FSHC Group Holdings Limited

Annual report and consolidated financial statements

Registered number 55183

31 December 2013

Four Seasons

Health Care

Contents

Chairman's review

I am pleased to report on the first full year of trading for the FSHC Group Holdings group since its acquisition of Four Seasons Health Care in July 2012. 2013 saw a significant number of projects across the group, as well as acquisitions, developments and property disposals. Most significantly, however, the group completed a wide ranging review of its business strategy and began the implementation of a new segmented focus across the group's operations. All this activity took place with the back drop of yet more regulatory scrutiny across the sector.

Strategic review and segmentation

A wide ranging strategic review was completed during the first half of 2013 and in July 2013 we announced the outcome of that review, namely the intention to focus the group's activity in three segments across our care home and specialist care services businesses:

- *Commissioned services* – a national network of around 370 homes offering high quality specialist dementia care and nursing capabilities to meet the anticipated growing demand of people requiring dementia care and to roll out our award winning dementia service, "PEARL";
- *Private* – a chain of homes offering high quality elderly care together with hotel standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice; and
- *The Huntercombe Group* – already operating as a semi-autonomous division, providing care, treatment and rehabilitation services in mental health, acquired brain injury and neurodisability that are complementary to, and in partnership with, the NHS.

Commissioned Services and Private when taken together form the Care Home Division. This segmentation is intended to give increased focus and management oversight so that each business can specialise in its area of expertise and meet the requirements of its respective customer/patient groups. This transition will be supported by incremental capital expenditure and additional operational resources. The operational transition to the new segments was completed by the beginning of October 2013. Since then, the three businesses have had their own senior management teams supported by our central corporate service functions.

Quality and assurance

As proof of our continued drive to be the leading care home operator in the UK, and in response to the increased regulatory scrutiny in the second half of the year, we commissioned a report by an external consultant with sector expertise to help develop further our quality governance. In broad terms we seek to develop a more proactive approach to Quality Assurance and ensure that there is a fully transparent view of quality across the Group.

We are committed to providing the highest standards of care for our residents and we believe the best way to do that is with a stable, well trained and motivated workforce. At the same time we are working with Hull University on creating a "pattern recognition" early warning system that empowers residents, relatives and care workers to "whistle-blow" early stage concerns. If the potential benefit to our organisation is realised in the way we expect, then the system will be made available to other providers to help improve care provision across the sector. We continue to collect feedback from all of our residents comparing responses with previous years and implementing changes where necessary.

The group also has membership of the External Advisory Board of the new Institute for Dementia at the University of Salford. This will be an international centre of excellence in research, education and practice.

Chairman's review (continued)

Acquisitions, developments and disposals

In March 2013, we acquired four care homes, along with the related freeholds, from Mimosa Healthcare. Since the acquisition, we have strengthened the teams in these homes and invested catch up capex resulting in a 28% increase in occupancy from 156 at acquisition to 200 in June 2014.

On 11 April 2013 the group acquired, via a subsidiary company, Optimum Care Limited and Optimum Leaseco Limited (Avery Healthcare) comprising 17 care homes providing residential and nursing care to the elderly, with a focus on self-paying customers. As at 31 December 2013, the Acquired homes operated c1,200 beds and employed approximately 1,400 people.

In July 2013 we purchased the freehold of five properties in Northern Ireland which were previously leased by the group.

The group has also invested over £10 million at St Margaret's in Edinburgh, which opened in February 2013, and York Court, which is located in South London and which opened in September 2013. St Margaret's has added to the strength of our Private segment whilst York Court provides an additional dementia offering within our Commissioned Services segment. In addition, we have planning permission agreed for further expansion and development at a number of sites across the group.

Our strategic review and the resulting business segmentation identified a number of care homes which did not fit within one of the new businesses or which were no longer deemed to be fit for purpose. During the year we disposed of ten properties and the disposal of a further eleven properties was well advanced at the year end.

Operational developments

In early 2014, the group awarded a three year £33m facilities management contract to a single outsourced provider. Going forward, all planned and response maintenance in all of the group's homes and specialised units will be undertaken by this provider, thereby improving cost and operational efficiency, governance and reporting capability.

We are continuing to roll out our award winning PEARL dementia care programme, with particular focus on the 370 homes in our Commissioned Services business.

The team

A number of key appointments have been made that will strengthen our business and our corporate and clinical governance:

- Tim Hammond is the Chief Executive Officer of our Commissioned Services business and was appointed in May 2014. Tim was Chief Executive of Ellor UK and prior to that, managing director of Barchester Healthcare. He is a trustee of Age UK and a member of the Malnutrition Task Force, a group of experts who have joined together to address the problem of malnutrition in older people.
- Valerie Michie was appointed Chief Executive Officer of The Huntercombe Group in August 2014. Valerie was Managing Director of Serco Health, and prior to that held senior positions at Alfred McAlpine Business Services and KPMG Consulting.
- Jeremy Richardson was been appointed CEO of our Private Care homes business in August 2014. Jeremy was previously Executive Chairman of Menzies Hotels, and a main board director of Bourne Leisure, owner of Haven Holidays, Butlins and Warner Hotels. Prior to that he set up Kew Green Hotels, a company which owned and operated branded hotels which grew to become one of the largest multi franchisee hotel operators in the UK.
- Dr Claire Royston, our Group Medical Director, has been appointed to the UK Board, placing a clinician at the highest level of the organisation. Previously Claire held a number of senior positions within the NHS and she was registered as a specialist in General Adult and Old Age Psychiatry in 1997.

Chairman's review (continued)

The team (continued)

- Peter Dixon joined the Board as a Non-Executive Director in February 2014. He has a wealth of expertise in regulated service organisations, a strong commitment to corporate social responsibility and has particular expertise in governance and audit matters. He is Chief-Executive of Phoenix Natural Gas, which was previously also owned by a Terra Firma fund.

Market and sector

Increased regulator scrutiny

There has been unprecedented regulation and scrutiny across all providers since the failure of Southern Cross in 2011 and the revelations regarding the quality of care at the Castlebeck group in 2012. The number of inspections increased dramatically in the second half of the year, and the vigour with which they were carried out impacted all levels of compliance, which in turn led to an increase in regulatory action and related costs.

Union joint recognition

February 2014 marked the first anniversary of a land-mark voluntary joint recognition agreement with three unions: the GMB, the Royal College of Nursing and Unison. This is the first agreement of its kind in the independent care sector and remains the only one.

The relationship has been extremely constructive and positive and the unions share our view about the future of care services, including a sector-wide shortage of experienced qualified nurses; how to make the care sector attractive to good quality candidates and the constraints on public sector finances for funding of care. We have been in close discussion with the unions about working together on these issues and consulting with them on enhanced training for care staff and a development strategy for nurses.

Funding

Funding of care by local authorities and the NHS remains an issue. Recent analysis by Age UK has found that the proportion of over-65s getting help had fallen by a third since 2005-6. The review, based on published data, estimated that at least 800,000 older people are going without vital help including domiciliary care as well as care home places. In many cases, the reduction in spending is a false economy, as denying people this sort of care can actually increase the risk of expensive and lengthy hospital admissions.

The government is attempting to ease pressure on the system by creating a pooled £3.8 billion budget within the NHS next year to encourage greater coordination. In addition, from April 2017 new measures will place a lifetime cap on the level of care costs individuals will have to fund and increase the level above which means-tested financial support for residential care costs is not received.

Finally, I'd like to take the opportunity to thank our colleagues across the whole business for all of their hard work and commitment during a year which has seen so many developments and also for the support given to implement the operational changes. Although the healthcare sector continues to face operational challenges, I believe that the new strategic direction combined with the calibre and enthusiasm of our staff provides an excellent foundation to drive further success in the future.

Ian Smith

Chairman

Strategic report

Background and ownership structure

FSHC Group Holdings Limited is a parent company of the Four Seasons Health Care group of companies. The company is ultimately owned by funds managed by Terra Firma Investments (GP) 3 Limited. The ultimate controlling party is Guy Hands.

Principal activities

The group has two principal activities. Firstly, the operation of care homes for the elderly and specialised healthcare facilities in the care home division (itself split into two divisions – Commissioned Services and Private) and The Huntercombe Group. Secondly, the ownership of healthcare real estate and its leasing to providers of long term care for the elderly and other specialised care activities.

Heath and social care sector review

Market overview

We operate within the health and social care markets, with a focus on providing elderly care and specialised care services. Within these markets, we provide a broad range of services, predominantly funded by the public sector, with a smaller amount of revenue from privately funded sources. These markets have experienced steady growth due to the demographic trends of an ageing population that lives longer, on average, but suffers from ill health for more years.

Social care in the United Kingdom is primarily the responsibility of local authorities, although the Department of Health has a supervisory role and contributes certain funding. Social care is a means-tested service with individuals who have income or savings above minimum thresholds required to partially or fully fund the cost of their care.

Health care is managed by the NHS on behalf of the Department of Health. Provision of health care is, therefore, not means-tested, and is free at the point of care. Traditionally, the provision of most Department of Health funded services has been undertaken by NHS organisations.

Elderly care market

The elderly care services market provides a wide range of services to residents including, but not limited to:

- Residential care: which includes the provision of accommodation, housekeeping services, meals, recreational social activities and well-being programmes
- Nursing care: which includes the provision of residential care plus nursing care services of varying levels, depending on the needs of the particular resident
- Continuing care: which includes complex care above and beyond nursing care
- Step-down and intermediate care: which includes the provision of mainly nursing care, but on a time scheduled basis, generally measured in weeks, not months, that sees the resident move to a new setting, such as their own home; this is generally used as a substitute to NHS hospital care provision
- Dementia care and palliative care: which includes the provision of specialised care within a residential setting, often including both residential and nursing services

Strategic report (continued)

Health and social care sector review *(continued)*

Mental health services

Mental health services are segmented across three patient groups:

- Acute psychiatry, encompassing acute general psychiatry, adolescent psychiatric treatment, eating disorders and addiction treatments
- Brain injury and neuro-rehabilitation, covering a wide range of services, from post hospital discharge to long term care
- Secure treatment, encompassing high, medium and low secure treatment for people with mental health problems detained under the Mental Health Act as well as non-secure and step-down services for people who are nevertheless liable to be compulsorily detained under the Mental Health Act

Independent mental health hospitals account for approximately 8% of the overall sector supply. The independent sector supply of mental health capacity has been driven by NHS purchasing of independent sector services, which is due to the reductions in NHS in-house supply resulting from the closure of large NHS mental health hospitals in the 1970s and 1980s.

In contrast with elderly care, demographic factors are not expected to drive major changes in the demand for mental health services. The key source of future growth will be public sector outsourcing, driven by the range of services and their customisation, capacity and operational efficiencies which the independent sector can provide.

Social care and learning disabilities

Social care and learning disabilities services refer to the provision of long term care for adults who have suffered from a mental illness or addiction, and the provision of care and education for children suffering from complex conditions and/or emotional and social difficulties which materially impact their education.

There has recently been a migration away from services in registered care home settings towards supported living arrangements. In these structures, learning disabled and mentally ill people in need of long term care will be accommodated in flats or houses as tenants (or owners) while receiving home care and other community based services rather than living in more highly regulated care homes.

Competition

We compete in several fragmented markets in which a variety of for-profit groups, not-for-profit groups and the public sector operate. Most competition is local, based on relevant catchment areas and local placement and procurement initiatives.

We are the largest operator in the for-profit sector with a market share of over 6.5%. The other three major operators in the for-profit elderly care market are:

- BUPA Care Homes: the for-profit division of a non-profit organisation
- HC-One: the partnership between NHP and Court Cavendish, which took over the operation of the 249 NHP-owned homes with approximately 12,500 beds for elderly and physically disabled people previously operated under leases by Southern Cross
- Barchester Healthcare: a private company

Within the not-for-profit sector, which represents approximately 17% of the total care home market, the major providers include Anchor Trust, The Orders of St John Care Trust, MHA Care Group and The Abbeyfield Society.

Strategic report (continued)

Health and social care sector review *(continued)*

Competition (continued)

The four largest providers of the mental health services market account for 44% of the total independent market by bed capacity. Our major competitors in the provision of mental health services through specialist hospitals are the NHS, Priory Group, Partnerships in Care Limited, St Andrew's Healthcare and Cygnet Health Care.

