

Loppington House Limited  
Annual report and financial statements  
for the year ended 30 September 2010

**Registered Number: 3276757**

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Loppington House Limited  
Annual report and financial statements  
for the year ended 30 September 2010  
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# **Loppington House Limited**

## **Directors' report for the year ended 30 September 2010**

The directors present their annual report together with the audited financial statements of the company for the year ended 30 September 2010. The company's registered number is 3276757.

### **Principal activity**

The principal activity of the company during the current and prior year comprised the operation of care homes.

### **Business review and future developments**

The loss for the financial year amounted to £318,000 (2009: £70,000).

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

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

### **Basis of preparation**

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

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

# Loppington House Limited

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

In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in note 1 to the financial statements on page 16.

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

## Principal risks and uncertainties

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

## Key performance indicators ('KPIs')

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

## Financial risk management

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

## Cash flow interest rate risk

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

## Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to residents, including outstanding receivables. For banks and financial institutions, only institutions with a short term credit rating, as determined by Moody's, of P-1 are accepted.

## Directors

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

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

## Statement of directors' responsibilities

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

# Loppington House Limited

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Disclosure of information to auditors

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

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

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

By order of the board

F McCormack  
Company secretary

7 September 2011

# **Loppington House Limited**

## **Independent auditors' report to the members of Loppington House Limited**

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

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

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

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

### **Scope of the audit of the financial statements**

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

### **Opinion: Disclaimer on view given by the financial statements**

The audit evidence available to us was limited because, as explained in note 20 to the financial statements, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis. As a result of the complexities arising from the implications for the company's financial statements following this decision, we have been unable to obtain sufficient appropriate audit evidence concerning the following matters:

- The financial exposure to the company which may result in the event that cross guarantees are called upon, as disclosed in note 18. The company is party to cross guarantees in relation to bank and other borrowings of other group undertakings amounting to £7.5m as at 30 September 2010.
- Whether onerous lease provisions should be recognised in respect of operating leases in respect of nursing homes which the company operates. As disclosed in note 17, rent payable under these leases currently amounts to £88,000 per annum and the unexpired portion of the leases is between 1 and 22 years.
- The carrying value of 'amounts owed by group undertakings', as disclosed in note 9, included in the balance sheet as at 30 September 2010 at an amount of £4,237,000.

## **Loppington House Limited**

- The carrying value of 'current tax assets' receivable from fellow group companies included in the balance sheet at 30 September 2010 at an amount of £26,000

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

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Emphases of matter – significant uncertainties and basis of preparation**

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

- the disclosures in notes 12 regarding the amounts of the future minimum rental increase accrual. As explained in these notes, because of the uncertainty regarding the nature and timing of transfer of operations to the company's landlords, and the consequent effect on the company's lease obligations, there is a significant uncertainty regarding the amount of the future minimum rental increase accrual, included in the balance sheet as at 30 September at £84,000
- the disclosures in note 20 to the financial statements regarding the basis of preparation of the financial statements. As explained in note 20, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis, and in preparing the financial statements on a break-up basis, the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. All assets and liabilities as at 30 September 2010 have been classed as current

### **Opinion on other matter prescribed by the Companies Act 2006**

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

# **Loppington House Limited**

## **Matters on which we are required to report by exception**

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

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

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

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



**Randal Casson (Senior Statutory Auditor)**

**For and on behalf of PricewaterhouseCoopers LLP**

**Chartered Accountants and Statutory Auditors**

**Newcastle upon Tyne**

**7 September 2011**



# Loppington House Limited

## Income statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
<b>Revenue</b>		<b>2,098</b>	2,171
Home payroll costs	4	(1,494)	(1,481)
Home running costs		(550)	(572)
Home EBITDAR <sup>1</sup>		54	118
Rent		(114)	(152)
EBITDA <sup>2</sup>		(60)	(34)
Depreciation	7	(55)	(41)
Impairment of property, plant and equipment	1	(181)	-
<b>Operating loss</b>	2	<b>(296)</b>	(75)
Finance costs	3	(16)	(11)
<b>Loss before taxation</b>		<b>(312)</b>	(86)
Taxation	5	(6)	16
<b>Loss for the year attributable to the owners of the company</b>		<b>(318)</b>	(70)

<sup>1</sup> EBITDAR represents earnings before interest, tax, depreciation and rent

