FSHC (Guernsey) Holdings Limited

Directors' report and
consolidated financial statements

Registered number 51204

31 December 2010

Four Seasons
Health Care

The
Huntercombe
Group

Creative solutions for complex needs

Contents

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010. Comparatives are shown for the 36 day period from incorporation on 26 November 2009 to 31 December 2009. On 9 December 2009 the company acquired via a direct subsidiary, FSHC (Jersey) Holdings Limited ("FSHC Jersey") the entire share capital of Fino Propco Holdco Limited. Fino Propco Holdco Limited is the parent company of both the Four Seasons Health Care and the Rhyme (Jersey) groups of companies. The company did not trade prior to the acquisition and therefore trading results in 2009 are for 19 days only.

Principal activities

The company and its subsidiaries (the "group") have two principal activities. Firstly, the operation of care homes for the elderly and specialised healthcare facilities by the Four Seasons Health Care group, under the Four Seasons Health Care and Huntercombe brands respectively. Secondly, the ownership of healthcare real estate and its leasing to providers of long term care for the elderly and other specialised care activities by the Rhyme (Jersey) group.

Business review

The group's strategy is to deliver continued growth by becoming the leading quality care provider and employer of choice, complimented by pursuing attractive acquisitions and developments that leverage from the management team's skills and experience.

The directors are pleased with the results for the year that have been achieved under unprecedented challenging economic conditions across the industry.

For the FSHC (Guernsey) Holdings group in the year ended 31 December 2010 turnover increased by 3.6% to £503.6 million *(2009: £486.0 million for the 12 month period)* resulting in an Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) of £97.7 million *(2009: £102.4 million for the 12 month period)*. This was a considerable achievement, against the backdrop of declining occupancy across the industry combined with significant reductions in fees from local authorities as a result of the government's Comprehensive Spending Review.

On 27 July 2010 the group exchanged contracts for the acquisition of the Care Principles business. Care Principles operates 16 low and medium secure units for individuals detained under the Mental Health Act and specialist residential care for adults with learning disabilities and personality disorders. Completion of this acquisition is pending Care Quality Commission registration which is expected in the second half of 2011.

The group completed two further acquisitions during 2010. These resulted in an additional 900 beds, primarily in the Care Home Division but also including two specialised units.

The first acquisition comprised the trade and assets of the Eton Square Healthcare business. This leasehold business comprises seven leasehold care homes operating 500 beds.

The second acquisition in May 2010 was the "in-housing" of six care homes and two specialised units, which were previously leased to Craegmoor Limited by the group's investment property portfolio. In line with the FSHC group's focus on quality and capital investment, £1 million has been spent on capital items for these homes since May 2010. To date, this has resulted in a 3% increase in occupancy in these homes.

The group is actively investigating further growth opportunities both externally and through internally funded expansion and development.

Focus on quality
The group aims to deliver the best possible quality of care to all service users. Quality of care remains a key focus of the board with continued significant investment in the development of both staff and facilities to ensure that the Four Seasons Health Care and Huntercombe brands are synonymous with quality of care.

Management believe that high care quality standards are fundamental in protecting and growing both the group's reputation and occupancy. During 2011 and 2012 management will continue to invest in service quality and the development of higher acuity services.

Directors' report *(continued)*

Focus on quality (continued)

As a result, in addition to maintaining strong results in a difficult economic climate, the group remains one of the highest quality rated providers in the independent sector with almost 88% of its facilities in England rated Good or Excellent in October 2010. From this date the Care Quality Commission's rating system was frozen pending the introduction of a new rating system. There is currently no confirmed date for the introduction of a new rating system in England, however the group will continue to strive to ensure that the existing quality of its homes is maintained, if not further improved, by a sector leading capital spend per bed.

Managing costs without compromising the quality of care, whilst continuing to be robust in recovering the true cost of care, will help protect future performance despite the challenging economic conditions.

Four Seasons Health Care Limited

Four Seasons Health Care Limited provides services under two brands - Four Seasons Health Care operates a portfolio of 323 (*2009: 316*) care homes and the Huntercombe brand operates 27 (*2009: 26*) specialised care facilities, including four hospitals. The group operates across the United Kingdom, Isle of Man and Jersey.