The independent learning disabilities and mental illness care home sector remains fragmented, with the top four providers accounting for less than 10% of independent sector capacity. Such an absence of a truly large-scale portfolio leaves considerable scope for consolidation, with our major competitors in this sector being Priory Group, Voyage Group and Dimensions (UK) Ltd.

Four Seasons Health Care

We are the largest independent provider of elderly care services in the United Kingdom, measured by both the number of facilities and number of beds, and we are a leading provider of specialised services, including brain injury rehabilitation and mental health care services. As at December 2013, we operated approximately 24,700 (*2012: 24,000*) beds in approximately 520 facilities, including care homes, specialised hospitals and other centres. We employ approximately 32,400 people across the United Kingdom, the Channel Islands and the Isle of Man and we provide care for approximately 21,000 residents.

We operate as two businesses:

- The Care Home Division which comprises:
  - *Commissioned services:* A national network of around 370 homes offering specialist dementia care and nursing capabilities to meet the anticipated growing demand of people requiring dementia care.
  - *Private:* A chain of homes offering high quality elderly care together with hotel standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice.
- The Huntercombe Group: In The Huntercombe Group we provide a range of specialised care services. These include operating specialist centres providing rehabilitation programmes for people with acquired brain injuries and neurodisabilities. We also operate dedicated mental health hospitals, including low- and medium-security facilities, for adults and adolescents suffering from a range of mental illness conditions, drug or alcohol addiction and eating disorders. Additionally, we provide care services for individuals with complex learning disabilities and children with physical disabilities. The Huntercombe Group comprises approximately 1,500 beds in 57 facilities in England and Scotland.

In addition to our three businesses, we also generate rental income through the leasing of 30 care homes and specialised units to third party operators.

Strategic report (continued)

Four Seasons Health Care *(continued)*

Competitive strengths

Our business benefits from a number of competitive strengths, including:

- *We operate in an industry with a growing potential client base and favourable industry trends*

  Increased life expectancy is resulting in a rapidly ageing profile of the population of the United Kingdom. According to the UK Office for National Statistics, by 2035 the number of people aged 85 and over is projected to be almost 2.5 times larger than in 2010, reaching 3.5 million and accounting for 5% of the total population, and the population aged 65 and over is expected to account for 23% of the total population, compared to 17% in 2010.

  The industry has seen a significant shift to private-sector providers, which represented only 5% of the market in 1993, but 85% in the year ended September 2013. This trend is expected to continue as Local Authorities seek to reduce their costs following recent central government cutbacks. We expect that these factors will underpin the long-term sustainability of overall demand in our core markets and we believe that as the largest independent elderly care operator in the United Kingdom we are well positioned to benefit from these dynamics.

- *Market leading position*

  In the United Kingdom, we are the largest independent provider of elderly care with a 6% - 7% share of beds. We believe that our size and position provide us with numerous benefits, such as the ability to realise economies of scale, spread the cost of complying with increasing regulatory burdens over a greater number of units and develop best practices and new service offerings across all of our facilities.

- *High quality asset base*

  We have a property portfolio of around 500 facilities, approximately 60% of which are owned on a freehold basis. We continually invest in and maintain our facilities to high specifications, and we believe that the high level of maintenance of our properties helps us to maintain our quality of care standards, which are critical to attracting new residents and patients and maintaining and improving our occupancy rates. In addition, we believe that our strong portfolio of freehold, as opposed to leasehold, properties provides us with greater operating flexibility to reconfigure and reposition units as needed.

- *Segmented business*

  We believe that our new segmented operational structure will deliver further improvements in operational performance. The segment specific management teams will provide targeted skill sets which are not possible in a more generalist operating environment.

- *Stable and diversified client base*

  We have a diversified public payer base of more than 300 purchasers. We have contracted with a large number of public sector commissioners across the UK, including more than 190 Local Authorities and more than 110 NHS commissioners.

- *Diversified service offering, with a focus on higher dependency services*

  We believe that we have the largest breadth of diversified services among elderly care operators in the United Kingdom. Within the elderly care division, we have been increasingly focusing on higher dependency services, such as dementia care, and we continue to implement our market leading and award winning proprietary approach to dementia care, PEARL, across our care homes.

- *High service quality recognised by regulatory bodies*

  We have made and continue to make, substantial investments in training our employees and maintaining and improving our properties to ensure improving quality standards and to observe and enforce an established and constantly monitored set of policies and measures to ensure high levels of service quality and strict regulatory compliance.

Strategic report (continued)

Four Seasons Health Care *(continued)*

Strategy

In July 2013 the group completed its wide ranging strategic review and from October 2013 the business was operated in three distinct segments:

- *Commissioned services* (Care Home Division) - a national network of around 370 homes offering specialist dementia care and nursing capabilities to meet the anticipated growing demand of people requiring dementia care which is projected to increase by around 40% in the next 15 years;
- *Private* (Care Home Division) - a chain of homes offering high quality elderly care together with hotel-standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice; and
- *The Huntercombe Group* - providing care, treatment and rehabilitation services in mental health, acquired brain injury and neurodisability that are complementary to and in partnership with the NHS.

This segmentation will give increased focus and management over-sight so that each division develops by best meeting the requirements of its respective customer/patient groups. These three businesses are underpinned by the group's strategy to be the highest quality provider of elderly care and specialised healthcare services in the UK. The key elements of our strategy continue to be to:

- *Provide higher dependency, higher acuity services from our facilities as well as increasing the percentage of private payers*

  In line with our business strategy we regularly review the service offerings of each facility and, where appropriate and in consultation with the relevant local commissioner, change the service offering to one that is oriented towards higher dependency or higher acuity, which caters to a shortage of services in the local market.

- *Increase occupancy by maintaining and continually improving our leadership in quality of care and relationships with Local Authorities and commissioners*

  We believe that our focus on quality of care and the quality of our services are key drivers of our longstanding relationships with Local Authorities and commissioners. We plan to continue delivering industry leading service quality and implementing best practices and new service offerings across our facilities, including a continued focus on higher dependency residents, such as through our industry leading PEARL dementia service. We believe that this approach supports the stability of our revenues and will allow us to increase our occupancy rates and to continue to find new growth opportunities and serve our customers better.

- *Leverage our reputation, expertise and diverse asset base and drive further synergies from within our business*

  We intend to continue tapping our broad and deep expertise and to take advantage of our diverse asset base in order to develop new tailored offerings in our markets and to improve business performance. In addition, we intend to continue centralising management functions and to implement procurement and staffing efficiencies in order to improve consistency and quality of service to our customers and to achieve cost savings.

- *Evaluate and execute strategic and accretive acquisitions*

  We plan to continue our disciplined approach to evaluating acquisition opportunities in order to improve our capabilities in existing service areas and to expand our range of service offerings. The markets in which we participate are highly fragmented, and smaller competitors may experience difficulties in meeting regulatory requirements and maintaining quality standards.

- *Continually optimise our real estate portfolio*

  We continually evaluate our real estate assets with a view to optimising our portfolio by further improving the quality of our units, repositioning homes into higher-value markets such as higher dependency care and the private-pay market, developing or selectively acquiring new units and exploring alternative uses for facilities within our portfolio, including with respect to our investment properties.

Strategic report (continued)

Financial review

These financial statements present the results of the company and its subsidiary undertakings (the "group"). The comparative period represents the trading from 12 July 2012, when the company acquired FSHC (Jersey) Holdings Limited, via an indirect subsidiary, to 31 December 2012. However, for illustrative purposes, a full year unaudited proforma profit and loss statement is presented below for the 12 months ended 31 December 2012 with comparative figures for 2011 based on the results of FSHC (Jersey) Holdings Limited. There are no material differences in the operational activities comprising these two groups of companies, however it should be noted that there was an extra week of trading in 2012.

Profit and loss account (unaudited, proforma)	FSHC Group Holdings Year ended 31 December 2013 (52 weeks) £000	FSHC Group Holdings Proforma year ended 31 December 2012 (53 weeks) £000	FSHC (Jersey) Holdings Limited Year ended 31 December 2011 (52 weeks) £000
Turnover	**736,205**	711,682	554,101
Cost of sales	**(626,840)**	(605,922)	(443,723)
Gross profit	**109,365**	105,760	110,378
Administrative expenses – ordinary	**(44,026)**	(38,536)	(31,073)
Administrative (expenses)/income – exceptional	**(9,531)**	13,090	(48,156)
	(53,557)	(25,446)	(79,229)
Operating profit	**55,808**	80,314	31,149
Ordinary activities	**65,339**	67,224	79,305
Exceptional activities	**(9,531)**	13,090	(48,156)
Profit before interest	**55,808**	**80,314**	**31,149**

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
Analysed as:			
Operating profit before exceptional items as analysed above	**65,339**	67,224	79,305
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**35,926**	32,009	25,621
Add back: amortisation of positive goodwill	**115**	-	-
Deduct: amortisation of negative goodwill	**(2,232)**	(2,701)	(3,265)
EBITDA before exceptional items	**99,148**	**96,532**	**101,661**

Strategic report (continued)

Financial review *(continued)*

Key factors affecting results of operations

The group's operating profit is affected by a number of factors including the number of effective beds, occupancy rates, payer and resident mix, fee rates, operating and other expenses together with any acquisitions and extensions. Each of these factors is discussed in more detail below.

Effective beds: The group's results are impacted by the number of beds in the care homes and specialised units, measured as effective beds, as the bed capacity determines the maximum number of residents and patients that the group can care for. The beds in the Investment Properties, which are operated by third party operators, are not included in our total effective beds.

Occupancy rates: The group's results are also affected by the occupancy rates in its care homes and specialised units. Occupancy rates are measured as the ratio of the average number of residents and patients to the effective bed count for a particular period.

When a new home is built or an extension at an existing care home is completed there is a period after opening during which it incurs start-up and operating costs prior to achieving mature occupancy levels. It typically takes approximately 18 months for a newly opened 60-bed care home to reach a mature occupancy rate during which time the home may incur operating losses.

Payer and resident mix: Results are affected by the payer and resident mix. In the Commissioned Services and Private segments an increase in the proportion of privately funded residents will positively affect the group's results. Similarly, the changing mix of residents between those classified as "residential" and those classified as "nursing" together with the related levels of dependency can impact the group's results. Resident mix is particularly important in The Huntercombe Group where the average weekly fee varies widely across the diverse range of services provided.

Fee rates: The fee rates that the group charges for its services are generally subject to annual adjustments applicable from April except for self-funding residents in England for whom the increase applies from February.

The majority of the group's revenue is generated from spot purchasing or under framework agreements agreed in advance with commissioners. Small fluctuations in average weekly fees occur on a continuous basis due to a combination of changes in resident and geographical mix.

Payroll costs: The group's most significant operating expense is payroll costs, which represent the staff costs incurred in providing services and running the group's facilities. Payroll costs can be split into two categories: site-based payroll costs and central and regional support costs. Site-based payroll includes agency costs that are incurred to obtain the services of nurses and care staff on a temporary basis to meet staffing requirements that cannot be satisfied by the group's permanent workforce.

Other operating costs: Other operating costs are principally comprised of the care and facility costs required to operate the care homes and specialised units. Key items of care expenditure are generally volume related and variable in nature, such as food, medical supplies, laundry and cleaning and waste disposal. Certain costs are more fixed in nature, primarily relating to utility costs, insurance, registration fees and maintenance.

Rent: The group pays rental charges under operating leases in respect of approximately 40% of its properties. The remainder are owned and operated as freehold assets or leased to third-party operators. Under the majority of the leaseholds agreements, the rent payable is subject to index-linked annual increases within certain caps and collars, whilst certain lease agreements contain flexing rent mechanisms linked to the performance of the home or specialised unit, which provides downside protection while preserving incremental profit margin.

Strategic report (continued)

Financial review *(continued)*

Key performance indicators ("KPIs")

The main financial KPIs which the group uses to measure its performance are: EBITDA before exceptional items; weekly fee rates; payroll costs; and direct expenses. In addition, the group monitors occupancy as its main operational KPI. The table below shows KPIs for the FSHC Group Holdings group of companies, which includes the acquired homes from April 2013.

