Leeland Limited

Directors' report and financial statements

Registered number 3215790

31 December 2008

Contents

Directors' report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2008.

Principal activity

The principal activity of the company is the operation of care homes for elderly and disabled people.

Business and financial review

Details of key performance indicators including available beds, occupancy levels and average fee rates of the Fino Propco Holdco group, of which the company is a member, can be found in the financial statements of Fino Propco Holdco Limited. Copies of these financial statements can be obtained from the address given in note 14.

Principal risks and uncertainties

There is a risk management program in place which is designed to identify, manage and mitigate business risk. This program is overseen by the group's Chief Executive Officer. Further details can be found in the financial statements of Fino Propco Holdco Limited.

Going concern

The directors consider that whilst there can be no certainty in relation to the matters referred to and disclosed more fully in note 1, at the date of approving these financial statements, it is appropriate to prepare these accounts on a going concern basis.

Results and dividends

The results for the year are shown in the profit and loss account on page 6. The directors do not recommend the payment of an equity dividend *(2007: £nil)*.

Directors

The directors during the year under review were:
P Calveley (appointed 24 June 2008)
N J Mitchell
D J Kay

Employment policies

The company encourage staff involvement through a process of communication and participation. This involves the provision of information through normal management channels and the group newsletter 'For All Seasons' in which employees have also been encouraged to present their suggestions and views.

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

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

Environmental policy

The group has an environmental policy statement which includes policies for procurement, transport and estate management. Further details can be found in the financial statements of Four Seasons Health Care Limited.

Details of ultimate ownership

The ultimate parent undertaking is Delta Commercial Property LP, an Isle of Man limited partnership.

Directors' report *(continued)*

Disclosure of information to auditors

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 audit information of which the company's auditors are 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 company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

D J Kay
Secretary

Emerson Court
Alderley Road
Wilmslow
Cheshire
SK9 1NX

24/10/ 2009

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Leeland Limited

We have audited the financial statements of Leeland Limited for the year ended 31 December 2008 which comprise the Profit and loss account, the Balance sheet, the Reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report to the members of Leeland Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company, together with its parent and fellow subsidiary undertakings (the Group), is party to a number of financing agreements under which the Group is currently in default. On 28 September 2009 the parent and a fellow subsidiary undertaking and all current lenders signed a legally binding framework for a restructuring of the Group which includes certain conditions precedent. The restructuring will leave approximately £790 million of debt in the Group which expires in September 2010. These conditions precedent and the debt expiry, along with the other matters set out in note 1 to the financial statements, indicate the existence of material uncertainties which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30/10/2009

Profit and loss account
for the year ended 31 December 2008

	Note	**2008** **£000**	2007 £000
Turnover	*2*	**1,273**	1,314
Cost of sales		**(1,172)**	(1,115)
Operating profit		**101**	199
Interest receivable		**2**	2
Profit on ordinary activities before taxation	*3*	**103**	201
Tax on profit on ordinary activities	*6*	**-**	4
Retained profit for the financial year	*11*	**103**	205

The company has no recognised gains or losses in the current or prior year other than those reported above.

All amounts relate to continuing operations.

Balance sheet
at 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	7		**166**		157
Current assets					
Debtors	8	**2,165**		1,976	
Cash		**2**		-	
		2,167		1,976	
Creditors: amounts falling due within one year	9	**(1,133)**		(1,036)	
Net current assets			**1,034**		940
Total assets less current liabilities			**1,200**		1,097
Net assets			**1,200**		1,097
Capital and reserves					
Called up share capital	10		**-**		-
Profit and loss account	11		**1,200**		1,097
Shareholders' funds			**1,200**		1,097

These financial statements were approved by the board of directors on 29/10/2009 and were signed on its behalf by:

N J Mitchell
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2008

	2008 £000	2007 £000
Opening shareholders' funds	**1,097**	892
Profit for the financial year	**103**	205
Closing shareholders' funds	**1,200**	1,097

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, under the historical cost accounting rules and within the requirements of the Companies Act 1985.

Going concern

The company, together with its parent Fino Propco Holdco Limited ("Propco Holdco") and fellow subsidiary undertakings of Propco Holdco (collectively the "Group"), is party to a number of financing agreements which are currently in default. Under the terms of the financing agreements the company has guaranteed the performance of the Group's obligations and the settlement of its liabilities as defined in those financing agreements.