<sup>2</sup> EBITDA represents earnings before interest, tax and depreciation

There is no other comprehensive income for the year

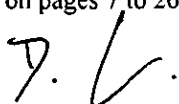
# Loppington House Limited

## Balance sheet as at 30 September 2010

	Note	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	6	-	-
Property, plant and equipment	7	-	3,188
Deferred tax assets	14	-	12
<b>Total non-current assets</b>		-	3,200
<b>Current assets</b>			
Cash and cash equivalents	8	16	8
Inventories	10	1	1
Other current assets	9	4,276	2,164
Current tax asset		26	16
Property, plant and equipment	7	500	-
<b>Total current assets</b>		4,819	2,189
<b>Total assets</b>		4,819	5,389
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	(4,682)	(2,434)
Future minimum rental increase accrual	12	(84)	-
Deferred tax liabilities	14	(20)	-
<b>Total current liabilities</b>		(4,786)	(2,434)
<b>Non-current liabilities</b>			
Future minimum rental increase accrual	12	-	(57)
<b>Total non-current liabilities</b>		-	(57)
<b>Total liabilities</b>		(4,786)	(2,491)
<b>Net assets</b>		33	2,898
<b>Equity</b>			
Ordinary shares	15	-	-
Revaluation reserve		29	2,576
Retained earnings		4	322
<b>Total equity</b>		33	2,898

The financial statements on pages 7 to 26 were approved by the board of directors on 7 September 2011 and signed on its behalf by

D Smith  
Director



# Loppington House Limited

## Cash flow statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	16	103	75
Interest paid	3	(16)	(11)
Tax received/(paid)		16	(3)
Net cash generated from operating activities		103	61
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(95)	(68)
Net cash used in investing activities		(95)	(68)
Net increase/(decrease) in cash and cash equivalents		8	(7)
Opening cash and cash equivalents	8	8	15
Closing cash and cash equivalents	8	16	8

## Statement of changes in shareholders' equity

	Ordinary shares £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity £'000
At 29 September 2008	-	2,576	392	2,968
Loss for the year attributable to the owners of the company	-	-	(70)	(70)
At 27 September 2009	-	2,576	322	2,898
Loss for the year attributable to the owners of the company	-	-	(318)	(318)
Impairment of short leasehold property	-	(2,547)	-	(2,547)
At 30 September 2010	-	29	4	33

# Loppington House Limited

## Statement of accounting policies

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

### Basis of preparation

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

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

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

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

# **Loppington House Limited**

In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in note 1 to the financial statements on page 16

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

## **Adoption of new and revised International Financial Reporting Standards**

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

Effective for periods commencing on or after

IFRS9 'Financial instruments' 1 January 2013

IAS24 Revised 'Related party disclosures' 1 January 2011

Amendment to IFRS7 'Financial instruments Disclosures' 1 July 2011

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

IFRIC18 'Transfer of Assets from Customers' 30 October 2009

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

Annual improvements 2010 1 January 2011

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

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

IFRS8 'Operating segments'

IAS1 Revised 'Presentation of financial statements'

IAS23 Revised 'Borrowing costs'

IAS27 Revised 'Consolidated and separate financial statements'

IFRS1 Revised 'First time adoption of IFRS'

IFRS3 Revised 'Business combinations'

IFRIC13 'Customer Loyalty Programmes'

IFRIC14 'The Limit on a Defined Benefit Asset'

IFRIC15 'Agreements for the Construction of Real Estate'

IFRIC16 'Hedges of a Net Investment Including Foreign Operations'

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

Amendment to IFRIC9 and IAS39 regarding embedded derivatives

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

Annual improvements to IFRSs (2008)

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

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

Annual improvements 2009

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

Amendments to IFRS1 for additional exemptions

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

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

IFRIC17 'Distribution of Non Cash Assets to Owners'

# **Loppington House Limited**

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

## **Significant accounting judgements, estimates and assumptions**

In order to prepare these financial statements in accordance with the below accounting policies, management has used estimates and judgements to establish the amounts at which certain items are recorded. Critical accounting estimates and judgements are those which have the greatest impact on the financial statements and require the most difficult, subjective and complex judgements about matters that are inherently uncertain and are set out below

### **a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net identifiable assets of the acquired business at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment charges. Testing for impairment requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and to select a suitable discount rate to calculate the present value of those cash flows. Further details are given in note 5. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### **b) Leases**

Assets held under finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at inception of the lease, with a corresponding liability being recognised for the value of the leased asset or, if lower, the present value of the minimum lease payments. Assets held under finance leases are depreciated over the shorter of the estimated useful economic life or the lease term.