Unaudited	2012					2013				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full year
Turnover (£m)	174.1	175.3	174.8	187.5	711.7	174.7	186.3	188.4	186.9	736.3
CHD Turnover (£m)	143.5	144.7	146.4	157.2	591.9	145.2	155.1	157.3	156.0	613.6
THG Turnover (£m)	29.6	29.6	27.4	29.3	115.9	28.5	30.2	30.1	29.8	118.6
CHD EBITDARM (% of turnover)	23.8%	24.9%	27.0%	25.2%	25.2%	25.2%	26.6%	27.6%	22.4%	25.4%
THG EBITDARM (% of turnover)	19.2%	20.5%	17.0%	16.7%	18.4%	19.1%	21.6%	21.3%	16.1%	19.6%
EBITDAR (£m)	33.8	35.2	37.7	38.3	144.9	35.2	41.1	41.0	34.7	152.0
EBITDA (£m)	22.3	23.5	25.3	25.5	96.6	22.8	27.3	27.5	21.5	99.1
Effective beds – group	24,050	23,978	24,151	24,109	24,072	23,772	24,860	24,952	24,796	24,583
Occupied beds – group	20,803	20,782	20,927	20,892	20,851	20,676	21,548	21,825	21,548	21,392
CHD occupancy %	87.7%	87.9%	87.9%	87.9%	87.8%	87.8%	87.4%	88.2%	87.6%	87.8%
THG occupancy %	70.4%	69.8%	68.7%	68.7%	69.4%	74.6%	75.5%	75.4%	75.2%	75.2%
CHD average weekly fee (£)	559	565	566	565	564	569	582	583	586	580
THG average weekly fee (£)	1,947	1,937	1,905	1,893	1,920	1,944	2,076	2,077	2,056	2,038
CHD payroll (% of turnover)	60.7%	60.6%	59.2%	59.9%	60.1%	59.9%	59.2%	58.8%	62.4%	60.1%
THG payroll (% of turnover)	68.6%	67.5%	71.1%	70.8%	69.5%	68.4%	66.9%	67.5%	71.3%	68.5%
Agency to total payroll (%)	6.5%	5.4%	4.1%	310.0%	4.7%	3.3%	3.7%	5.6%	6.5%	4.8%
Expenses (% of turnover)	14.9%	14.1%	13.5%	14.5%	14.3%	14.5%	13.7%	13.2%	14.8%	14.0%
Central costs (% of turnover)	3.9%	4.5%	4.3%	3.8%	4.1%	4.2%	3.7%	4.0%	4.5%	4.2%

Full year numbers may include minor rounding differences compared to the four quarter aggregate
Q4 2012 and Full Year 2012 include an extra week compared to the equivalent period in 2013
CHD = Care Home Division, THG = The Huntercombe Group

The following analysis compares the full year 2013 results of the FSHC Group Holdings group with the unaudited proforma full year 2012 results.

Turnover

After taking into account the 53 week reporting period in 2012 the group generated an additional £37.9m of turnover in 2013, of which £26.4m related to the homes acquired in April 2013.

- *Average Weekly Fee*

  The Average Weekly Fee ("AWF") in 2013 in the Care Home Division ("CHD") increased by 2.8% to £580 from £564 in 2012. This was driven by increases of 2.5% and 3.0% in Scotland and Northern Ireland respectively from April 2013, together with private fee rate increases of up to 5% across the division. However the increase in English Local Authority fees, blended across all regions, was between only 1.0% and 1.5%.

Strategic report (continued)

Financial review *(continued)*

Turnover (continued)

- *Average Weekly Fee (continued)*

  Of the £16 increase, £2 can be attributed to the acquired homes which had an AWF in excess of £630 for the period.

  Within The Huntercombe Group ("THG"), with the onset of the nationally negotiated contract covering CAMHS and Secure AMH, specialling revenue was reduced significantly from April 2013. With this revenue now being included in fee income, the AWF in 2013 increased by 6.1% to £2,038 from the average of £1,920 in 2012. If specialling income is included in the AWF for both years, the increase is 4.8%.

- *Occupancy*

  Despite challenging conditions, average occupancy in 2013 for CHD was 87.8% in line with 2012. Excluding the 1,213 beds acquired, there were 189 fewer beds across the group as a result of property closures and disposals during the year. In 2013, average THG occupancy increased by 5.8 percentage points compared to 2012 to 75.2%, although this included the rationalisation of bed numbers in the division and the closure of two under-performing units. Occupancy in the Acquired homes averaged over 91% in the period following acquisition.

- *Investment property income*

  Income from the group's investment properties was £3.8m in 2013, an increase of £0.1m compared to 2012 which was in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, increased from 59.9% in quarter one of 2013 to 62.4% in quarter four of 2013. This compared with 60.1% during 2012. During the second half of 2013 significant additional payroll costs were incurred, due to a combination of own staff hours and agency spend required to address the impact of intense regulatory scrutiny in the sector. Payroll as a percentage of turnover in the Acquired homes averaged 50.9% during the post-acquisition period.

Care expenses

In 2013, expenses (care and facility combined) as a percentage of turnover, at 14.0%, were above historical levels, although slightly lower than 2012. Staff advertising costs were £0.6m above budget as the group actively recruited new nurses to meet regulatory requirements and drive agency costs down. Conversely, utility costs were £1.4m below budget as recent measures to improve energy efficiency impacted on usage.

Rent

Rent of £52.8m was paid in 2013 (*2012: £49.3m*), a 9.3% increase compared to the 2012 charge of £48.3m, of which £2.7m related to the Acquired homes.

Central costs

Central costs, at 4.2% of turnover in 2013, are consistent with the 4.1% incurred in 2012. The absolute increase compared to the prior year is a function of the conscious build-up to support the business segmentation strategy, together with the additional head count in the acquired business.

Strategic report (continued)

Financial review *(continued)*

Exceptional items

The operating profit during the year includes exceptional costs of £9.5m (*Proforma 2012: £13.1m*). Within this total are segmentation strategy costs of £2.2m, procurement efficiency and other project costs of £3.3m, onerous lease provisions of £2.6m, £1.7m relating to closed homes and redundancy costs and exceptional income of £0.5m in relation to the write back of old credit balances.

In the prior year, there was exceptional income of £25.6m in relation to the write off of an amount due to a related undertaking in the pre-acquisition structure and a provision release of £2.4m. Netting against this exceptional income was £10.5m of refinancing costs, £2.3m of closed home and redundancy costs and £1.8m relating to post-acquisition project work consisting of procurement efficiency, facilities management and estates review.

EBITDA

As a consequence of the factors outlined above, the 2013 EBITDA was £99.1m. Excluding the £5.4m generated in the Acquired homes, EBITDA for continuing operations was £1.1m below the £94.8m achieved in 2012 (after taking into account the 53 week trading period in 2012). The primary reasons for the decrease in gross profit were the increased regulatory scrutiny and the cost of implementing the segmentation strategy.

Interest

The interest charge for the year primarily relates to interest on the group's £350m senior secured notes at an interest rate of 8.75% and the £175m senior notes at an interest rate of 12.25%. The interest charge relating to these notes in the year was £52.6m. In addition £1.7m relates to interest on the £50m of borrowings used to fund the purchase of the Acquired homes. Of the balance, £7.2m relates to the amortisation of debt issue costs.

Tax

The tax charge for the year was £1.4m, predominantly due to non-deductible expenses and depreciation in excess of capital allowances netted against the utilisation of tax losses, profits taxable under UK income tax and the reversal of recognised deferred tax assets.

The group has unrecognised deferred tax assets of £68m arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

Strategic report (continued)

Financial review *(continued)*

Balance Sheet

The table below shows the consolidated balance sheet of FSHC Group Holdings Limited as at 31 December 2013 and 31 December 2012 and the proforma balance sheet of FSHC (Jersey) Holdings Limited at 31 December 2011. The movement in net assets between 2011 and 2012 was primarily due to a change in debt structure.

Proforma (unaudited)	**FSHC Group Holdings Limited 2013 £000**	FSHC Group Holdings Limited 2012 £000	FSHC (Jersey) Holdings Limited 2011 £000
Fixed assets			
Intangible assets - goodwill	**(37,579)**	(42,936)	(55,165)
Tangible assets	**965,688**	868,170	830,179
Investment properties	**29,780**	29,780	31,250
	957,889	855,014	806,264
Current assets			
Debtors	**65,572**	64,963	56,273
Cash at bank and in hand	**36,653**	27,067	73,822
	102,225	92,030	130,095
Creditors: amounts falling due within one year	**(101,975)**	(91,041)	(923,273)
Net current assets/(liabilities)	**250**	989	(793,178)
Total assets less current liabilities	**958,139**	856,003	13,086
Creditors: amounts falling due after more than one year	**(599,404)**	(499,258)	-
Provisions for liabilities and charges	**(24,068)**	(22,367)	(26,074)
Net assets/(liabilities)	**334,667**	334,378	(12,988)

Goodwill

The net goodwill balance is a function of the acquisition structures, the fair value of the acquired net assets and the acquisition costs.

On 12 July 2012 negative goodwill of £43.9m arose on the acquisition of FSHC (Jersey) Holdings Limited which is being amortised over 20 years.

On 11 April 2013 FSHC Group Holdings Limited acquired, via an indirect subsidiary, Optimum Care Limited and Optimum Leaseco Limited and their subsidiary undertakings, ("the acquired group"). Positive goodwill of £3.2m arose on this transaction (note 17) and is being amortised over 20 years.

Strategic report (continued)

Financial review *(continued)*

Fixed assets

A valuation of the Elli Investment group's properties acquired in July 2012 was carried out by an external valuer on an individual property basis for balance sheet purposes in February 2012. This valuation was used as the basis of the statutory balance sheet valuation at 31 December 2012.

The valuation of the Optimum group's properties was carried out by an external valuer on an individual property basis for balance sheet purposes in March 2013. Given the proximity to the date of acquisition, this valuation has been used as the basis for the acquisition value on 11 April 2013.

The directors have reviewed the carrying value of the full group's land and buildings as at 31 December 2013 taking into account the views of qualified property valuers and are satisfied that the value of property is fairly stated.

Debtors

Within total debtors, trade debtors decreased by £3.7m during 2013 which is a function of the timing of the group's billing cycle around the year end and an increase in receipts immediately prior to the year end, offset by the balance in the Acquired homes. Prepayments and other debtors have increased by £3.7m. This is the net effect of an increase in prepayments of £3.7m, a decrease in rent deposits of £1.2m and an increase in other debtors of £0.7m. In addition the group has a corporation tax debtor of £0.5m.

Creditors

Trade creditors are £0.1m higher than 2012 which is primarily due to timing differences in the payment run cycle at the year end offset by balance in the Acquired homes which had a trade creditor balance of £0.8m at the year end. Other taxation and social security balances are in line with the prior year. Accruals and deferred income have increased by £2.2m primarily due to a £1.6m reduction in the holiday pay accrual at year end offset by the balance in the Acquired homes which had an accruals and deferred income balance of £3.9m at the year end. Other creditors have increased by £9.3m primarily due to an increase in rent creditors (£6.9m) which is a function of the timing of rent payments at the year end and an increase in other creditors of £2.4m due to the balance in the Acquired homes.

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties.

Financing arrangements

At 31 December 2013 the group's long term liabilities comprised the following:

- *Senior secured and senior notes*
  - Senior Secured Notes: £350m at a fixed interest rate of 8.75%, due to be repaid in 2019
  - Senior Notes: £175m at a fixed interest rate of 12.25%, due to be repaid in 2020
- *Bank loans*
  - "Facility A": £11.5m with repayment instalments every six months increasing from £0.5m in September 2013 to £1.25m in September 2015. The balance is due for repayment in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the leverage of the business acquired from the Optimum group.

Strategic report (continued)

Financial review *(continued)*

Financing arrangements (continued)

- "Facility B": £38m payable in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the leverage of the business acquired from the Optimum group.

The borrowings are secured by means of a composite guarantee and debenture generating a fixed and floating charge on the properties and assets acquired from the Optimum group, and are repayable in full on either a sale, change of control or listing of that business.

- *Revolving credit facilities*
  - The group's revolving credit facility provides up to of £40m on a committed basis and allows for borrowings of up to a further £35m in certain circumstances. The interest rate on cash advances under the revolving credit facility is the aggregate of the margin (4% per annum), LIBOR and a mandatory cost (if any), with a fee payable for any undrawn amounts. The facility matures in 2018.
  - A second facility provides up to £3m which remains undrawn at the time of signing the financial statements, and is available until April 2019. Interest is charged at LIBOR plus 2.40% - 3.75% depending on the leverage of the business acquired from the Optimum group

Liquidity and capital resources

The group maintains cash to fund the day-to-day requirements of the business, which display limited seasonality and are relatively constant throughout the year, subject to intra-month peaks and troughs related to the timing of fee receipts compared to purchase ledger, payroll and rent payment cycles. In addition the group has access to two revolving credit facilities of which £15m had been drawn down at the year end and which was repaid in full during the first quarter of 2014.