Key performance indicators
The key financial and operational performance indicators carefully monitored by the senior management team include occupancy, weekly fee rates, payroll, customer feedback and numerous quality measures. Details of the year's performance against occupancy and weekly fee rates for each trading activity are detailed below.

Four Seasons Health Care
Under the Four Seasons Health Care brand the group provides services in 323 homes with 16,500 beds offering a full range of high quality elderly care. The average available beds increased from 16,042 to 16,464 as a result of the acquisition of seven homes from Eton Square Healthcare and six homes from Craegmoor which were brought back in-house from the investment property portfolio. Both of these acquisitions occurred in May 2010.

Management's strategic focus on quality and the development of specialist care services such as PEARL (the group's award winning dementia service) has been instrumental in maintaining average occupancy in the core business at 87.6%, despite market pressures. In addition to an overall market decline of 0.6%, average weekly fee increases were also significantly lower than previous years at 1.6% (*2009: 2.8%*) and there were continued inflationary pressures in care and facility expenses. Despite these unprecedented downward pressures the Care Home Division delivered Earnings Before Interest, Taxation, Depreciation, Amortisation and Rent (EBITDAR) of £114.6 million (*2009: £115.2 million*).

The directors believe the prospects for further upward re-alignment in public sector baseline fee rates looks challenging in the near future in view of the cuts in public sector spending. The group estimates that the average public sector fee rates will actually decrease by approximately 1% for 2011/12. In addition, the national minimum wage increase of 2.5% in October 2011 and rising costs, particularly energy and food, will continue to place pressure on margins in the absence of strong cost control drivers.

Building occupancy share through carefully balanced fee and quality strategies has, and should continue to, help the group retain economies of scale. In addition, the group's higher acuity client mix, particularly in its Huntercombe business, is more resilient to fee pressures than lower acuity care services.

The Huntercombe Group
Under the Huntercombe brand the group provides specialised care for individuals with mental health disorders, learning difficulties, acquired brain injury or physical neurodisabilities. The Huntercombe Group is also a market leader in providing care for children and adolescents with special mental health needs. Care is provided in 27 specialised care centres with 850 beds.

Huntercombe is a national leading brand for highly specialist services with good geographic coverage. The group provides a first class platform in a market which is difficult for competitors to enter due to the requirement for specialist clinicians and managers who have a strong understanding of this specialist care sector.

Directors' report *(continued)*

The Huntercombe Group (continued)

In 2010, the group maintained its strong relationship with service purchasers and continued to develop and reposition services to target the private market. Capacity has increased from an average of 689 beds in 2009 to 850 beds by the end of 2010 due to the acquisition of 69 beds in units previously leased to Craegmoor, 40 beds at a new unit in Crewe, 20 beds at the extended Hothfield Manor, 24 beds at Murdostoun which have been repositioned from the Care Home Division and 7 new beds created in existing hospitals.

The Huntercombe group has a strong reputation in both mental health services and neurorehabilitation. Commissioners value the quality of care, good communication, competitive fee rates and geographic location. The Huntercombe Group generally scores highly across these criteria and is particularly well regarded in terms of its flexibility and reduction of average lengths of stay, helping to match demand with commissioners' funding requirements.

Rhyme (Jersey) Limited

Rhyme (Jersey) owns a portfolio of 309 properties of which 234 are leased to the Four Seasons Health Care group, the remainder being investment properties leased to third party operators. Of the total turnover of Rhyme (Jersey), £63.5 million relates to properties leased to the Four Seasons Health Care group and £15.5 million (*2009: £15.9 million for the 12 month period*) to the investment portfolio. Rent from investment properties decreased in 2010 as a result of the eight properties brought back in-house from Craegmoor in May. Rent increases by RPI under the terms of the leases, subject to certain caps and collars.

Results and dividends

The detailed results for the period are set out in the Profit and Loss account on page 9. The full year's results for 2009 can be found in the consolidated accounts of Fino Propco Holdco Limited which can be obtained from the registered address at the end of this directors' report.