All other leases are considered to be operating leases. The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, with the lease of land normally classified as an operating lease. Operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term. Where property lease contracts contain guaranteed minimum incremental rental payments, the total committed cost is determined and is calculated and amortised on a straight-line basis over the lease term. The charge for rentals currently payable is the actual amount payable, in the period, by the company for its operating leases. The charge for future minimum rental increases reflects the impact of recognising future fixed committed rental increases on a straight-line basis over the lease term.

Following the decision to prepare these financial statements on a break-up basis all lease obligations are deemed to be current and as such the future minimum rental increases accrual has been reclassified from non-current liabilities to current liabilities.

### **Revenue recognition**

Revenue comprises the fair value of fee income relating to the provision of care services, net of price reductions directly related to sales. Fee income comprises care home fees which are recognised when delivery of service is completed. Fees invoiced in advance are included as deferred income until service is completed.

The company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the company.

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## **Home payroll costs**

Home payroll costs represent payroll costs directly incurred at home level

## **Home running costs**

Home running costs represent costs of items directly incurred at home level, including food and kitchen supplies, medical supplies, utilities, maintenance and other running costs of the home

## **Home EBITDAR**

Home EBITDAR represents profitability at a home level after taking account of home payroll and home running costs, but before rental charges on operating leases and depreciation on home assets

## **EBITDA**

EBITDA represents earnings before interest, tax and depreciation

The company believes that EBITDA (and measures derived therefrom including Home EBITDAR and Home EBITDA) facilitate operating performance comparisons from period to period by eliminating potential differences caused by variations in capital structures (affecting finance income and costs), tax positions and the age and book depreciation of property, plant and equipment (affecting relative depreciation expense)

## **Property, plant and equipment**

In prior periods, property, plant and equipment has been stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use

Depreciation in the current and prior year has been provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset on a straight line basis over its estimated useful life as follows

Short leasehold property – over life of lease

Fixtures, fittings and equipment – 10% - 33⅓% per annum

Motor vehicles – 25% per annum

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the carrying value of property, plant and equipment as at 30 September 2010 has been fully impaired as the assets will not be able to provide any future economic value to the company. The residual value of these assets has been assessed to be negligible given the current financial position of the Company

## **Employee benefit costs**

Staff costs comprise salaries, wages and pensions for the company's staff. The company operates defined contribution pension plans, which are plans under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are recognised as employee benefit expenses as they fall due

## **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in first-out (FIFO) method. Where necessary, impairment is made for obsolete, slow moving and defective stocks

## **Taxation including deferred tax**

The tax expense represents the sum of the current tax and deferred tax

# **Loppington House Limited**

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated at the average tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## **Cash and cash equivalents**

Cash and cash equivalents includes cash and balances in accounts at no or short notice.

## **Finance costs**

Finance costs are accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

## **Other current assets**

Other current assets comprise other receivables, which are measured at the best estimate of the income required to settle the obligation.

## **Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## **Other payables**

Other payables primarily comprise amounts owed to group undertakings, which are measured at the best estimate of the expenditure required to settle the obligation.

## **Share capital**

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

## **Fair value estimation**

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



# **Loppington House Limited**

## **Financial risk management**

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

## **Cash flow interest rate risk**

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

## **Credit risk**

Credit risk is managed on a group basis Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to residents, including outstanding receivables For banks and financial institutions, only institutions with a short term credit rating, as determined by Moody's, of P-1 are accepted

# Loppington House Limited

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

### 1 Impairment of property, plant and equipment

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the balance of property, plant and equipment as at 30 September 2010 has been fully impaired. The total value of the impairment is £2,728,000, of which the charge to the income statement is £181,000.

### 2 Operating loss

	2010	2009
	£'000	£'000
The following items have been included in arriving at operating loss		
Staff costs (note 4)	1,494	1,481
Depreciation of property, plant and equipment – owned assets	55	41
Impairment of property, plant and equipment	181	-
Operating lease rentals - property	114	152

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

### 3 Finance costs

	2010	2009
	£'000	£'000
Interest payable on amounts owed to group undertakings	16	11

### 4 Employees and directors

The aggregate costs of staff were

	2010	2009
	£'000	£'000
Wages and salaries	1,365	1,356
Social security costs	127	121
Other pension costs	2	4
	1,494	1,481

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The average monthly number of staff employed by the company during the year was as follows

	2010	2009
By activity	Number	Number
Nursing staff	91	100
Administrative staff	6	6
Total staff	97	106

Directors' emoluments in the current and prior year were paid by Southern Cross Healthcare Limited, another group company. Their services to this company and to a number of other subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company.