Cash flow statement

Proforma, unaudited	**FSHC Group Holdings Limited Year ended 31 December 2013 £000**	**FSHC Group Holdings Limited Period ended 31 December 2012 £000**	**Full year for FSHC (Jersey) Holdings Limited Year ended 31 December 2012 £000**	**FSHC (Jersey) Holdings Limited Year ended 31 December 2011 £000**
Net cash inflow from operating activities	**94,703**	47,566	79,013	86,959
Returns on investments and servicing of finance	**(56,705)**	(24,304)	(42,717)	(32,749)
Capital expenditure and financial investment	**(45,939)**	(17,664)	(34,733)	(27,675)
Taxation	**(3,222)**	(1,818)	(533)	(3,689)
Acquisitions and disposals	**(30,546)**	41,418	(29,582)	(2,285)
Net cash (outflow)/inflow before financing	**(41,709)**	45,198	(28,552)	20,561
Debt issue costs	**(1,914)**	(42,488)	(42,488)	-
Financing	**53,209**	24,357	23,895	-
Increase/(decrease) in cash in the period	**9,586**	27,067	(47,145)	20,561

At 31 December 2013 the group's cash balance was £36.7m. Net cash generated from operating activities in the year ended 31 December 2013 was £94.7m (*2012: £47.6m for the period*).

Strategic report (continued)

Financial review *(continued)*

Working capital

The cash inflow from movements in working capital was £5.1m for the year with an inflow of £3.4m for the period ended 31 December 2012.

Interest paid

£52.6m was paid on the group's senior secured and senior notes during 2013 and £0.6m was paid in respect of the utilisation of the revolving credit facility. £2.0m was paid on the debt in the Acquired group and £1.8m was paid on the new bank loans issued to fund that acquisition. In addition, £0.4m was paid in respect of debt related costs.

Capital expenditure and developments

Maintenance capital expenditure is related to the maintenance of equipment and facilities due to regular use and wear and tear. Generally, the more complex the services provided, in particular in light of the younger age of some of our residents and patients and the nature of their condition, the higher our maintenance capital expenditure per bed tends to be in a particular care home or specialised unit. The group's policy is to continually improve and maintain the quality of its estate. Development capital expenditure is incurred to improve or extend our facilities where appropriate and to develop new facilities.

Total capital expenditure for the year to 31 December 2013 was £50.6m (*2012: £34.7m*) which includes £2.9m of deferred consideration. This increase of £15.9m compared to 2012 is primarily due to the cost of acquiring the freehold of five care homes taken over from Mimosa Healthcare and the acquisition of the freehold of five care homes previously leased from one of the group's landlords. In addition, York Court opened in September 2013 in South London at a total development cost of £6.6m, of which £2.2m was incurred during 2013.

Capital expenditure on the existing estate remained consistent with the prior year at between £900 and £1,200 per effective bed in the care home division.

Post balance sheet events

On 20 March 2014, a subsidiary company of the Group acquired seven care homes from Majesticare. The acquisition was funded by a new bank loan together with new equity from Terra Firma.

Strategic report (continued)

Principal risks and uncertainties

The group's management structures, coupled with its policies and procedures, are designed to enable the achievement of business objectives while controlling the risks associated with the environment in which it operates. The group has a risk management process in place which is designed to identify, manage and mitigate business risk. Reporting of these risks and the monitoring of actions and controls is conducted by the Audit Committee, which reports its findings to the board.

The principal risks and uncertainties affecting the group, their potential impact, together with the means by which the group manages them are as follows:

Financial risks

- *Budget constraints and public spending cuts*

  Potential impact: publicly funded entities could allocate less money to the services that the group provides. In addition, political or policy changes could lead to fewer services being purchased from the group with more people being cared for at home.

  Mitigation: the group continues to focus on its strong partnering relationships with local authorities and care commissioners to ensure that placements are made within our facilities. In addition, we regularly assess the services we provide to ensure they represent value for money and where necessary reposition services to align with demand. The new strategic segmentation of the group's business will more closely align the service offering with the service users and commissioners of those services.

- *Reduction in the demand for our services*

  Potential impact: the majority of our revenues are not guaranteed, as they are generated either from spot purchasing or under framework agreements where no volume commitments are given.

  Mitigation: the group continues to focus on its strong partnering relationships with local authorities and care commissioners to ensure that placements are made within our facilities. In addition, we are focussed on continually improving the quality of our services and facilities to ensure that the group's brands are synonymous with quality of care.

- *Agency costs*

  Potential impact: appropriate staffing levels are required to ensure that the correct level of care is provided. With a shortage in qualified nursing staff across the sector, the group may be required to use agency staff which cost considerably more than own staff.

  Mitigation: the group actively monitors agency usage. Alternative sources of nurses are continually investigated both within the UK and internationally.

- *National Minimum Wage increases are higher than inflation*

  Potential impact: a significant number of employees in the healthcare sector have salaries based on the statutory National Minimum Wage or close to the minimum wage. As such, increases in the National Minimum Wage which are in excess of income inflation could significantly reduce the group's profitability. Due to continued local authority budget constraints, the rise in the National Minimum Wage has not been matched by the inflationary increase in local authority fee rates.

  Mitigation: the group budgets carefully for National Minimum Wage increases and the impact on its cash flow and profitability.

Strategic report (continued)

Principal risks and uncertainties *(continued)*

Financial risks (continued)

- *Liquidity risk*

  Potential impact: a reduction in occupancy and fee rates combined with an increase in costs could result in reduced cash generation.

  Mitigation: the group has a strong track record of generating stable cash flows, even in challenging market conditions, by improving the quality of our services and managing our cost base. This is achieved by exercising strong financial and management accounting through the finance function, monthly tracking of actual performance against shorter term budgets and long-term business plans in line with obligations under financing agreements.

- *Interest rate risk*

  Potential impact: the group finances the majority of its operations through called up share capital and external debt. At 31 December 2013, the group had £525.0m of fixed rate debt and £65m of variable rate debt, thereby minimising interest rate risk. Further drawings under the revolving credit facility would expose the group to additional interest rate risk. The interest rate on cash advances under the revolving credit facility will reflect changes in LIBOR.

  Mitigation: as at 31 December 2013, only £15m of the revolving credit facility had been drawn down. The £15m balance was repaid in full by the end of February 2014.

  In addition 75% of the group's £50m bank loan is hedged using an Interest Rate Swap ("IRS"), by which the group has fixed LIBOR on this element of the total bank loan at 1.2375%.

  As such the quantum of debt paying variable rate interest is low compared to the level of fixed rate debt in the group.

- *Failure to comply with debt covenants*

  Potential impact: withdrawal of funding prior to its maturity dates.

  Mitigation: our covenants are monitored on a monthly basis and are constantly assessed in light of any changes within the group (e.g. acquisitions). If a potential issue were to arise this would be addressed in a timely manner.

- *Failure to comply with debt service requirements*

  Potential impact: The group's ability to generate sufficient cash from operating profits to fulfil its interest payments and refinance its existing indebtedness as required will be dependent on many factors, including some that are beyond the company's control.

  All of the aforementioned risks will have an impact on cash generation along with the external market conditions including the economic environment of the industry and the ability to obtain new finance in the existing markets.

  Mitigation: the group carefully monitors its liquidity levels and sources of additional liquidity, as well as external market conditions.

Strategic report (continued)

Principal risks and uncertainties *(continued)*

Operational risks

- *Reputational risk*

  Potential impact: a serious incident relating to the provision of health care services or involving harm to one or more residents or patients could result in negative publicity, as could similar incidents at our competitors' facilities. Such incidents may result in an increase in scrutiny from regulators as well as from residents, patients and their families. Furthermore, the damage to our reputation could be exacerbated by any failure on our part to respond effectively to such an incident.

  Mitigation: in order to mitigate this risk as far as possible, we have implemented rigorous clinical governance, carry out substantial employee training, employee inductions and employee reference procedures, including a criminal background check for all frontline staff.

- *Regulatory risk*

  Potential impact: the group operates in a highly regulated business environment and predicting regulatory changes or developments is difficult. The regulatory requirements relevant to our business cover the entire range of our operations from the establishment of new facilities, to the recruitment and appointment of staff, occupational health and safety and duty of care to our residents and patients. Licensing, accreditation and certification requirements are subject to change and we may be required to adapt our facilities, equipment, personnel and services in order to comply with such changes.

  Mitigation: the group devotes a considerable amount of time to the management of regulatory matters. Compliance with the on-going requirements of these licences and changes arising from the evolving regulatory environment mean that significant attention by senior management has been, and will continue to be, dedicated to regulatory compliance.

Strategic report (continued)

Corporate social responsibility

Investing in our people

The group continues to invest in its most important asset – its 32,400 employees. Their performance is critical if we are to deliver the group's demanding objectives. Considerable progress has been made to create the framework, structure and support required to enable our employees to both fulfil their potential and deliver a high quality service to our residents and patients.

The group provides induction training to all new recruits, including those which are employed on a temporary basis. We have a comprehensive e-learning system in place which incorporates formal, informal, scheduled and unscheduled learning for our staff. The system provides the group with the ability to continually communicate a diverse range of industry critical information, disperse knowledge and share best practice with every care home and specialised unit.

The Group operates a number of employee groups as internal agencies, as well as providing the opportunity for flexible working. This structure helps to increase the employee familiarity for residents and their families.

We believe that it is important that employee feel recognised and rewarded for the work that they do. We ensure that our employees are appropriately remunerated and benchmark our salaries and benefits against our key competitors, the local market and the NHS. In addition to employee remuneration, the Recognition Of Care and Kindness (ROCK) award scheme has been designed by the group to give residents and/or their families and friends the opportunity to nominate an employee for a special award. This is a simple way of honouring any members of staff who residents or relatives believe have gone that extra mile or have shown exemplary standards of care towards a resident.

Community involvement and charitable giving

The group is proud that its care homes and facilities form part of the communities they serve. These community links are especially important when the majority of residents previously lived locally and maintaining these bonds are key to resident experience.

The group's care homes engage with many community organisations in a variety of ways. In addition to the annual gardening competition, community tea parties and summer fairs, the group is proud to freely offer facilities as meeting points for local charities and increasingly provides advice to those living locally such as dementia care drop in sessions.

The group also raises funds for causes that local communities believe in, as well as supporting the wider community by raising funds for national charities.

Strategic report (continued)

Corporate social responsibility *(continued)*

Health and safety

The group is committed to the highest standards of health and safety for our clients, staff and visitors, fully in compliance with statutory requirements. To this end, clearly defined policies, procedures, roles and responsibilities are in place, and supervision, instruction, information and appropriate training are provided. A management information system is in place to monitor safety standards and to review and report incidents. Policies and training needs are kept under review.

Complaints, concerns and incidents

The group is committed to the highest standards of openness, probity and accountability.

The group operates a comprehensive complaints policy, enabling clients, their families, employees and third parties to raise concerns or make complaints. The principles of the Public Interest Disclosure Act are applied where relevant and a dedicated confidential line is provided for whistleblowing. The group has comprehensive processes for recording and reporting wider incidents and also for surveying service users' views as to the quality of the service offered.

Where complaints and concerns are raised these are investigated in accordance with the policy. Any complaint is taken seriously and handled sensitively and efficiently. An initial acknowledgement is sent within two working days. The complaint will be investigated and assessed to determine what action should be taken. This may involve an internal enquiry or a more formal investigation. Following investigation a full written response will be provided to the complainant, usually within twenty working days. For disclosures that concern potential criminal allegations, the company will normally inform the police, subject to Data Protection restrictions.

Environmental policy

The group seeks excellence in every aspect of its business and recognises the importance of good environmental practice. We are committed to improving further our environmental performance by setting and achieving a number of environmental objectives and targets.