The profit for the year attributable to shareholders amounted to £6,640,000 (*2009: £766,000 for 36 day period*) and has been transferred to reserves. The directors do not recommend the payment of a dividend.

Supplier payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of the payment. Trade creditors of the group at 31 December 2010 were equivalent to 50 days' purchases (*2009: 47 days*), based on the average daily amount invoiced by suppliers during the year.

Fixed assets and investment properties

The directors have undertaken a review of the carrying value of the group's land and buildings as at December 2010 taking into account the views of qualified property valuers. Due to the stabilisation of property values in 2010, there has been no significant impairment to fixed assets. Investment properties have decreased by £18.4 million as a result of a reclassification of eight properties (from investment properties to freehold land and buildings) following the in-housing described above.

Principal risks and uncertainties

The principal operational risks faced by the group are as follows:

- fee increases do not rise at least in line with the costs of care;
- failure to meet regulatory standards resulting in financial penalty or revocation of a licence to operate a facility.

There is a risk management programme in place which is designed to identify, manage and mitigate business risk. This programme is overseen by the group's Chief Executive Officer.

The principal financial risks faced by the group are refinancing, liquidity and interest rate risks. The group has entered into interest rate swaps to reduce exposure to fluctuating interest rates. The refinancing risk is considered further below.

Directors' report *(continued)*

Debt restructuring

The company's immediate subsidiary FSHC (Jersey) Holdings Limited ("FSHC Jersey"), together with its subsidiary undertakings (collectively the "FSHC Jersey group"), is party to a number of financing arrangements. Under the terms of the financing agreements FSHC Jersey has guaranteed the performance of the FSHC Jersey group's obligations and the settlement of its liabilities as defined in those financing agreements.

On 10 September 2010 the group successfully negotiated a two year extension to the maturity date of the group's £790m of debt from September 2010 to September 2012.

The group now has a stable funding base from which to consider a number of different capital structures for the longer term.

Going concern

In presenting the financial statements on a going concern basis, the directors have considered the company's and group's business activities together with factors likely to affect future performance and financial position. These include cash flows, and the risks and uncertainties relating to the company's and group's business activities, particularly in light of the government's Comprehensive Spending Review.

As described in note 15, the FSHC Jersey Group is party to a number of financing arrangements. The group has carefully considered its cash flows and financial covenants for at least twelve months from the date of signing the financial statements. These have been appraised in light of the uncertainty in the current economic climate and, as such, conservative assumptions for working capital performance have been used to determine the level of financial resources available to the company and the FSHC Jersey Group.

The FSHC Jersey Group's forecasts and projections, sensitised to take into account all reasonably foreseeable changes in trading performance, show that the FSHC Jersey Group has sufficient funding and covenant headroom within its current financing arrangements which do not mature until September 2012.

The directors are considering, together with certain of the group's lenders and shareholder representatives, a number of possible capital structures to ensure that appropriate levels of funds will be in place after September 2012 to match the group's financing requirements. These include various debt facilities available to the group, new equity from existing shareholders, as well as potential funding from new investors.

After making appropriate enquiries, the directors have a reasonable expectation that the company and the FSHC Jersey Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements.

Environmental policy

The directors are committed to reducing the impact that the group makes on the environment. The group has adopted an environmental policy statement which includes policies for procurement, transport and estate management.

In order to meet the obligations under the Carbon Reduction Scheme which came into force in April 2010, the group is focussing on the implementation of a full Carbon Reduction Plan, seeking external support and validation where necessary.

Directors' report *(continued)*

Directors

The directors of the company during the year ended 31 December 2010 were as follows:

R Fraser
J Freeman
S Langan
N Ward
G Westmore
M McKillop
P Calveley

The board of FSHC (Guernsey) Holdings Limited acts as an overseeing body, fulfilling a corporate governance role. The board has delegated authority to manage the group's day to day operations to a senior management team including the Chief Executive Officer, Finance Director and Commercial Director, who report directly to the board.

Registered office

The registered office is:
Ogier Corporate Services (Guernsey) Limited, Ogier House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

Employees

The directors would like to take this opportunity to thank all employees for their dedication and hard work over the past year. It is their ongoing commitment and focus that has enabled the group to deliver services of the highest quality.