## 5 Taxation

	2010	2009
	£'000	£'000
Current tax		
– current year	(26)	(16)
– prior year	-	3
Deferred tax (note 13)		
– current year	32	-
– prior year	-	(3)
<b>Taxation</b>	<b>6</b>	<b>(16)</b>

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

The tax for the current and prior year differs to the standard rate of corporation tax in the UK 28% (2009 28%). The differences are explained below

	2010	2009
	£'000	£'000
<b>Loss before taxation</b>	<b>(312)</b>	<b>(86)</b>
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	(87)	(24)
<i>Effects of</i>		
Impairment of property, plant and equipment	50	-
Expenses not deductible for tax purposes	44	8
Rate difference	(1)	-
<b>Tax charge/(credit) for the year</b>	<b>6</b>	<b>(16)</b>

The deferred tax charge in the current year is impacted by the change in the standard rate of corporation tax from 28% to 27% in April 2011. This has reduced the value of the company's tax liability by £1,000. The rate change will impact on the current tax charge going forward.

# Loppington House Limited

## 6 Goodwill

	Goodwill £'000
<b>Cost</b>	
At 29 September 2008, 27 September 2009 and 30 September 2010	275
<b>Amortisation</b>	
At 29 September 2008, 27 September 2009 and 30 September 2010	275
<b>Net book amount</b>	
At 30 September 2010	-
At 27 September 2009	-

## 7 Property, plant and equipment

	Short leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
<b>Cost</b>			
At 29 September 2008	3,016	171	3,187
Additions	8	60	68
At 27 September 2009	3,024	231	3,255
Additions	28	67	95
Impairment	(2,547)	(181)	(2,728)
<b>At 30 September 2010</b>	<b>505</b>	<b>117</b>	<b>622</b>
<b>Accumulated depreciation</b>			
At 29 September 2008	-	26	26
Charge for the year	2	39	41
At 27 September 2009	2	65	67
Charge for the year	3	52	55
<b>At 30 September 2010</b>	<b>5</b>	<b>117</b>	<b>122</b>
<b>Net book amount</b>			
<b>At 30 September 2010</b>	<b>500</b>	<b>-</b>	<b>500</b>
At 27 September 2009	3,022	166	3,188

# Loppington House Limited

The properties were revalued when the company was acquired by Southern Cross Healthcare Group PLC in order to bring them in to line with their fair value

Land and buildings relates to both freehold and short leasehold property, the split is as follows

	£'000
Freehold	500
Short leasehold	2,547
	<b>3,047</b>

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the balance of property, plant and equipment as at 30 September 2010 has been fully impaired. The total value of the impairment is £2,728,000, of which the charge to the income statement is £181,000

## 8 Cash and cash equivalents

	2010 £'000	2009 £'000
Cash at bank and in hand	16	8

All cash balances are held by Barclays Bank PLC, whose current credit rating, as determined by Moody's, is P-1

## 9 Other current assets

	2010 £'000	2009 £'000
Other receivables	39	39
Amounts owed by group undertakings	4,237	2,125
	<b>4,276</b>	<b>2,164</b>

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

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

# Loppington House Limited

## 10 Inventories

	2010 £'000	2009 £'000
Consumables	1	1

## 11 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	39	205
Accruals	5	-
Other payables	4	7
Amounts owed to group undertakings	4,634	2,222
	4,682	2,434

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

## 12 Future minimum rental increase accrual

Future minimum rental increase accrual represents the cumulative difference between operating lease charges under IFRS and the amounts actually payable during the year.

An analysis of the movement during the year is given below:

	2010 £'000	2009 £'000
Opening balance	57	-
Charged to income statement	27	57
Closing balance	84	57

As a result of the Company preparing these financial statements on a break-up basis, the future minimum rental increase accrual as at 30 September 2010 is classed as a current liability (2009: non-current liability).

