, the Directors of the Company and Capita have been in on-going discussions with Southern Cross and its advisors in respect of a potential restructuring of the Southern Cross' obligations to the Group under the lease documents (the "**Southern Cross Discussions**") Such discussions are at a preliminary stage The Senior Borrower and Capita have jointly appointed Ernst & Young LLP as an advisor to assist in the discussions with Southern Cross and to provide on-going advice as to the various options relating to the Group's properties that are leased to Southern Cross

In order to be able to improve flexibility with regard to the Disposal Options and the potential restructuring under the Southern Cross Discussions, the Directors of the Company signed an agreement on 17 January 2011 with the lenders of the Mezzanine Loan enabling the restatement and amendment of the original Mezzanine Loan, which had the effect of waiving certain "hold-out"-rights under the transaction documents held by the Mezzanine Loan lenders, which would otherwise have restricted the Group's ability ultimately to optimise the Disposal Options and the Southern Cross Discussions

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

1. **GOING CONCERN (Continued)**

While the Disposal Options and the Southern Cross Discussions are being progressed, the discussions with respect to restructuring the Senior Loan and the Mezzanine Loan are on hold pending the outcome of the Southern Cross Discussions but may be restarted in due course

As at 30 September 2010, the Directors were advised by their valuers, King Sturge LLP, that the appropriate yield for the Portfolio was 8 77%, and the value of the Portfolio was £827 15 million after allowing for purchaser's costs of 1 75%, valued on the basis of the individual properties being sold as separate businesses The LTV ratio (the total of the carrying value of the loans and the fair value of the interest rate swaps attached to them as a percentage of market value of the total property portfolio) at that time was 165 23% Due to a continued fall in property values and the default interest charges, the Group was in a net liability position of £678 71 million as at 30 September 2010

King Sturge LLP have drawn attention in their valuation certificate as of 30 September 2010 to the fact that recent announcements in relation to Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures are detrimentally affecting market sentiment and, in the opinion of King Sturge, are likely to affect market values going forward
In late 2010 Capita engaged King Sturge LLP to provide an updated property valuation According to this valuation, as at 30 December 2010 the appropriate yield for the Group's portfolio remained at 8 77% Notwithstanding the recent announcements in relation to Southern Cross, the lack of property transactions in the market, government measures, fees pressures and the lack of debt finance, King Sturge LLP has considered that the value of the portfolio has remained at the same level as at 30 September 2010 valuation As at 17 January 2011 the LTV ratio is 156 65%, calculated based on the latest valuation

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 30 April 2012 which indicate that there is a shortfall in the operational cash flow of the Group during that period The cash flow forecasts also indicate that the ICR test will continue not to be met throughout the testing period

Since January 2009, the Directors have been relying on a confirmation from Capita, subsequently amended on 20 January 2011, that for so long as the Southern Cross Discussions continue and/or the Disposal Options are continuing and discussions in respect of the a potential reorganisation of the affairs of the Group and a restructuring of its debt obligations (the "**Potential Restructuring**") may be restarted, and provided such funds shall not be applied in contravention of the terms relating to the Senior Loan, it is the intention of the creditors with respect to the Senior Loan 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 and/or disposal costs, and (c) other exceptional costs incurred in relation to the Southern Cross Discussions, the Disposal Options and/or the Potential Restructuring) from the Senior Borrower's cash reserve account within a reasonable time upon request

Given these circumstances, the Directors do not currently expect the Company to go into insolvent liquidation, although this position could change if either the negotiations for which the current standstill agreement allows were to fail or the financial stability of Southern Cross were to deteriorate in the foreseeable future 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

Nonetheless, at the present time, the Directors consider it appropriate to prepare the Group and Company financial statements on a going concern basis In the event that a 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 ACCOUNTS
Year ended 30 September 2010

2. ACCOUNTING POLICIES

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year, except that certain comparative figures have been reclassified to provide clearer comparability (see notes 12 and 13)

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 2009 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 2010

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 ACCOUNTS
Year ended 30 September 2010

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 ACCOUNTS
Year ended 30 September 2010

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 2010 £000	Year ended 30 September 2009 £000
Pavement rent	72,255	70,800
Turnover rent	735	749
Commissions and fees receivable	148	177
	73,138	71,726

4. STAFF COSTS

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

Group	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Wages and salaries	413	223
Social security costs	51	26
Pension – defined contribution	22	22
	486	271

