100833/240

Company Registration
No. FC 027201

CARE HOMES NO.1 LIMITED

Financial Statements
30 September 2011

CARE HOMES NO. 1 LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

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REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J M J M Jensen
P H Thompson

SECRETARY

Dominion Corporate Services Limited

REGISTERED OFFICE

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

ASSET MANAGER

NHP Management Limited
Liberty House
222 Regent Street
London
W1B 5TR

BANKERS

National Westminster Bank Plc
Norwich City Office
45 London Street
Norwich
NR2 1HX

SOLICITORS

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

AUDITOR

Deloitte LLP
Chartered Accountants
London

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 profit and loss of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CARE HOMES NO.1 LIMITED

We have audited the financial statements of Care Homes No 1 Limited for the year ended 30 September 2011, which comprise the Profit and Loss account, the Balance Sheet and the related Notes 1 to 17 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 Company's affairs as at 30 September 2011 and of its 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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CARE HOMES NO.1 LIMITED (Continued)

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 Company's ability to continue as a going concern The Company incurred a net loss of £11,773,248 for the year ended 30 September 2011 and, as of that date, the Company's current liabilities exceeded its current assets by £69,097,330 Thus the Company is reliant on the Group to continue as a going concern

The Group is in breach of the financial covenants in its loan agreement (as described in note 14 of the LIBRA No 2 Limited's 30 September 2011 financial statements) 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 Company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, 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 17 February 2012

PROFIT AND LOSS ACCOUNT
Year ended September 2011

	Notes	2011 £	2010 £
TURNOVER AND GROSS PROFIT	3	14,722,771	14,530,485
Administrative expenses	4	(26,506,155)	(30,602,636)
OPERATING LOSS		(11,783,384)	(16,072,151)
Net interest receivable and similar income	5	10,136	30,280
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(11,773,248)	(16,041,871)
Tax on loss on ordinary activities	6	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND LOSS FOR THE YEAR	12	(11,773,248)	(16,041,871)

Turnover and operating loss are wholly derived from continuing operations

There are no recognised gains or losses for the current financial year or preceding financial year other than as stated in the profit and loss account Accordingly, no statement of total recognised gains and losses is presented

BALANCE SHEET
30 September 2011

	Notes	2011			2010
		£	£	£	£
FIXED ASSETS					
Investments	7		-		-
CURRENT ASSETS					
Debtors	8	1,608		1,371	
Cash at bank and in hand		5,037,154		28,989	
		5,038,762		30,360	
CREDITORS: amounts falling due within one year	9	(74,136,092)		(57,354,442)	
NET CURRENT LIABILITIES			(69,097,330)		(57,324,082)
TOTAL ASSETS LESS CURRENT LIABILITIES			(69,097,330)		(57,324,082)
NET LIABILITIES			(69,097,330)		(57,324,082)
CAPITAL AND RESERVES					
Share capital	11		1		1
Profit and loss account	12		(69,097,331)		(57,324,083)
SHAREHOLDERS' DEFICIT	13		(69,097,330)		(57,324,082)

The accompanying notes form an integral part of these financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 17 February 2012
The Company Registration number is FC027201

Signed on behalf of the Board of Directors

J M J M Jensen
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

1. GOING CONCERN

The Company is a guarantor for a term loan entered into by another group company

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 of the LIBRA No 2 Limited's 30 September 2011 financial statements 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 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

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with Section 396 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 particular accounting policies adopted are described below They have been applied consistently throughout the year and the preceding year

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of Value Added Tax The Company recognises turnover when the amount can be reliably measured

Taxation

Current tax, including UK corporation 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

Foreign currencies

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

Investment

Fixed asset investments are stated at cost less provision for impairment

Cash flow statement

As the Company is a wholly-owned subsidiary, it has taken exemption under the terms of Financial Reporting Standard 1 (Revised 1996) 'Cash Flow Statements' from preparing cash flow statement as it is included in the consolidated financial statements of LIBRA No 2 Limited, which are available from the Companies House