# Loppington House Limited

## 13 Financial instruments

Numerical financial instruments disclosures are set out below

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

### Financial instruments by category

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

	<b>2010</b>	<b>2009</b>
	<b>Loans and receivables</b>	<b>Loans and receivables</b>
	<b>£'000</b>	<b>£'000</b>
<b>Assets as per balance sheet</b>		
Cash and cash equivalents	<b>16</b>	<b>8</b>
Other current assets	<b>4,276</b>	<b>2,164</b>
	<b>4,292</b>	<b>2,172</b>

	<b>2010</b>	<b>2009</b>
	<b>Other financial liabilities</b>	<b>Other financial liabilities</b>
	<b>£'000</b>	<b>£'000</b>
<b>Liabilities as per balance sheet</b>		
Trade and other payables	<b>4,682</b>	<b>2,434</b>

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

Financial assets and liabilities are denominated in sterling.

# Loppington House Limited

## 14 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009 28%)

The movement on the deferred tax account is as shown below

	2010 £'000	2009 £'000
Opening balance – asset	12	9
Income and expense (charge)/credit	(32)	3
Closing balance – (liability)/asset	(20)	12

The movement in deferred tax during the year is shown below

Deferred tax (liabilities)/assets	Accelerated capital allowances £'000
At 28 September 2009	12
Income and expense charge	(32)
At 30 September 2010	(20)

The company is continuing to recognise deferred tax assets in relation to accelerated capital allowances as the company is expected to cease trading in the near future, and upon cessation of trade these accelerated capital allowances will crystallise. Given the expected timing of crystallisation, deferred tax assets are now classified as current assets (2009 non-current assets)

## 15 Ordinary shares

	2010 £	2009 £
<b>Authorised share capital</b>		
1,000 ordinary shares of £1 each	1,000	1,000
<b>Allotted and fully paid</b>		
2 ordinary shares of £1 each	2	2



# Loppington House Limited

## 16 Cash flows from operating activities

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

	2010 £'000	2009 £'000
Operating loss	(296)	(75)
<i>Adjustments for</i>		
Depreciation	55	41
Impairment of property, plant and equipment	181	-
<i>Changes in working capital</i>		
(Increase)/decrease in other current assets	(2,112)	54
Increase/(decrease) in trade and other payables	2,248	(2)
Increase in future minimum rental increase accrual	27	57
<b>Cash generated from operating activities</b>	<b>103</b>	<b>75</b>

## 17 Financial commitments

The following table is prepared based on current contractual lease obligations however given the statements made regarding going concern throughout these financial statements it is the opinion of the directors that these obligations are unlikely to crystallise in the future

At 30 September 2010 and 27 September 2009 the company had total commitments under non-cancellable operating leases as follows

	2010 £'000	2009 £'000
Within one year	115	115
Within one to three years	230	230
Within three to five years	230	230
After more than five years	1,959	2,073
	<b>2,534</b>	<b>2,648</b>

Financial commitments due within one year, under non-cancellable operating leases and analysed by nature of lease terms is included below

	2010 £'000	2009 £'000
Fixed annual rental increases	115	115

# Loppington House Limited

The directors note that the auditors' report contains a disclaimer of opinion in respect of the leases held by this company. The cash rent currently payable under these lease amounts to £88,000 per annum and the unexpired portion of the leases is between 3 and 22 years.

## 18 Contingent liabilities

The company is party to cross guarantees in relation to bank and other borrowings of other group undertakings amounting to £7.5m (2009 £41.9m), however given that the directors are currently facilitating the orderly closure of the company the likelihood of such cross-guarantees being called upon, and thus the financial exposure to this company, cannot be reliably quantified.

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

## 19 Related party transactions

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

Year ended 30 September 2010

	Interest paid	Working capital movement decrease	Net amount owed to
	£'000	£'000	£'000
Fellow subsidiary undertakings	(16)	(242)	(397)

Year ended 27 September 2009

	Interest paid	Working capital movement increase	Net amount owed to
	£'000	£'000	£'000
Fellow subsidiary undertakings	(11)	300	(97)

During the year the company paid management charges of £42,000 (2009 £75,000) to Southern Cross Healthcare Limited.

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

# Loppington House Limited

## 20 Post balance sheet events

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

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

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

## 21 Ultimate parent company

The immediate parent company is Active Care Partnerships (Holdings) Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party is Southern Cross Healthcare Group PLC, a company registered in England, which is the parent undertaking of the smallest and largest group to consolidate these

## **Loppington House Limited**

financial statements Copies of Southern Cross Healthcare Group PLC's consolidated financial statements can be obtained from its registered office

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

### **22 Registered office and domicile**

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