Average number of employees (excluding executive Director):	**Year ended 30 September 2010**	**Year ended 30 September 2009**
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 of £295,000 (for the period from 19 December 2008 to 30 September 2009 £285,000) were incurred for year ended 30 September 2010 This 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 of £32,200 were incurred for the period from 6 November 2009 to 30 September 2010

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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

5. EXCEPTIONAL COSTS

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

	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Restructuring expenses	63	354
Office lease assignment costs	-	291
Tenant receivership support costs	-	169
	63	814

6. OPERATING PROFIT

Group operating profit is arrived after charging

	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Depreciation of other fixed assets	17	8
Operating lease rentals - buildings	36	15
Provision for bad and doubtful debts	-	1,044
Auditors' remuneration		
- Group audit – current year	143	160
- Company audit	12	12
- Auditing accounts of subsidiaries pursuant to regulations	5	5
- Corporate finance services	68	94
- Tax services*	116	382
	344	653

* The tax fees include amounts of £6,000 (2009 £218,000) 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 2010

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

Group	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Interest receivable		
Interest receivable on deposits	17	192
Other interest receivable	262	28
	279	220
Interest payable:		
Interest payable on bank loans**	(140,812)	(122,999)
Interest payable – shareholders loans	(275)	(275)
Interest payable on accrued dividend of preference shares	(2,564)	(1,936)
Dividends – redeemable preference shares	(5,232)	(5,232)
Other interest payable	-	-
Finance costs	(2)	(2,222)
	(148,885)	(132,664)
Net interest payable and similar charges	(148,606)	(132,444)

** On 15 January 2009 the Group failed to repay the £1,172 million term loan of the Senior Facility Agreement and on 15 February 2009 the Company also failed to repay the £70 million term loan Default interest amounts of £26,549,000 were charged on the overdue amounts and have been included within the interest payable on bank loans for the year ended 30 September 2010 (2009 £18,192,000)

8. TAX ON LOSS ON ORDINARY ACTIVITIES

Group	Year ended 30 September 2010 £000	Year ended 30 September 2009 £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	(80,306)	(64,053)
Tax on loss at standard rate of 28% (2009 28%)	(22,485)	(17,935)
Factors affecting the change		
Non deductible expenses	2,298	1,476
Decrease in value of property interests	867	-
Capital allowances for period in excess of depreciation	5	2
Utilisation of brought forward losses	(141)	(1,087)
Increase in losses carried forward	19,456	17,544
Group tax charge for the current year	-	-

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

8. TAX ON LOSS ON ORDINARY ACTIVITIES (Continued)

The tax charge for the current year ıs hıgher than that resultıng from applyıng the standard rate of corporatıon tax due to an ıncrease ın losses carrıed forward

The maın rate of corporatıon tax wıll be reduced from 28% to 27% from 1 Aprıl 2011 There wıll be further 1% reductıons ın the maın corporatıon tax rate ın each of the next three years to brıng the rate down to 24% by 1 Aprıl 2014 as such the maın rate of corporatıon tax wıll fall to 27% for 2011-12, wıth further 1% cuts ın the followıng three years to 26% ın 2012-13, 25% ın 2013-14, and 24% ın 2014-15

9. PARENT COMPANY PROFIT AND LOSS ACCOUNT

	Year ended 30 September 2010 £000	Year ended 30 September 2009 £000
Loss for the financıal year, ıncludıng after taxatıon	(51,576)	(40,027)

The Company has taken the advantage of sectıon 408 of the Companıes Act 2006 and consequently a profit and loss account for the Company alone ıs not presented

10. TANGIBLE FIXED ASSETS

Investment propertıes Group	Freehold ınvestment propertıes £000	Long leasehold ınvestment propertıes £000	Total £000
Cost or valuatıon			
At 30 September 2009	795,662	21,300	816,962
Net deficıt on revaluatıon	(17,614)	(942)	(18,556)
Provısıon for permanent dımınutıon ın value of ınvestment propertıes	(3,098)	-	(3,098)
At 30 September 2010	774,950	20,358	795,308

Investment propertıes are stated at market value as at 30 September 2010 as valued by professıonally qualıfied external valuers The Group's propertıes were valued by Kıng Sturge LLP, Chartered Surveyors The valuatıons have been prepared ın accordance wıth the Appraısal and Valuatıon Standards of the Royal Instıtutıon of Chartered Surveyors In theır valuatıon report, Kıng Sturge have confirmed that the opınıons and values stated thereın represent theır objectıve vıew as at 30 September 2010