In implementing the group's environmental commitment, we will:

- Comply with relevant existing environmental regulations wherever we operate
- Endeavour to minimise the consumption of resources within the properties we occupy and consider the environmental impact of our operations, concentrating particularly on the use of energy, waste disposal, water discharges and land management
- Promote awareness amongst our staff of the environmental impact of travel and to reduce the need wherever possible
- Adopt a policy of 'reduce, reuse and recycle' in our consumption of resources with sustainability being a key element especially within our administrative centres as well as, where applicable, our care home and hospital settings
- Encourage the use of e-procurement and e-tendering where possible and practical
- Regularly review our policies to ensure that they remain properly aligned to the need to reduce waste and encourage the most effective utilisation of scarce resources

Strategic report (continued)

Corporate social responsibility *(continued)*

Energy efficiency

The group is part of the Carbon Reduction Scheme and the Board and senior management team are committed to reducing the group's Carbon Emissions Footprint by at least 15% by 2015. The group recently started a project to generate proposals for energy saving investment through:

- Installing greater efficiency boilers
- The use of low energy light bulbs across all of our facilities
- Increased employee awareness to promote energy efficiency behaviours

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 on-going commitment and focus that has enabled the group to deliver a continued high quality of care.

The group aims to provide equal opportunities regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin, recognising that the continued success of the group depends upon its ability to attract, motivate and retain people of the highest calibre.

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group and the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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

Iain Stokes
Director
1 July ~~June~~ 2015

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2013.

Results and dividends

The loss for the year was £8,320,000 (*2012: £2,407,000 profit*). The directors do not recommend the payment of a dividend with respect to ordinary shares (*2012: £nil*). The dividend on the preference shares was £30,891,000 (*2012: £13,409,000*).

Fixed assets and investment properties

During the year the group disposed of ten properties which do not fit with the group's segmented strategy or which were no longer deemed fit for purpose. These disposals resulted in a loss on disposal of £2.9 million. In addition, the directors have reviewed of the carrying value of the group's remaining land and buildings as at December 2013 taking into account the views of qualified property valuers and believe the property value to be fairly stated. The group's investment properties continue to be valued at £29.8 million.

Going concern and liquidity management

At the time of approving the financial statements, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. With this in mind, the directors have formally considered and concluded that the preparation of the financial statements on a going concern basis is appropriate. Further details are shown in the "Basis of preparation" section of note 1 to the financial statements.

Corporate governance

The board of directors of FSHC Group Holdings Limited believes that effective corporate governance is a fundamental aspect of a well-run business and is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

The following paragraphs describe the key governance structures and internal controls operating within the group.

Board constitution and procedures

The FSHC Group Holdings Limited board comprises three directors whose biographies are shown on page 26.

The board of FSHC Group 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 Elli Finance (UK) plc whose board includes the Chairman, Chief Executive Officer, Chief Financial Officer and Commercial Director. They are responsible for the leadership, strategic direction, financial performance, corporate governance, internal control, risk management and corporate and social responsibility for the Four Seasons Health Care group, and report directly to the board.

The Chairman is responsible for the effective running of the Elli Finance (UK) plc board and for communications with all directors and shareholders. An agenda is established for all scheduled board meetings, generally on a monthly basis. The Chairman ensures that all members of the board receive sufficient information on agenda items, including financial, business and corporate issues prior to each meeting, whether they are able to attend or not. This enables the board members to be regularly appraised on financial and operational performance and to make informed decisions on issues under consideration.

To ensure that key policy and strategic decisions are made by the board, certain matters must be brought to the board for approval, including but not limited to: final approval of the annual accounts and budget, major acquisitions and disposals and any changes to the group's financing arrangements and financial policies.

The directors also have access to the advice and services of the Company Secretary and external advisers, as appropriate.

Directors' report (continued)

Corporate governance *(continued)*

Board committees

The Elli Finance (UK) plc board has established three committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The biographies of the company's directors are shown on page 27.

- *Audit committee*

  The audit committee is chaired by Ian Smith and consists of three non-executive directors and the Chairman. The Chief Executive Officer, Chief Financial Officer and external auditors are normally invited to attend meetings. The committee meets twice a year at appropriate times in the audit reporting cycle. At each meeting an opportunity is given for the non-executive directors and the external auditors to meet in private. As a matter of course the Chair of the Audit Committee communicates with the audit partner outside of formal committee meetings.

  The committee oversees the relationship with the external auditors. It reviews their audit plan and discusses audit findings with them. In addition, the committee reviews the effectiveness of the group's internal controls and risk management systems and reports to the board on its findings. It also ensures that there is proportionate and independent investigation of any matter brought to its attention.

  The committee recommends the appointment and reappointment of the group's external auditors and annually reviews a formal letter provided by the external auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. The committee also reviews the terms, areas of responsibility and scope of the audit as set out in the external auditors' engagement letter; the overall work plan for the forthcoming year; the cost-effectiveness of the audit, as well as the auditors' remuneration; major issues which arose during the course of the audit and their resolution; key accounting and audit judgements; the level of errors identified during the audit; the recommendations made to management by the auditors and management's response; the level and scope of non-audit fees to ensure that auditor independence is maintained.

- *Finance committee*

  The committee is chaired by Robbie Barr and consists of three non-executive directors, the Chairman, the Chief Executive Officer and Chief Financial Officer.

  The committee is responsible for making recommendations to the board based on proposals regarding the creation, acquisition or disposal of subsidiaries, approval of investments or divestments and major capital projects within the group. In certain specific circumstances the board has delegated authority to the committee to make decisions in these areas.

- *Remuneration and nominations committee*

  The remuneration and nominations committee is chaired by Robbie Barr and consists of two non-executive directors, the Chairman and the Chief Executive Officer. This committee meets at least once a year and at such other times as the board requires.

  The committee's duties and responsibilities include the following:

  - Establishing the criteria to be used in selecting directors and ensuring the remuneration package is designed to attract, motivate and retain staff of the highest calibre
  - Approving the remuneration of the executive directors and management to provide independent and objective assessment of any benefits granted to directors and management
  - Reviewing the design of incentive and performance related pay plans for approval by the board, together with remuneration policies as a whole across the group

Directors' report (continued)

Directors

The directors who held office during the financial period and up to the date of signing the accounts are listed below:

- N Carey
- J Stares
- I Stokes

Nigel Carey
Director

Nigel has served as a non-executive director of various Guernsey-based Terra Firma companies since 2003. He was previously a partner at Carey Olsen, a Guernsey law firm, where he is currently employed as a consultant. Holding an LLB from Southampton University, he was admitted as a solicitor in 1972 and was also awarded a Certificat d'Études Juridiques Francaises et Normandes in 1975. He was admitted to the Guernsey Bar in 1975.

John Stares
Director

John has served as a non-executive director for Guernsey-based companies of Terra Firma since 2007. He currently holds non-executive leadership positions with Jersey Electricity plc and JT Global. John graduated with Honors from Imperial College at the University of London and is also a Fellow of the Institute of Chartered Accountants in England and Wales.

Iain Stokes
Director

Iain has served as a non-executive director for Guernsey-based companies of Terra Firma since 2004. He acts as a consultant for Wyvern Partners, an independent corporate advisory firm active in many sectors, including financial services. In his early career he worked for BDO Binder and ING Barings before joining Mourant International Finance Administration in 2003 and was a member of the senior executive team that managed the sale of the company to State Street Corporation in 2010. He is a Fellow of the Association of Chartered Accountants and holds a Diploma in Company Direction from the Institute of Directors.

Directors' report (continued)

Directors *(continued)*

The board of FSHC Group Holdings Limited acts as an overseeing body, fulfilling a corporate governance role and has delegated authority to manage the group's day to day operations to Elli Finance (UK) plc. The directors of Elli Finance (UK) plc are as follows:

Ian Smith
Chairman

Ian was appointed Non-Executive chairman following the acquisition of the group by funds controlled by Terra Firma. Ian Smith was, previously, Chief Executive Officer of Reed Elsevier, an information company, Chief Executive Officer of Taylor Woodrow, the house-building and construction company, and, Chief Executive Officer of General Healthcare Group, which owns and operates nearly 70 hospitals in the UK. Prior to General Healthcare group, Ian was Chief Executive Officer Europe for Excel, the logistics and transportation group, and of Monitor Company Europe, a strategy consulting firm. He started his business career with nearly ten years at the Royal Dutch Shell group of companies, mostly as a CEO of Shell businesses in the Middle East.

Ben Taberner
Chief Financial Officer

Ben was appointed CFO in March 2010, having joined the Four Seasons Health Care group in 2003 as Group Financial Accountant with responsibility for the group consolidation, statutory and investor reporting and management of the group's debt-related responsibilities. Ben has ten years of experience in the health and social care sector. Prior to joining the group he was an assurance senior manager at KPMG.

Dominic Kay (resigned 31 October 2014)
Commercial Director

Dominic was the commercial director responsible for group developments between 2007 and October 2014, having joined the Four Seasons Health Care group in June 2005 as company secretary responsible for statutory compliance, insurance and day to day legal matters. Dominic had eight years of experience in the health and social care sector. Prior to joining the group, he served on the main board at Yates Group plc as their Human Resources and Legal Services Director.

Claire Royston
Group Medical Director

Dr. Claire Royston (MB ChB MSc FRCPsych), was appointed Group Medical Director in January 2014. She is responsible for integrated governance, quality assurance management and supporting the delivery of strategies and innovation within the group to ensure that the group leads the independent sector in its clinical excellence and standards of care. Claire will also contribute on behalf of the organisation to the national development of key policy and decision making within the healthcare sector. She has held a number of senior positions within the NHS and was registered as a specialist in General Adult and Old Age Psychiatry in 1997.

Steven Webber
Non-Executive Director

Steven has worked on some of Terra Firma's most successful investments including transactions as diverse as the recent Annington Homes acquisition, Tank & Rast and the group's pub businesses. Steven also worked on the AWAS deal and the acquisition of Pegasus by AWAS, and has focussed on the leisure, leasing and transportation sectors. Steven sits on the boards of Annington, AWAS, Four Seasons Health Care and CPC. He joined PFG, the forerunner to Terra Firma, in 1996 following his graduation from the University of Reading with a master's degree in International Securities, Investment and Banking (MSc).

Directors' report (continued)

Directors *(continued)*

Robbie Barr
Non-Executive Director

Robbie is the Chairman of Odeon & UCI and Deputy Chairman of the Supervisory Board of Deutsche Annington. Prior to joining Terra Firma in 2009, Robbie held a number of senior positions at Vodafone Group plc, including the role of Group Financial Controller and regional CFO for Vodafone's businesses outside Western Europe. Robbie is a Fellow of the Institute of Chartered Accountants in England and Wales and has a MA in Mathematics from Magdalen College, Oxford University.

Lorcan Woods
Non-Executive Director

Lorcan joined Terra Firma in London as Finance Director for Portfolio Businesses. Lorcan had board positions at two of Terra Firma's renewable energy businesses (Everpower Wind and Infinis) as well as Phoenix Natural Gas and is now focused entirely on Four Seasons Health Care. He joined Unilever as a graduate trainee and has worked in a variety of finance roles for 21 years in foods and personal care, for example as Vice President M & A and as Financial Director of Unilever de Mexico.

Peter Dixon
Non-Executive Director

Peter recently joined the Board as a Non-Executive Director. He is currently Chief Executive of Phoenix Natural Gas and has a wealth of expertise in service organisations, a strong commitment to corporate social responsibility and has particular expertise in governance and audit matters.

Registered office

The registered office is: Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.

Walker Report

On 20 November 2008, David Walker published his 'Guidelines for disclosure and transparency in private equity' (the Walker Report). This report has been prepared in the context of those recommendations.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant information of which the group's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Auditor

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

Iain

Iain Stokes
Director
1 July ~~June~~ 2015

FI

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the Directors' Report, Strategic 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 the 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 group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements 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 group and parent company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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

Independent auditor's report to the members of FSHC Group Holdings Limited

We have audited the Group and Company financial statements (the "financial statements") of FSHC Group Holdings Limited (the "Company") for the year ended 31 December 2013 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom 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 29, 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 annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

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 2013 and of its loss for the year ended 31 December 2013;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

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 and 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.