The group encourages staff involvement through a process of communication and participation. This involves the provision of information through normal management channels including regular manager briefing letters, annual conferences and meetings.

The group gives full consideration to applications for employment from disabled persons where the requirement of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy, wherever practical, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Auditors

In accordance with Companies (Guernsey) Law 2008, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Ogier Corporate Services (Jersey) Limited
Secretary

26 May 2011

Ogier Corporate Services (Jersey) Limited
Ogier House
The Esplanade
St Helier
Jersey
JE4 9WG

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 they have elected to prepare financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 proper accounting records that 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 (Guernsey) Law 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditor's report to the members of FSHC (Guernsey) Holdings Limited

We have audited the Group and Company financial statements (the "financial statements") of FSHC (Guernsey) Holdings Limited (the "Company") for the year ended 31 December 2010 which comprise the Consolidated profit and loss account, the Consolidated and company balance sheets, the Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards.

This report is made solely to the company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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 set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the board of directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2010 and of its profit for the year then ended; and
- are in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- comply with the Companies (Guernsey) Law 2008.

Independent auditor's report to the members of FSHC (Guernsey) Holdings Limited (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records or returns; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG LLP   26 May 2011

KPMG LLP
Chartered Accountants
Registered Auditor

Consolidated profit and loss account

For the year ended 31 December 2010

		Year ended 31 December 2010			Period ended 31 December 2009		
		Ordinary activities	Exceptional activities	Total	Ordinary activities	Exceptional activities	Total
	Note	£000	£000	£000	£000	£000	£000
Turnover	*1,2*	**503,617**	**-**	**503,617**	25,767	-	25,767
Cost of sales		**(399,645)**	**-**	**(399,645)**	(20,528)	-	(20,528)
Gross profit		**103,972**	**-**	**103,972**	5,239	-	5,239
Administrative expenses	*4*	**(24,501)**	**(29,600)**	**(54,101)**	(1,483)	-	(1,483)
Operating profit/(loss)	*2 -6*	**79,471**	**(29,600)**	**49,871**	3,756	-	3,756
Interest payable and similar charges		**(51,719)**	**-**	**(51,719)**	(2,259)	-	(2,259)
Interest receivable and similar income		**23**	**18,318**	**18,341**	6	-	6
Net interest payable and similar charges	*7*	**(51,696)**	**18,318**	**(33,378)**	(2,253)	-	(2,253)
Profit on ordinary activities before taxation	*3*	**27,775**	**(11,282)**	**16,493**	1,503	-	1,503
Tax on profit on ordinary activities	*8*	**(9,853)**	**-**	**(9,853)**	(737)	-	(737)
Retained profit for the financial period	*19*	**17,922**	**(11,282)**	**6,640**	766	-	766

All activities relate to continuing operations.

There were no recognised gains or losses in the current year or prior period other than the profit for those periods.

Consolidated balance sheet

As at 31 December 2010

	Note	2010 £000	2009 £000
Fixed assets			
Intangible assets - goodwill	*9*	**(63,418)**	(65,933)
Tangible fixed assets	*10*	**764,628**	747,872
Investment properties	*11*	**127,675**	146,080
Total fixed assets		**828,885**	828,019
Current assets			
Debtors	*13*	**30,639**	39,284
Cash at bank and in hand		**53,261**	75,075
		83,900	114,359
Creditors: amounts falling due within one year	*14*	**(106,468)**	(903,566)
Net current liabilities		**(22,568)**	(789,207)
Total assets less current liabilities		**806,317**	38,812
Creditors: amounts falling due after more than one year	*15*	**(775,190)**	-
Provisions for liabilities and charges	*17*	**(23,721)**	(38,046)
Net assets		**7,406**	766
Capital and reserves			
Called up share capital	*18*	**-**	-
Profit and loss account	*19*	**7,406**	766
Shareholders' funds		**7,406**	766

These financial statements were approved by the board of directors on 16 May 2011 and were signed on its behalf by:

N Ward
Director

S Langan
Director