The Kıng Sturge valuatıon report as at 30 September 2010 commented that recent announcements ın relatıon to Southern Cross and a contınuıng lack of lıquıdıty ın the financıal sector together wıth austerıty measures are detrımentally affectıng market sentıment and, ın the opınıon of Kıng Sturge, are lıkely to affect market values goıng forward They further commented that as these events, wıth partıcular reference to Southern Cross, are so recent and cırcumstances contınue to change, they were not able to accurately assess the effect there wıll be on the market wıth the evıdence avaılable to them and they had therefore applıed theır professıonal judgement

The Dırectors have revıewed Kıng Sturge LLP's valuatıon at 30 September 2010 and are of the opınıon that there ıs a deficıt of £3,098,000 on ınvestment propertıes whıch represents a permanent fall ın value, whıch has consequently been charged ın the profit and loss account

The Market Valuatıon of the ınvestment propertıes valued by Kıng Sturge LLP was £816,960,000 ıf the ındıvıdual propertıes were valued as separate busınesses at 30 September 2010 (2009 £849,062,000)

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

10. 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 2009	583	-	-	583
Additions	-	6	24	30
Net surplus on revaluation of land and buildings	2	-	-	2
At 30 September 2010	585	6	24	615

Accumulated depreciation	**Freehold land and building £000**	**Office equipment £000**	**Computer equipment £000**	**Total £000**
At 30 September 2009	-	-	-	-
Charge for the year	9	2	6	17
Net surplus on revaluation of land and buildings	(9)	-	-	(9)
At 30 September 2010	-	2	6	8
Net book value:				
At 30 September 2010	585	4	18	607
At 30 September 2009	583	-	-	583

The Market Valuation of the freehold land and buildings valued by King Sturge LLP was £585,000 if the other fixed assets were sold as separate businesses at 30 September 2010 (2009 £583,000)

11. INVESTMENTS

Company

	Shares Libra No. 3 Limited £'000
At Cost or valuation	
At 30 September 2009 and 30 September 2010	77,339
Provision	
At 30 September 2009 and 30 September 2010	(77,339)
Net book value	
At 30 September 2010	-
At 30 September 2009	-

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

11. INVESTMENTS (continued)

At 30 September 2010, 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 ACCOUNTS
Year ended 30 September 2010

11. 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

* 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

Group	2010 £000	2009 (Reclassified*) £000
Other debtors*	901	469
Corporation tax	-	2,038
Prepayments and accrued income	141	200
	1,042	2,707

*Amounts due by Delta G-Co Limited and Starsign Limited of £123,000 had previously reported net of creditors' amount under note 13 'Creditors amounts falling due within one year'

Company	2010 £000	2009 £000
Amounts due by Delta G-Co Limited and Starsign Limited	123	123
Prepayment	1	1
	124	124

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group	2010 £000	2009 (Reclassified*) £000
Bank loan	1,172,000	1,172,000
Bank loan	70,000	70,000
Cumulative interest capitalised	106,717	61,382
	176,717	131,382
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 **	62,694	41,211
Interest payable on accrued dividend of preference shares	6,593	4,030
Dividend payable on preference shares	23,971	18,739
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	1,047	772
Other creditors	89	167
Taxation and social security	8	8
Accruals and deferred income	669	397
	1,493,127	1,418,045

*Other amounts due to Delta G-Co Limited and Starsign Limited had previously reported net of debtors amount of £123,000, now have been reclassified to show under 'Debtors' in note 12

** 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 2010, default interest amounts of £44,741,000 (2009 £18,192,000) 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 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 2010 the £1,172 million term loan remains outstanding Further details are disclosed in note 1 of the financial statements

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

13. 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 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 The 3-year interest rate swap agreement matured on 15 January 2010 Mark to market valuation on the 7-year interest rate swap agreement at 30 September 2010 was of £194 67 million out-of-money (2009 £107 15 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 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 2010 the £70 million term loan remains outstanding and the capitalised interest amount was £106,717,000 (2009 61,382,000) Further details are disclosed in note 1 of the financial statements

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 ACCOUNTS
Year ended 30 September 2010

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

Company	2010 £000	2009 £000
Bank loan	70,000	70,000
Cumulative interest capitalised	106,717	61,382
Less Unamortised finance costs	-	-
	176,717	131,382
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	6,809	8,766
Interest payable on accrued dividend of preference shares	6,593	4,030
Dividend payable on preference shares	23,971	18,739
Loan from Delta G-Co Limited and Starsign Limited	4,590	4,590
Amounts due to group undertakings	178	36
Loan interest payable to Delta G-Co Limited and Starsign Limited	1,047	772
Other creditors	-	15
Accruals	18	17
	263,523	211,947