3 TURNOVER AND GROSS PROFIT

Turnover comprises the following earned from the Company's ordinary activities which take place wholly within the United Kingdom

	2011 £	2010 £
Rental receivable	14,699,206	14,506,294
Other fees and commissions	23,565	24,191
	14,722,771	14,530,485

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

4. ADMINISTRATIVE EXPENSES

The Company had no employees during the current or preceding year

None of the Directors received emoluments in relation to their services to the Company during the current or preceding year Directors' emoluments have been borne by NHP Management Limited, a group undertaking during the current and preceding year

Administrative expenses include, inter alia

	2011 £	2010 £
Management fees payable to a group undertaking	252,958	40,939
Provision of doubtful debts – group undertakings*	11,774,928	16,043,474
Overriding lease rents payable to group undertakings	14,461,952	14,496,579

The analysis of auditor's remuneration is as follows

	2011	2010
Fees payable to the Company's auditor for the audit of the Company's annual accounts	5,400	5,347
Fees payable to the Company's auditor and their associates for other services to the Company		
- Tax services	7,200	7,200
Total audit fees	12,600	12,547

*Provision for doubtful debts include total of £9,692,942 for the investment in subordinated loan notes and £2,081,986 for other amounts owed by group undertakings (30 September 2010 £14,544,492 and £1,498,982)

The Company did not incur any non-audit fees during the year (30 September 2010 £nil)

5. NET INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £	2010 £
Interest payable on loan notes from group undertakings	(2,075,506)	(1,468,932)
Interest receivable on bank deposits	3,656	230
Interest receivable on loan notes from group undertakings	2,081,986	1,498,982
	10,136	30,280

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	2011 £	2010 £
Current tax charge	-	-
Deferred tax	-	-
Total tax charge	-	-
Reconciliation of current tax charge		
Loss before tax	(11,773,248)	(16,041,871)
Tax on loss at standard rate of 27% (2010 28%)	(3,178,777)	(4,491,724)
Factors affecting charge		
Permanent differences	-	1,428
Non deductible provisions	3,179,231	4,492,173
Utilisation b/f losses	(454)	(1,877)
Current tax charge for the year	-	-

The tax charge for the current year is higher than that resulting from applying the standard rate of corporation tax due to certain expenditure being disallowable for tax purposes

7. INVESTMENTS

	£
Loan notes investment in group undertaking	
Cost	
At 1 October 2010	51,963,364
Additions	9,692,943
At 30 September 2011	61,656,307
Provision	
At 1 October 2010	(51,963,364)
Provision for the year	(9,692,943)
At 30 September 2011	(61,656,307)
Net book value	
At 30 September 2011	-
At 30 September 2010	-

At 30 September 2011 total loan notes of £61,656,307 (2010 £51,963,364) were invested in LIBRA No 3 Limited, an intermediate parent undertaking to enable that company to finance part of the interest due on the senior term loan with Credit Suisse signed on 15 January 2007 The loan notes have no fixed repayment date and bear interest at LIBOR plus 2% per annum

The investment in the loan notes in LIBRA No 3 Limited has been written down in full as its current liabilities exceeded its current assets by £1,734,844,121 at 30 September 2011 Furthermore, LIBRA No 3 Limited is the Borrower to a £1,172 million term loan facility agreement entered into with CS Funding 1 Limited, a group undertaking of Credit Suisse on 15 January 2007 As disclosed in note 1, since November 2008, the Senior Loan has been under a series of standstill agreements

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

8. DEBTORS

	2011 £	2010 £
Prepayments and accrued income	1,608	1,371
	1,608	1,371

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £	2010 £
Loan notes due to group undertakings	66,105,212	51,643,261
Loan notes interest due to group undertakings	6,169,220	4,093,711
Other amounts due to group undertakings	1,854,460	1,610,270
Accruals and deferred income	7,200	7,200
	74,136,092	57,354,442

