

**Southern Cross (Henwick Subsidco) Limited**  
**Annual report and financial statements**  
**for the year ended 30 September 2010**

**Registered Number: 6603413**

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**Southern Cross (Henwick Subsidco) Limited**  
**Annual report and financial statements**  
**for the year ended 30 September 2010**  
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# **Southern Cross (Henwick Subsidco) Limited**

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

The directors present their report together with the audited financial statements of the company for the year ended 30 September 2010. The company's registered number is 06603413.

### **Principal activity**

During the current year the company has not traded.

The principal activity of the company during the prior period comprised the lease of a property to another group company.

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

The loss for the financial period amounted to £19,000 (16 month period ended 27 September 2009: £623,000).

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

## **Southern Cross (Henwick Subsidco) Limited**

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.

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 market risk (including cash flow interest rate 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.

### **Directors**

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

R Midmer	(Resigned 31 December 2010)
K Foulkes	(Resigned 31 December 2009)
J 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.

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

## **Southern Cross (Henwick Subsidco) Limited**

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- 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

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.

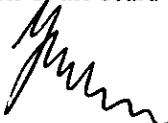
### **Disclosure of information to Auditors**

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

1 September 2011

# **Southern Cross (Henwick Subsidco) Limited**

## **Independent auditors' report to the members of Southern Cross (Henwick Subsidco) Limited**

We have audited the financial statements of Southern Cross (Henwick Subsidco) 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' deficit, 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 12 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 10. 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.
- The carrying value of 'amounts owed by group undertakings', as disclosed in note 5, included in the balance sheet as at 30 September 2010 at an amount of £10,000.
- 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 £7,000.

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

## **Southern Cross (Henwick Subsidco) Limited**

- 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

### **Emphasis 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 note 12 to the financial statements regarding the basis of preparation of the financial statements As explained in note 12, 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

### **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**  
**1 September 2011**

# Southern Cross (Henwick Subsidco) Limited

## Income statement for the year ended 30 September 2010

	Note	Year ended 30 September 2010 £'000	16 month period ended 27 September 2009 £'000
<b>Revenue</b>		-	44
Administrative expenses		-	(2)
<b>EBITDA</b>		-	42
Loss on disposal of property, plant and equipment		-	(595)
<b>Operating loss</b>		-	(553)
Finance income	2	-	1
Finance costs	2	(25)	(79)
<b>Loss before taxation</b>	1	(25)	(631)
Taxation	4	6	8
<b>Loss for the period attributable the owners of the company</b>		(19)	(623)

There is no other comprehensive income for the year




# Southern Cross (Henwick Subsidco) Limited

## Balance sheet as at 30 September 2010

	Note	2010 £'000	2009 £'000
<b>Assets</b>			
<b>Current assets</b>			
Other current assets	5	10	9
Current tax asset	4	7	8
<b>Total current assets</b>		<b>17</b>	<b>17</b>
<b>Total assets</b>		<b>17</b>	<b>17</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	6	(659)	(640)
<b>Total liabilities</b>		<b>(659)</b>	<b>(640)</b>
<b>Net liabilities</b>		<b>(642)</b>	<b>(623)</b>
<b>Equity</b>			
Ordinary shares	8	-	-
Accumulated deficit		(642)	(623)
<b>Total deficit</b>		<b>(642)</b>	<b>(623)</b>

The financial statements on pages 6 to 19 were approved by the board of directors on 1 September 2011 and signed on its behalf by



W Buchan  
Director

## Southern Cross (Henwick Subsidco) Limited

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

		Year ended 27 September 2010	16 month period ended 27 September 2009
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	9	18	673
Interest received	2	-	1
Interest paid	2	(25)	(79)
Tax received		7	-
Net cash generated from operating activities		-	595
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		-	(5,250)
Proceeds from sale of property, plant and equipment		-	4,655
Net cash used in investing activities		-	(595)
Net increase in cash and cash equivalents		-	-
Opening cash and cash equivalents		-	-
Closing cash and cash equivalents		-	-

### Statement of changes in shareholders' deficit

	Ordinary shares	Accumulated deficit	Total deficit
	£'000	£'000	£'000
Issue of share capital	-	-	-
Loss of the period attributable to the owners of the company	-	(623)	(623)
At 27 September 2009	-	(623)	(623)
Loss for the year attributable to the owners of the company	-	(19)	(19)
At 30 September 2010	-	(642)	(642)

# **Southern Cross (Henwick Subsidco) 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 the period 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.