14. DEFERRED TAXATION

Group	Provided 2010 £000	Provided 2009 £000	Unprovided 2010 £000	Unprovided 2009 £000
Deferred tax asset / (liability)				
Accelerated capital allowances	-	-	2,319	2,394
Losses carried forward	-	-	76,468	60,091
Revaluation of investment properties	-	-	(24,537)	(58,342)
	-	-	54,250	4,143

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 £24,537,000 (2009 £58,342,000) 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 2010 £000	Provided 2009 £000	Unprovided 2010 £000	Unprovided 2009 £000
Losses carried forward	-	-	(29,691)	13,167
	-	-	(29,691)	13,167

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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

15. CALLED-UP SHARE CAPITAL

Company	£000
Called, allotted and fully paid:	
200,000 ordinary shares at £1 each	200
At 30 September 2009 and 2010	200

The redeemable preference shares are presented as a liability (see note 13) and accordingly are excluded from called up share capital in the balance sheet

16. RESERVES

Group	Revaluation reserve £000	Profit and loss account £000
At 30 September 2009	(235,673)	(344,388)
Net deficit on revaluation of properties (note 10)	(18,545)	-
Realisation of property revaluation losses of previous years	12,565	(12,565)
Loss for the year	-	(80,306)
At 30 September 2010	(241,653)	(437,259)

Company	Profit and loss account £000
At 30 September 2009	(212,023)
Loss for the year	(51,576)
At 30 September 2010	(263,599)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

Company	£000
At 30 September 2009	(211,823)
Loss for the year	(51,576)
At 30 September 2010	(263,399)

18. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOW

	2010 £000	2009 £000
Operating profit	68,275	68,391
Depreciation of other fixed assets	17	9
Provision for permanent diminution in value of investment properties	3,098	-
Increase / (Decrease) in debtors	(373)	7
Increase / (Decrease) in creditors	193	(872)
Decrease in provision	-	(792)
Net cash inflow from operating activities	71,210	66,743

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

19 ANALYSIS OF CHANGES IN NET DEBT

Group	At 30 September 2009 £000	Cash flow £000	Non-cash changes* £000	At 30 September 2010 £000
Cash at bank and in hand	40	134	-	174
Net cash at bank and in hand	40	134	-	174
Short term deposit investments	17,892	(608)	-	17,284
Bank loans due within one year	(1,303,382)	-	(45,335)	(1,348,717)
Loan from Delta G-Co Limited and Starsign Limited	(4,590)	-	-	(4,590)
Preference shares	(43,600)	-	-	(43,600)
	(1,333,640)	(474)	(45,335)	(1,379,449)

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

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2010 £000	2009 £000
Increase / (Decrease) in cash during the year	134	(49)
Net cash inflow from management of liquid resources	(608)	(5,548)
Changes in net debt resulting from cash flows	(474)	(5,597)
Non-cash changes in net debt*	(45,335)	(31,496)
Net debt at the beginning of year	(1,333,640)	(1,296,547)
Net debt at the end of the year	(1,379,449)	(1,333,640)

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

21. OPERATING LEASE COMMITMENTS

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

	2010 £000	2009 £000
Office lease – expiring within one year	53	-

22 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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

23 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 of £295,000 was incurred for the year ended 30 September 2010 (for the period from 19 December 2008 to 30 September 2009 £285,000) As at 30 September 2010 the amount £93,000 remained outstanding (2009 £78,000) £30,000 was settled by NHP Management Limited, the Company's subsidiary undertaking on 15 October 2010

(b) P H Thompson has been appointed as a non-executive director of the Company and Libra No 3 Limited on 6 November 2009 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 of £32,000 was incurred for the year ended 30 September 2010 (2009 £nil) As at 30 September 2010 the amount £4,900 remained outstanding but the full amount was settled by NHP Management Limited on 15 October 2010 (2009 £nil)

(c) At 30 September 2010 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 2010 (2009 £275,000) Further details on the loans can be found in note 13 to the financial statements

24. POST BALANCE SHEET EVENTS

On 13 December 2010 a standstill agreement was put in place until 14 February 2011 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 and 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

25. 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 2010 are available from the Companies House at Crown Way, Cardiff, Wales CF14 3US