Loan notes to group undertakings

At 30 September 2011 loan notes of £43,697,461 (2010 £34,126,218) were issued to NHP Securities No 1 Limited, a group undertaking The loan note has no fixed repayment date and bear interest of LIBOR plus 2% per annum

At 30 September 2011 loan notes of £22,407,751 (2010 £17,517,043) were issued to NHP Securities No 2 Limited, a group undertaking The loan note has no fixed repayment date and bear interest of LIBOR plus 2% per annum

Other amounts due to group undertakings

Other amounts due to group undertakings have no repayment date and are due on demand bearing no interest

10. DEFERRED TAXATION

	Provided 2011 £000	Unprovided 2011 £000	Provided 2010 £000	Unprovided 2010 £000
Loss carried forward	-	(545,880)	-	(588,627)
	-	(545,880)	-	(588,627)

No deferred tax asset has been recognised in respect of 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

11 SHARE CAPITAL

	2011 US $	2010 US $
Called up, allotted and fully paid		
2 ordinary shares at US $1 each	2	2
Sterling equivalent of	£1	£1

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

12. PROFIT AND LOSS ACCOUNT

	£
At 1 October 2010	(57,324,083)
Loss for the year	(11,773,248)
At 30 September 2011	(69,097,331)

13. MOVEMENT IN SHAREHOLDERS' DEFICIT

	2011 £	2010 £
At 1 October	(57,324,082)	(41,282,211)
Loss for the year	(11,773,248)	(16,041,871)
At 30 September	(69,097,330)	(57,324,082)

14. RELATED PARTY TRANSACTIONS

a) In accordance with Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other undertakings within the LIBRA No 2 Limited group have not been disclosed in these financial statements

b) 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 Total retainer fees for the period from 19 April to 30 September 2011 were £1,106,018 (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 15 for further details

c) No other related party transaction is noted

15. POST BALANCE SHEET EVENT

a) On 28 October 2011 the Company together with its group undertakings Care Homes No 1 Limited, Care Homes No 2 (Cayman) Limited and NHP (Operations) York Limited had provided total loans of £25m to HC-One Limited, a group undertaking incorporated in July 2011, 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 Company provided a loan of £990,000 to Libra Intermediate Holdco Limited, its intermediate parent company for the purpose of payment in full for the subscription for 990,000 ordinary shares of £1 each in the share capital of HC-One Limited

c) On 29 September 2011 the Company together with HC-One Limited and some of its other group undertakings 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 12million per annum (including VAT) The Agreement for the Provision of Management Services replaced the Interim Agreement agreed on 21 April 2011

d) As of 1 November 2011, the Group has re-set its rents on care homes leased to HC-One at £40 million per annum As a result of this, the Company's new rent roll has been re-set to £5 7 million per annum, 42% below the previous amount charged to Southern Cross Healthcare Group plc

e) 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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 September 2011

16. CONTINGENT LIABILITIES AND GUARANTEES

The Company is one of the guarantors to a £1,172 million term loan facility agreement entered into by LIBRA No 3 Limited, a group undertaking with CS Funding 1 Limited, a group undertaking of Credit Suisse on 15 January 2007 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

17. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking is NHP Securities No 1 Limited, a company incorporated in Great Britain and registered in England and Wales

The ultimate and parent undertaking is Delta Commercial Property LP, a limited partnership incorporated and registered in the Isle of Man

The results of the Company are consolidated within LIBRA No 2 Limited, its intermediate parent undertaking, a company incorporated and registered in the Cayman Islands LIBRA No 2 Limited is both the smallest and largest group including the Company for which consolidated accounts are prepared

Copies of the LIBRA No 2 Limited group consolidated financial statements to 30 September 2011, which include the results of the Company, are available from the Companies House at Crown Way, Cardiff, Wales CF14 3UZ