Nicola Quayle

Nicola Quayle (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants and Recognised Auditors
1 St Peter's Square
Manchester
M2 3AE
United Kingdom

9 July 2015

Consolidated profit and loss account

for the year ended 31 December 2013

		Year ended 31 December2013		Period ended 31 December 2012*	
	Note	**£000**	**£000**	£000	£000
Turnover - continuing operations	*1, 2*	**709,793**		329,396	
- acquisitions		**26,412**		-	
			736,205		329,396
Cost of sales			**(626,840)**		(279,316)
Gross profit			**109,365**		50,080
Administrative expenses - ordinary	*3*		**(44,026)**		(18,523)
Administrative expenses - exceptional	*4*		**(9,531)**		(1,932)
			(53,557)		(20,455)
Operating profit	*2 - 6*		**55,808**		29,625
Ordinary activities - continuing operations		**62,033**		31,557	
- acquisitions		**3,306**		-	
			65,339		31,557
Exceptional activities - continuing operations		**(9,490)**		(1,932)	
- acquisitions		**(41)**		-	
			(9,531)		(1,932)
Interest payable and similar charges			**(62,817)**		(30,409)
Interest receivable and other income			**59**		26
Net interest payable and similar charges	*7*		**(62,758)**		(30,383)
Loss on ordinary activities before taxation	*3*		**(6,950)**		(758)
Tax on loss on ordinary activities	*8*		**(1,370)**		3,165
Retained (loss)/profit for the financial year	*20*		**(8,320)**		2,407

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		
Analysed as:		
Operating profit before exceptional items as analysed above	**65,339**	31,557
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**35,926**	15,511
Add back: amortisation of positive goodwill	**115**	-
Deduct: amortisation of negative goodwill	**(2,232)**	(1,007)
EBITDA before exceptional items	**99,148**	46,061

* Period from 12 July 2012 to 31 December 2012

The notes on pages 37 to 58 form part of the financial statements.

Consolidated balance sheet
at 31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Intangible assets	9	**(37,579)**	(42,936)
Tangible assets	10	**965,688**	868,170
Investment properties	11	**29,780**	29,780
		957,889	855,014
Current assets			
Debtors	14	**65,572**	64,963
Cash at bank and in hand		**36,653**	27,067
		102,225	92,030
Creditors: amounts falling due within one year	15	**(101,975)**	(91,041)
Net current assets		**250**	989
Total assets less current liabilities		**958,139**	856,003
Creditors: amounts falling due after more than one year	16	**(599,404)**	(499,258)
Provisions for liabilities and charges	18	**(24,068)**	(22,367)
Net assets		**334,667**	334,378
Capital and reserves			
Called up share capital	19	**384,000**	344,500
Share premium account	20	**880**	880
Profit and loss account	20	**(50,213)**	(11,002)
Shareholders' funds		**334,667**	334,378

The notes on pages 37 to 58 form part of the financial statements.

These financial statements were approved by the board of directors on 1 July ~~June~~ 2015 and were signed on its behalf by:

I Stokes
Director

N Carey
Director

Consolidated cash flow statement

for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Net cash inflow from operating activities	21	**94,703**	47,566
Returns on investments and servicing of finance	22	**(56,705)**	(24,304)
Capital expenditure and financial investment	22	**(45,939)**	(17,664)
Taxation		**(3,222)**	(1,818)
Acquisitions and disposals	22	**(30,546)**	41,418
Net cash inflow before financing		**(41,709)**	45,198
Debt issue costs		**(1,914)**	(42,488)
Financing	22	**53,209**	24,357
Increase in cash in the year	23	**9,586**	27,067
Cash brought forward		**27,067**	-
Cash carried forward		**36,653**	27,067

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2013

	Note	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Increase in cash in the year	23	**9,586**	27,067
Debt acquired with subsidiaries	23	**(52,823)**	(846,023)
Repayment of acquired debt	23	**52,823**	846,023
Issue of senior secured and senior notes	23	**-**	(525,000)
External bank loan		**(50,000)**	-
Utilisation of revolving credit facility	23	**(15,000)**	-
Debt amortisation		**500**	-
Debt issue costs	23	**1,914**	42,488
Movement in net debt in the year		**(53,000)**	(455,445)
Non cash movement	23	**(7,669)**	(3,337)
Net debt at beginning of year		**(458,782)**	-
Net debt at end of year	23	**(519,451)**	(458,782)

The notes on pages 37 to 58 form part of the financial statements.

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2013

	Group Year ended 31 December 2013 £000	Group Period ended 31 December 2012 £000	**Company Year ended 31 December 2013 £000**	Company Period ended 31 December 2012 £000
New share capital issued	**39,500**	345,380	**39,500**	345,380
(Loss)/profit for the financial year	**(8,320)**	2,407	**37,637**	15,956
Preference dividends declared	**(30,891)**	(13,409)	**(30,891)**	(13,409)
Net movement in shareholders' funds	**289**	334,378	**46,246**	347,927
Opening shareholders' funds	**334,378**	-	**347,927**	-
Closing shareholders' funds	**334,667**	**334,378**	**394,173**	**347,927**

The notes on pages 37 to 58 form part of the financial statements.

Company balance sheet
at 31 December 2013

	Note	2013 £000	2012 £000
Fixed assets			
Investments	*12*	**140,679**	126,368
Current assets			
Debtors: due after one year	*14*	**298,446**	234,973
Creditors: amounts falling due within one year	*15*	**(652)**	(5)
Net current assets		**297,794**	234,968
Total assets less current liabilities		**438,473**	361,336
Creditors: amounts falling due after more than one year	*16*	**(44,300)**	(13,409)
Net assets		**394,173**	347,927
Capital and reserves			
Called up share capital	*19*	**384,000**	344,500
Share premium		**880**	880
Profit and loss account	*20*	**9,293**	2,547
Shareholders' funds		**394,173**	347,927

The notes on pages 37 to 58 form part of the financial statements.

These financial statements were approved by the board of directors on 1 July ~~June~~ 2015 and were signed on its behalf by:

I Stokes
Director

N Carey
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The comparative period is for the 214 days from the date of incorporation on 31 May 2012 to 31 December 2012. On 12 July 2012 the company acquired via an indirect subsidiary FSHC (Jersey) Holdings Limited. As the company did not trade prior to this acquisition the results for the comparative period includes 172 days trading from 12 July 2012 to 31 December 2012.

Group going concern

In July 2012, the group issued £350 million of senior secured notes which pay interest at 8.75%, and which are due for repayment in 2019, and £175 million of senior notes which pay interest at 12.25%, and which are due for repayment in 2020. From that date the group has also had access to a £40 million revolving credit facility which was available until 2018. £15 million of this facility was drawn down at the year end and was repaid by the end of February 2014. In December 2014 the terms of the group's revolving credit facility were amended such that it would be converted to a £40m term loan from 2015 which would be due for repayment in December 2017.

During the first quarter of 2014 Terra Firma Capital Partners III LP, the group's ultimate parent undertaking, provided an additional £50 million of equity, which will be used by the group to fund both its capital expenditure programme and the increased costs associated with the group's strategic segmentation plan.

Following the acquisition of the Optimum Care and Optimum Leaseco group of companies on 11 April 2013 all debt-related liabilities owed by the acquired group were repaid in full. The repayment was financed by a new bank facility.

On 20 March 2014, the group acquired seven care homes from Majesticare, a privately owned care group that primarily serves self-funded clients. In order to finance the acquisition the existing bank facilities were extended and are now comprised of the following elements:

- "Facility A1": £11,500,000 with repayment instalments every six months increasing from £500,000 in September 2013 to £1,250,000 in September 2015. The balance is due for repayment in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage.
- "Facility A2": £6,000,000 with repayment instalments every six months increasing from £300,000 in September 2014 to £675,000 in September 2015. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage
- "Facility B1": £38,000,000 repayable in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage
- "Facility B2": £19,000,000 repayable in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage
- Revolving credit facility: £3,000,000 which remains undrawn at the time of signing the financial statements, and is available until April 2019. Interest is charged at LIBOR plus 2.40% - 3.75% depending on the acquired group's leverage

In order to manage exposure to fluctuating interest rates, two interest rate swaps have been entered into. The first swap had an initial notional value of £37,500,000 at July 2013 which amortises to £29,437,500 at December 2018 with a fixed payable interest rate of 1.2375%. The second interest rate swap was entered into effective from 30 June 2014. The swap has an initial notional value of £18,750,000 at June 2014 which amortises to £14,756,250 at December 2018 with a fixed interest rate of 2.015%.

The directors of FSHC Group Holdings Limited have prepared trading and cash flow forecasts for FSHC Group Holdings Limited and its subsidiary undertakings to June 2016 which, after adjustment for sensitivity analysis to incorporate the impact of reasonably foreseeable changes in trading and cash flow performance, and taking into the group's resources, show that it has sufficient funding and covenant headroom within its current financing arrangements.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies *(continued)*

Group going concern (continued)

On this basis the directors have a reasonable expectation that the company, together with its subsidiary undertakings, have adequate resources to continue in operational existence for the foreseeable future. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2013. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. Of the loss for the financial period, a profit of £37,637,000 (*2012: £15,956,000*) is dealt with in the stand alone accounts of FSHC Group Holdings Limited.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

- Freehold buildings – straight line basis over 45 years
- Leasehold improvements – shorter of useful economic life and term of lease
- Equipment and fixtures – straight line basis over 3 - 5 years
- Motor vehicles – straight line basis over 4 years

No depreciation is provided on freehold land or buildings under construction.

Direct costs incurred in enabling a care facility to become registered are capitalised together with, where appropriate, finance costs associated with the period of construction, and are included in the cost of the facility.

Investments

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

Investment properties

Investment properties represent freehold properties which are leased outside the group. Investment properties are revalued annually to market value on an investment basis subject to the various leases. The aggregate valuation surplus or deficit is transferred to the revaluation reserve, whilst any permanent diminution in value is charged to the profit and loss account. Under the terms of the leases, properties are maintained to a high standard by tenants.

No depreciation is provided in respect of freehold investment properties. This treatment is a departure from the requirements of the Companies (Guernsey) Law 2008 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

Leases

Operating lease rentals are charged to the profit and loss account on a systematic and rational basis over the period of the lease.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies *(continued)*

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. Positive goodwill is amortised by equal annual instalments over its estimated useful economic life. The directors' estimate of the useful economic life is considered on an individual basis.

Negative goodwill is similarly included on the balance sheet and is credited to the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale. Negative goodwill is being written back on a straight line basis over a period of 20 years.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of tangible fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax. All turnover arises from operations in the United Kingdom, Isle of Man and Jersey, and is attributable to fees for the provision of healthcare and property leasing. Rents are credited gross in the period to which they relate.

Exceptional items

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gains or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

Post-retirement benefits

The group operates defined contribution pension schemes as set out in note 24. The assets of the scheme are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Share based payments

The fair value of shares granted is recognised as an employee expense, after deducting the amount the employees paid for their, with a corresponding increase in equity. The difference between the fair value at the grant date and the amount paid for the shares is spread over the period during which the employees become unconditionally entitled to those shares.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and where it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflect risks specific to the group.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies *(continued)*

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange effective at the balance sheet date. Transactions in foreign currencies are translated into sterling at the average rate for the period.

Monetary assets and liabilities of subsidiaries in foreign currencies are translated at the rate of exchange effective at the balance sheet date and non-monetary assets and liabilities at the historical rate. Exchange differences are taken to the profit and loss account as they arise.

Financial liabilities and borrowings

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Classification of financial instruments issued by the company

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

i) They include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

ii) Where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within equity

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other related parties which are subsidiaries of its ultimate parent, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

Related party transactions

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities that form part of this group.

Notes *(continued)*
(forming part of the financial statements)

2 Segmental information

	Year ended 31 December 2013		Period ended 31 December 2012	
	Turnover	**Result**	Turnover	Result
	£000	**£000**	£000	£000
Operation of care homes and specialised services	**732,272**	**53,424**	328,018	28,443
Property leasing	**3,933**	**2,384**	1,378	1,182
Group turnover/operating profit after exceptional activities	**736,205**	**55,808**	329,396	29,625
Net interest payable and similar charges		**(62,758)**		(30,383)
Loss before taxation		**(6,950)**		(758)

All activities arose in the United Kingdom, the Isle of Man and Jersey and relate to continuing operations.

The principal net operating assets utilised in the property leasing business are those properties identified as investment properties.

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	Year ended 31 December 2013	Period ended 31 December 2012
	£000	£000
Depreciation of tangible fixed assets	**36,377**	15,649
Amortisation of capital grants	**(451)**	(138)
Amortisation of negative goodwill	**(2,232)**	(1,007)
Amortisation of positive goodwill	**115**	-
Amounts receivable by the auditors and their associates in respect of:		
- audit of these financial statements	**12**	10
- audit of subsidiaries pursuant to legislation	**320**	314
- other services relating to taxation	**190**	300
- other services	**73**	325
Operating lease rentals		
- buildings	**52,806**	22,940
- motor vehicles	**181**	303
- equipment and fixtures	**39**	18

4 Exceptional items

The operating profit during the year includes exceptional costs of £9.5m (*2012: £1.9m*). Within this total are costs of £2.2m related to the group's strategic segmentation, procurement efficiency project costs of £2.0m, £2.6m related to certain of the group's onerous leasehold properties and £1.7m relating to closed homes and redundancy costs.