## **Southern Cross (Henwick Subsidco) Limited**

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'

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

# **Southern Cross (Henwick Subsidco) Limited**

## **Revenue recognition**

Revenue comprises the fair value of fee income relating to lease of a property to another group company

## **EBITDA**

EBITDA represents earnings before interest, tax and depreciation

The company believes that EBITDA (and measures derived therefrom including Home EBITDAR) 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**

Property, plant and equipment is 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. Borrowing costs attributable to assets under construction are recognised as an expense as incurred. No depreciation is charged on assets under construction.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## **Taxation including deferred tax**

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

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.

## **Finance costs**

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

## **Southern Cross (Henwick Subsidco) Limited**

### **Payables**

Payables 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 of payables are assumed to approximate their fair values.

### **Financial risk management**

The company's activities expose it to market risk (including cash flow interest rate 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.

# **Southern Cross (Henwick Subsidco) Limited**

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

### **1 Loss before taxation**

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

### **2 Net finance costs**

	<b>Year ended 30 September 2010 £'000</b>	<b>16 month period ended 27 September 2009 £'000</b>
Interest payable on amounts owed to group undertakings	(25)	(79)
<b>Finance costs</b>	<b>(25)</b>	<b>(79)</b>
Other interest receivable	-	1
<b>Finance income</b>	<b>-</b>	<b>1</b>
<b>Net finance costs</b>	<b>(25)</b>	<b>(78)</b>

### **3 Employees and directors**

There were no employees during the current year or prior period

Directors' emoluments in the current year and prior period 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.

# Southern Cross (Henwick Subsidco) Limited

## 4 Taxation

	Year ended 30 September 2010 £'000	16 month period ended 27 September 2009 £'000
Current tax		
– current period	(7)	(8)
– prior period	1	-
<b>Taxation</b>	<b>(6)</b>	<b>(8)</b>

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

The tax for the year is the same as (2009 differs to) the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	Year ended 30 September 2010 £'000	16 month period ended 27 September 2009 £'000
<b>Loss before taxation</b>	<b>(25)</b>	<b>(631)</b>
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	(7)	(177)
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	169
<b>Tax credit for the period</b>	<b>(7)</b>	<b>(8)</b>

The change in the standard rate of corporation tax from 28% to 27% in April 2011 will impact on the current tax charge going forward



# Southern Cross (Henwick Subsidco) Limited

## 5 Other current assets

	2010	2009
	£'000	£'000
Amounts owed by group undertakings	10	9

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.

## 6 Payables

	2010	2009
	£'000	£'000
Amounts owed to group undertakings	659	640

Amounts owed to group undertakings are unsecured, repayable upon demand and interest is charged at 4% (2009: 5%).

## 7 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.

	2010	2009
	Loans and receivables	Loans and receivables
	£'000	£'000
<b>Assets as per balance sheet</b>		
Other current assets	10	9

## Southern Cross (Henwick Subsidco) Limited

	2010 Other financial liabilities £'000	2009 Other financial liabilities £'000
<b>Liabilities as per balance sheet</b>		
Payables	659	640

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

Financial liabilities are denominated in sterling

### 8 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>		
1 ordinary share of £1 each	1	1

### 9 Cash flows from operating activities

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

	2010 £'000	2009 £'000
Operating loss	-	(553)
<i>Adjustments for</i>		
Loss on disposal of property, plant and equipment	-	595
<i>Changes in working capital</i>		
Increase in other current assets	(1)	
Increase in payables	19	631
<b>Cash generated from operating activities</b>	<b>18</b>	<b>673</b>

# Southern Cross (Henwick Subsidco) Limited

## 10 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

## 11 Related party transactions

The majority of the transactions in the period 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

	Tax received	Interest paid	Net amount owed to
	£'000	£'000	£'000
Fellow subsidiary undertakings	7	(25)	(649)

16 month period ended 27 September 2009

	Working capital movement decrease	Interest paid	Net amount owed to
	£'000	£'000	£'000
Fellow subsidiary undertakings	(1)	(79)	(631)

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

# **Southern Cross (Henwick Subsidco) Limited**

## **12 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.

## **13 Ultimate parent company**

The immediate parent company is Southern Cross (Henwick) Propco 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

## **Southern Cross (Henwick Subsidco) 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

### **14 Registered office and domicile**

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