The operating profit during the previous period includes exceptional costs of £1.9m. Within this total is £1.8m related to post-acquisition project work consisting of procurement efficiency, facilities management and estates review and £1.0m relating to closed homes and redundancy costs net of a £2.4m provision release.

Notes *(continued)*
(forming part of the financial statements)

5 Staff numbers and costs

The average monthly number of persons employed by the group (including directors), during the period, including both full and part time staff, analysed by category was as follows:

	Year ended 31 December 2013	Period ended 31 December 2012
	No.	No.
Healthcare facilities	**31,245**	29,966
Administration	**1,633**	1,505
	32,878	31,471

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2013	Period ended 31 December 2012
	£000	£000
Wages and salaries	**420,833**	190,081
Social security costs	**27,048**	12,593
Pension costs	**1,128**	574
	449,009	203,248

The company had no employees during the year or prior period.

From 12 July 2012, certain employees have owned shares in Elli Management Limited, a shareholder of the company. No share based payment charge arose on the issue of shares in Elli Management Limited as the acquisition price paid for the shares was deemed to be equivalent to, or more than, their unrestricted market value.

6 Remuneration of directors

	Year ended 31 December 2013	Period ended 31 December 2012
	£000	£000
Amounts paid to third parties in respect of directors' services	**93**	54

In addition, during the year fees of £15,000 (*2012: £24,000*) were paid to State Street Global Advisors for administration and secretarial services.

Notes *(continued)*
(forming part of the financial statements)

7 Net interest payable and similar charges

	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Interest payable:		
On debt repayable after more than one year	**54,368**	26,291
Amortisation of debt issue costs	**7,232**	3,337
Other finance costs	**280**	351
Unwinding of discounts on provisions	**937**	430
Total interest payable and finance charges	**62,817**	30,409
Bank interest receivable	**(59)**	(26)
Total interest receivable	**(59)**	(26)
Net interest payable and similar charges	**62,758**	30,383

8 Taxation

	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Analysis of tax charge in the period:		
UK corporation tax		
Release of provision	**(398)**	(3,440)
UK income tax		
Current tax on loss for the period	**1,065**	308
Foreign tax		
Current tax on income for the period	**63**	64
Total current tax	**730**	(3,068)
Deferred tax		
Origination of timing differences	**640**	(97)
Tax on loss on ordinary activities	**1,370**	(3,165)

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the year by £1,065,000 (*2012: £308,000*)

Notes *(continued)*
(forming part of the financial statements)

8 Taxation *(continued)*

Factors affecting the tax charge/(credit):

The current tax charge for the period is higher (*2012: lower*) than the average standard rate of corporation tax in the UK at 23.25% (*2012: 24.5%*). The differences are explained below.

	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Current tax reconciliation:		
Loss on ordinary activities before taxation	**(6,950)**	(758)
Tax on loss at current rate of 23.25% (*2012: 24.5%*)	**(1,616)**	(186)
Effects of:		
Expenses not deductible for tax purposes/(income not taxable)	**4,324**	(2,361)
Depreciation in excess of capital allowances	**5,578**	2,542
Tax losses utilised	**(1,480)**	(787)
Difference in overseas tax rate	**(5,578)**	1,131
Overseas tax liability	**63**	64
Non-taxable income	**(163)**	(31)
Provisions release	**(398)**	(3,440)
Tax on loss on ordinary activities	**730**	(3,068)

Factors that may affect future current and total tax charge:

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability at 31 December 2013 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes *(continued)*
(forming part of the financial statements)

9 Intangible fixed assets

	Negative goodwill £000	Positive goodwill £000	Total £000
Cost			
At beginning of year	(43,943)	-	(43,943)
On acquisition (see note 17)	-	3,240	3,240
At end of year	**(43,943)**	**3,240**	**(40,703)**
Amortisation			
At beginning of year	1,007	-	1,007
Amortisation for the year	2,232	(115)	2,117
At end of year	**3,239**	**(115)**	**3,124**
Net book value			
At 31 December 2013	**(40,704)**	**3,125**	**(37,579)**
At 31 December 2012	(42,936)	-	(42,936)

On 12 July 2012 FSHC Group Holdings Limited, via a direct subsidiary, acquired FSHC (Jersey) Holdings Limited and its subsidiary undertakings. Negative goodwill of £43.9m arose on this transaction and is being amortised over 20 years.

On 11 April 2013 FSHC Group Holdings Limited, via an indirect subsidiary, acquired Optimum Care Limited and Optimum Leaseco Limited and their subsidiary undertakings. Goodwill of £3.2m arose on this transaction (note 17) and is being amortised over 20 years.

Notes *(continued)*
(forming part of the financial statements)

10 Tangible fixed assets

	Land and buildings £000	Buildings under construction £000	Equipment and fixtures £000	Motor Vehicles £000	Total £000
Cost					
At beginning of year	**788,952**	8,625	82,276	3,916	883,769
On acquisition	**81,412**	-	3,681	7	85,100
Additions	**19,401**	3,192	27,046	1,003	50,642
Transfers	**10,676**	(10,970)	294	-	-
Disposals	**(3,823)**	-	(1,862)	(280)	(5,965)
At end of year	**896,618**	**847**	**111,435**	**4,646**	**1,013,546**
Depreciation					
At beginning of year	**3,085**	-	11,904	610	15,599
Charge for the year	**7,766**	-	27,181	1,430	36,377
Disposals	**(2,994)**	-	(875)	(249)	(4,118)
At end of year	**7,857**	**-**	**38,210**	**1,791**	**47,858**
Net book value					
At 31 December 2013	**888,761**	**847**	**73,224**	**2,855**	**965,688**
At 31 December 2012	**785,867**	8,625	70,372	3,306	868,170

The valuation of the group's existing properties (including investment properties below) was carried out by an external valuer on an individual property basis for balance sheet purposes in February 2012. The valuation of the acquired properties was carried out by an external valuer on an individual property basis for balance sheet purposes in March 2013. At the year end, the directors reviewed the property portfolio in line with the requirements of FRS 11: "Impairment of fixed assets and goodwill" and were satisfied that the value of the property was fairly stated.

11 Investment properties

	2013 £000
At beginning and end of year	**29,780**

Notes *(continued)*
(forming part of the financial statements)

12 Fixed asset investments

	2013 £000
The company's investment in its direct subsidiaries is as follows:	
At the beginning of the year	126,368
Acquisitions	14,311
At the end of the year	**140,679**

A list of the company's principal subsidiary undertakings at 31 December 2013 is provided below. All of the companies are wholly owned and are indirect subsidiaries of the company (except where indicated). The following companies are incorporated in and operate in the United Kingdom:

Company	Nature of business
Four Seasons Health Care Limited	Holding company
Tamaris Healthcare (England) Limited	Operator of care homes
Four Seasons Health Care (England) Limited	Operator of care homes
Tamuist Care Limited	Operator of care homes
Four Seasons Homes No.4 Limited	Operator of care homes
Four Seasons Health Care (Northern Ireland) Limited	Operator of care homes
Four Seasons (No.10) Limited	Operator of care homes
Four Seasons (No.12) Limited	Operator of care homes
Four Seasons Health Care Properties (Frenchay) Limited	Operator of care homes
Four Seasons Health Care (Scotland) Limited	Operator of care homes
Mericourt Limited*	Operator of care homes
FSHC Properties (BIR) Limited	Property holding company
FSHC (SP) Limited	Property holding company
FSHC Properties (CH2) Limited	Property holding company
Four Seasons (CB) Limited	Holding company
Four Seasons (PC) Limited #	Holding company
Four Seasons (MW) Limited	Holding company
Optimum Care Limited	Holding company

The following companies are incorporated in Jersey, Channel Islands:

Company	Nature of business
PHF Securities No.1 Limited	Property holding company
PHF Securities No.2 Limited	Property holding company
PHF (CHP) Limited	Property holding company
Rhyme (Jersey) Limited*	Holding company
Principal Healthcare Finance Limited	Holding company

*Holdings in these companies consist of ordinary and preference shares. Holdings in all other companies consist of ordinary shares only.
Direct subsidiary

Notes *(continued)*
(forming part of the financial statements)

12 Fixed asset investments *(continued)*

The following companies are incorporated in Guernsey, Channel Islands:

Company	Nature of business
Elli Investments Limited	Holding company
Elli Acquisitions Limited	Holding company
Elli Finance II Limited #	Holding company

The following company is incorporated in the Cayman Islands:

Company	Nature of business
Fino Seniorco Limited	Holding company

13 Sale of subsidiary undertakings

On 28 January 2013 the group sold its 100% interest in the ordinary share capital of Duncare Limited and Forebank Limited. The loss of Duncare Limited up to the date of disposal was £0.8m, and for its last financial year was £1.5m. The loss of Forebank Limited up to the date of disposal was £0.2m, and for its last financial year was £0.1m.

At the date of disposal, the aggregated net liabilities of the two companies were £37,000.

14 Debtors

	Group 2013 £000	**Company 2013 £000**	Group 2012 £000	Company 2012 £000
Trade debtors	**38,707**	**-**	42,460	-
Amounts owed by subsidiary undertakings	**-**	**297,806**	-	234,973
Corporation tax	**533**	**-**	-	-
Deferred tax asset	**84**	**-**	-	-
Prepayments, other debtors and accrued income	**26,248**	**640**	22,503	-
	65,572	**298,446**	64,963	234,973

All of the group's debtors are due within one year. The company's debtor balances are due in more than one year.

Notes *(continued)*
(forming part of the financial statements)

15 Creditors: amounts falling due within one year

	Group 2013 £000	**Company 2013 £000**	Group 2012 £000	Company 2012 £000
Trade creditors	**14,181**	-	14,090	-
Corporation tax	-	-	1,714	-
Other taxation and social security	**7,332**	-	7,193	-
Other creditors	**46,112**	-	36,822	-
Amounts owed to related undertakings	-	-	-	-
Accruals and deferred income	**31,186**	**652**	28,943	5
Accrued interest and finance costs	**2,164**	-	2,279	-
Bank loans	**1,000**	-	-	-
	101,975	**652**	91,041	5

Notes *(continued)*
(forming part of the financial statements)

16 Creditors: amounts falling due after more than one year

	Group 2013 £000	**Company 2013 £000**	Group 2012 £000	Company 2012 £000
High yield bonds	**525,000**	-	525,000	-
Bank loans	**48,500**	-	-	-
Debt issue costs	**(33,396)**	-	(39,151)	-
High yield bonds and bank loans net of debt issue costs	**540,104**	-	485,849	-
Revolving credit facility	**15,000**	-	-	-
Amounts owed to parent undertakings	**44,300**	**44,300**	13,409	13,409
	599,404	**44,300**	499,258	13,409

The amount due to parent undertakings relates to dividends on the preference shares.

Credit facilities

The high yield bonds consist of:

- £350,000,000 of senior secured notes accruing interest at a fixed rate of 8.75%. At the year end, the interest accrued was £1,175,000 (*2012: £1,259,000*) all of which was due within one year. The notes are due to be repaid in 2019.
- £175,000,000 of senior notes accruing interest at a fixed rate of 12.25%. At the year end, the interest accrued was £822,000 (*2012: £881,000*) all of which was due within one year. The notes are due to be repaid in 2020.

The senior secured notes are secured on the trade and assets of certain subsidiary undertakings.

The bank loans at the year end consist of:

- "Facility A": £11,500,000 with repayment instalments every six months increasing from £500,000 in September 2013 to £1,250,000 in September 2015. The balance is due for repayment in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage
- "Facility B": £38,000,000 payable in April 2019. Interest is charged at LIBOR plus 2.50% - 3.85% depending on the acquired group's leverage

The borrowings are secured by means of a composite guarantee and debenture generating a fixed and floating charge on the acquired group's properties and assets, and are repayable in full on either a sale, change of control or listing of the acquired group.

Details of changes in the bank loans since the year end are set out in note 1.

Notes *(continued)*
(forming part of the financial statements)

16 Creditors: amounts falling due after more than one year

Revolving credit facilities

The group has two revolving credit facilities. The first provides up to £40,000,000 on a committed basis and allows for borrowings of up to a further £35,000,000 in certain circumstances. The interest rate on cash advances under this revolving credit facility is the aggregate of the margin (4% per annum), LIBOR and a mandatory cost (if any), with a fee payable for any undrawn amounts. At the year end the accrued interest was £149,000 (*2012: £nil*).

In December 2014, the group reached an agreement with its lenders in respect of its £40,000,000 revolving credit facility (RCF). The RCF was converted to a £40,000,000 term loan on 15 January 2015 on which interest is charged at LIBOR + 6%. The loan is due to be repaid in December 2017.

The second facility provides up to £3,000,000 which remains undrawn at the time of signing the financial statements, and is available until April 2019. Interest is charged at LIBOR plus 2.40% - 3.75% depending on the acquired group's leverage.

Maturity of credit facilities

At the year end the maturity profile of the group's credit facilities was as follows:

	Group 2013 £000	Group 2012 £000
In less than 1 year	**1,000**	-
In 2 to 5 years	**24,250**	-
In more than 5 years	**564,250**	525,000
	589,500	525,000

Notes *(continued)*

(forming part of the financial statements)

16 Creditors: amounts falling due after more than one year *(continued)*

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities, excluding balances with parent and related undertakings, as at 31 December 2013:

	Book value 2013 £000	**Fair value 2013 £000**	Book value 2012 £000	Fair value 2012 £000
Primary financial instruments held or issued to finance the group's operations:				
Financial assets: cash	**36,653**	**36,653**	27,067	27,067
Financial liabilities:				
Bank loans	**49,500**	**49,500**	-	-
8.75% senior secured notes	**350,000**	**388,934**	350,000	379,575
12.25% senior notes	**175,000**	**195,078**	175,000	178,150

The fair values have been calculated by reference to the prices available as at 31 December 2013 for the senior secured notes and 12 December 2013 for the senior notes. Please refer to page 18 for details of the principal financial risks facing the group.

17 Acquisitions

On 20 February 2013 the group acquired the trade and operating assets of four homes from Mimosa Healthcare together with the related freehold properties. The businesses of the four care homes were acquired for £4. The properties were acquired for £9.75m including £2.75m of deferred contingent consideration. £2.0m of the deferred contingent consideration was paid in the first quarter of 2014. Acquisition costs of £0.5m were capitalised as part of the property acquisition. No goodwill arose on the acquisition.

Notes *(continued)*
(forming part of the financial statements)

17 Acquisitions *(continued)*

On 11 April 2013 the entire share capital of Optimum Care Limited and Optimum Leaseco Limited was acquired by Four Seasons (MW) Limited, an indirect subsidiary undertaking of FSHC Group Holdings Limited, for consideration of £36,717,000. This transaction has been accounted for as an acquisition.

The resulting goodwill for each of these acquisitions has been capitalised and is to be amortised to the profit and loss account over its useful economic life, which based on a review of the factors affecting its durability, the Directors believe to be 20 years.

The following table sets out the aggregated book values of the identifiable assets and liabilities acquired and their provisional fair value to the group.

	Book value £000	Fair value adjustment - revaluation £000	Alignment of accounting policy £000	Fair value £000
Fixed assets				
Tangible fixed assets	58,028	27,072	-	**85,100**
Current assets				
Stock	26	-	(26)	-
Debtors	4,029	(406)	-	**3,623**
Deferred tax asset	762	-	-	**762**
Cash at bank and in hand	5,534	-	-	**5,534**
Total assets	**68,379**	**26,666**	**(26)**	**95,019**
Liabilities				
Creditors	(9,120)	401	-	**(8,719)**
Short term borrowings and accrued interest	(53,130)	307	-	**(52,823)**
Total liabilities	**(62,250)**	**708**	-	**(61,542)**
Net assets				**33,477**
Goodwill				**3,240**
Purchase consideration and costs of acquisition				**36,717**

Net cash outflow in respect of the acquisition comprised:

	£000
Cash consideration	(36,080)
Cash at bank and in hand acquired	5,534
Net cash outflow	**(30,546)**

Notes *(continued)*
(forming part of the financial statements)

17 Acquisitions *(continued)*

Cash consideration of £36,080,000 represents the total purchase consideration and costs of acquisition of £36,717,000 net of accrued acquisition costs at the balance sheet date of £637,000.

The book value of assets and liabilities has been taken from the consolidated statutory accounts of Optimum Care Limited and Optimum Leaseco Limited as at 31 March 2013, adjusted for the 10 days trading to 11 April 2013. Preference share capital and accrued interest previously accounted for as liability has been removed from the acquisition balance sheet as these shares are now owned in full by the group. A provisional fair value adjustment of £27,072,000 was made to increase the book value of tangible assets to market value at 11 April 2013, taking into account an independent property valuation. Provisional fair value adjustments of £406,000 and £401,000 have been made following a review of debtors and creditors at acquisition. A provisional fair value adjustment of £307,000 has been made to short term borrowings and accrued interest representing the difference between book value and the amount settled at acquisition. Stock of £26,000 has been written off to bring the accounting policy in line with the wider group.

The results of the two acquired undertakings from the beginning of their financial year to the date of acquisition and the preceding financial year were as follows:

	Period 1 April 2013 to 11 April 2013 £000	Year ended 31 March 2013 £000
Turnover	1,094	34,317
Operating profit	145	2,628
Loss on ordinary activities before tax	(103)	(3,692)
Loss for the financial period/year	(103)	(5,355)

There were no other gains or losses other than those included in the profit and loss accounts.

18 Provisions for liabilities and charges

Group	Deferred taxation £000	Dilapidations provisions £000	Provision for onerous contracts £000	**Total £000**
At beginning of year	4,921	165	17,281	**22,367**
(Credited)/charged to the profit and loss account	(36)	(165)	965	**764**
Unwinding of discount	-	-	937	**937**
At end of year	**4,885**	-	**19,183**	**24,068**

	2013 £000	2012 £000
The elements of deferred taxation are as follows:		
Difference between accumulated depreciation, amortisation and capital allowances	**4,885**	4,921

The group has unrecognised deferred tax assets of £68m arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

The provision for onerous contracts will unwind over the period of the relevant contracts.

Notes *(continued)*
(forming part of the financial statements)

19 Called up share capital

	2013		2012	
	No.	**£000**	No.	£000
A ordinary shares of £1 each	**880,000**	**880**	880,000	880
B ordinary shares of £1 each	**120,000**	**120**	120,000	120
Preference shares of £1 each	**383,000,000**	**383,000**	343,500,000	343,500
	384,000,000	**384,000**	344,500,000	344,500

All shares are allotted, called up and fully paid.

The new shares were allotted during 2013 as follows:

	Quantity	**Aggregate nominal value**	**Consideration received**	
	No.	**£000**	**£000**	**Date of issue**
Preference shares of £1 each	39,500,000	39,500	39,500	9 April 2014

The preference shares confer the right to receive the 8% fixed dividend per annum and rank in priority to the A and B ordinary shares as far as any divided or return of capital is concerned. The rights of the preference shareholders to income or to capital are fixed: in respect of capital they receive the nominal value of the shares plus any amounts equal to any unpaid accrued divided. The A and B ordinary shares would receive the balance of the assets of the company on a return of capital, after the payment of any liabilities. The A and B ordinary shares have no income rights for so long as there are any preference shares in issue. Only the A ordinary shares have voting rights, the holders of which also control the appointment of the directors.

On the basis that redemption of the preference shares and distributions to holders of the preference shares are solely at the discretion of the company, the preference shares have been classified as equity rather than a liability.

20 Reserves

	Share premium account	**Profit and loss account**	**Total**
	£000	**£000**	**£000**
Group			
At beginning of year	880	(11,002)	(10,122)
Retained loss for the financial year	-	(8,320)	(8,320)
Dividends declared on preference shares	-	(30,891)	(30,891)
At end of year	**880**	**(50,213)**	**(49,333)**
Company			
At beginning of year	880	2,547	3,427
Retained profit for the financial year	-	37,637	37,637
Dividends declared on preference shares	-	(30,891)	(30,891)
At end of year	**880**	**9,293**	**10,173**

Included in the group profit and loss account reserve is amortised negative goodwill of £3,239,000 and amortised positive goodwill of £115,000 which arose on the acquisition of subsidiary undertakings.

Notes *(continued)*

(forming part of the financial statements)

21 Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Operating profit	**55,808**	29,625
Depreciation, amortisation and impairment	**33,809**	14,504
Decrease/(increase) in debtors	**3,374**	(7,145)
Increase in creditors	**1,712**	10,582
Net cash inflow from operating activities	**94,703**	47,566

22 Analysis of cash flows

	Year ended 31 December 2013 £000	Period ended 31 December 2012 £000
Returns on investment and servicing of finance		
Interest received	59	26
Interest paid	(56,764)	(24,330)
	(56,705)	**(24,304)**
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(47,782)	(17,664)
Sale of tangible fixed assets	1,843	-
	(45,939)	**(17,664)**
Acquisitions and disposals		
Purchase of subsidiary undertakings	(36,080)	(24,082)
Net cash acquired with subsidiary undertakings	5,534	65,500
	(30,546)	**41,418**
Financing		
Issue of share capital	39,500	345,380
Repayment of acquired debt	(50,791)	(846,023)
New secured loans	50,000	525,000
Repayment of external debt	(500)	-
Utilisation of revolving credit facility	15,000	-
	53,209	**24,357**

Notes *(continued)*
(forming part of the financial statements)

23 Analysis of net debt

	At 31 December 2012 £000	Acquisitions £000	Cash flow £000	Non-cash items £000	**At 31 December 2013 £000**
Cash at bank and in hand	27,067	5,534	4,052	-	**36,653**
High yield bonds due in more than one year	(485,849)	-	-	(7,411)	**(493,260)**
Bank loans due in less than one year	-	(52,823)	52,323	(500)	**(1,000)**
Bank loans due in more than one year	-	-	(47,086)	242	**(46,844)**
Revolving credit facility	-	-	(15,000)	-	**(15,000)**
	(458,782)	**(47,289)**	**(5,711)**	**(7,669)**	**(519,451)**

Non-cash items relate primarily to the amortisation of debt issue costs and accrued preference share dividends on amounts due to parent undertakings.

24 Pension schemes

The group operates a number of pension schemes for its employees. All schemes are defined contribution schemes. The assets of all schemes are held in separate funds administered by the Trustees and are independent of the group's finances.

The total cost charged to the profit and loss account during the year was £1,128,000 (*2012: £574,000*). At the year end £366,000 (*2012: £145,000*) of pension contributions were outstanding.

25 Commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

Group	**2013 £000**	2012 £000
Contracted	**8,961**	6,900

Annual commitments under non-cancellable operating leases are as follows:

Group	**2013 £000**	2012 £000
Land and buildings – expiring in more than five years	**57,844**	54,278
Equipment, fixtures and motor vehicles – expiring in less than one year	**40**	190
Equipment, fixtures and motor vehicles – expiring in between two and five years	**3**	-
	57,887	**54,468**

The company had no capital or operating lease commitments at 31 December 2013 (*2012: £nil*).

Notes *(continued)*
(forming part of the financial statements)

26 Related parties and related party transactions

Terra Firma Investments (GP) 3 Limited, acting as general partner of Terra Firma Capital Partners III LP, has the ability to exercise a controlling influence over the company through the holding of shares in a parent of the company. The directors therefore consider Terra Firma Investments (GP) 3 Limited to be a related party. As the company has the ability to exercise a controlling influence over its subsidiary undertakings, which are members of the group, the directors consider these subsidiary undertakings to be related parties.

The directors have taken advantage of the exemption contained in Financial Reporting Standard 8 not to disclose related party transactions with other wholly owned group companies.

27 Ultimate parent undertaking

The company's immediate parent undertaking is Elli Capital Limited, a company incorporated in Guernsey. The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.

28 Post balance sheet event

On 20 March 2014, the group acquired, via an indirect subsidiary, seven homes from Majesticare. The acquisition was funded by a new bank loan, separate from the group's existing debt facilities, together with new equity from Terra Firma.

In the 31 December 2014 consolidated financial statements of Elli Investments Limited (an indirect subsidiary), an impairment of £80.8 million has been recognised against certain fixed assets of the group, and will therefore be recognised in the 2014 financial statements of FSHC Group Holdings Limited.