On 28 September 2009 the directors of Propco Holdco and Fino Seniorco Limited ("Seniorco"), a fellow subsidiary, and all current lenders signed a legally binding framework (the "Lock Up Agreement") for a restructuring of the Group. The Lock Up Agreement requires, amongst others, Propco Holdco, Seniorco and the lenders, subject to certain conditions precedent, to implement a restructuring of the Group as set out in the Lock Up Agreement, which will involve the exchange of approximately £950 million of the existing debt for an equity investment in the Group's new holding company. The conditions precedent include, amongst others, any competition or regulatory approvals in the event that such approvals are considered necessary. The directors of Seniorco have informed the directors of the company that they do not consider any of the conditions to be a significant obstacle to the completion of the restructuring by the current long stop date of 30 November 2009.

This restructuring will place the Group on a more stable platform from which the directors of Seniorco have informed the directors of the company it may be possible to negotiate an extension to the maturity date of the remaining c.£790 million of debt beyond September 2010 or procure its refinancing by that date. Should neither an extension of the maturity date nor a refinancing be possible by September 2010, the directors of Seniorco have informed the directors of the company that they would consider, at the request of the Servicer or Special Servicer of the debt, and in conjunction with the directors of the new holding company, a sale of the Group so as to maximise the repayment of debt owed to the Group's lenders and to ensure that unsecured creditors of the Group are paid in full. The simplified debt structure at that time should reinforce the stable platform from which to conduct a sale. The directors believe that any uncertainties around the 2010 refinancing are unlikely to have any material impact on the trade of the operating subsidiaries of the Group.

Notwithstanding the restructuring process, the Group has continued to trade satisfactorily and continues to have adequate working capital for its operational needs. The directors therefore believe it appropriate to prepare the financial statements on a going concern basis, however, they acknowledge that the fulfilment of the above conditions precedent and the completion of the restructuring, and the refinancing or extension of the debt maturing in September 2010, remain uncertain. In accordance with ISA 570 the directors are required to state that these material uncertainties may cast significant doubt on the company's ability to continue as a going concern and therefore the company may be unable to continue to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, Paragraph 3(c) and as the company is a wholly owned subsidiary of Fino Propco Holdco Limited have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash flow statement

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as at 31 December 2008 it was a wholly owned subsidiary undertaking of Fino Propco Holdco Limited, and its cash flows are included within the consolidated cash flow statement of that company.

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 lives as follows:

Short leasehold interests	-	over the period of the lease
Fixtures and fittings	-	15-20% per annum

Leases

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

Deferred taxation

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.

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.

2 Turnover

Turnover represents the amounts net of VAT derived from the provision of healthcare services to customers and all arose in the United Kingdom.

3 Profit on ordinary activities before tax

	2008	2007
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Operating lease rentals for land and buildings	**217**	208
Depreciation - owned assets	**37**	36

The auditors' remuneration of £1,000 (*2007:£1,000*) for audit services was borne by another group undertaking. Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes *(continued)*

4 Directors' remuneration

None of the directors received any remuneration from the company during the current or prior year.

5 Staff numbers and costs

The average number of persons employed by the company during the year, including both full and part time staff, analysed by category, was as follows:

	Number of employees	
	2008	2007
Care and domestic	**69**	69
Administration	**4**	4
	73	73

The aggregate payroll costs of these persons was as follows:

	2008	2007
	£000	£000
Wages and salaries	**647**	630
Social security costs	**40**	38
	687	668

Notes *(continued)*

6 Taxation

	2008 **£000**	2007 £000
UK corporation tax		
Current tax on income for the year	-	
Deferred tax (see note 10)		
Origination/reversal of timing differences	-	(4)
Tax on profit on ordinary activities	-	(4)

Factors affecting current tax charge

The current tax charge for the year is lower (*2007: lower*) than the standard rate of corporation tax in the UK (28.5%, *2007: 30%*) due principally to the availability of current year losses in other group companies. The differences are explained below.

	2008 **£000**	2007 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**103**	201
Current tax at 28.5% *(2007: 30%)*	**29**	60
Effects of:		
Permanent differences	**2**	2
Depreciation in excess of capital allowances	**9**	9
Group relief for nil consideration	**(40)**	(71)
Total current tax charge	-	-

As from 1 April 2008, the UK Corporation Tax rate changed from 30% to 28%. The current rate applicable to the group for the year ended 31 December 2008 was 28.5%. Deferred tax relating to timing differences that reverse after 1 April 2008 have been measured at a tax rate of 28% as these are the rates that will apply on reversal.

Notes *(continued)*

7 Tangible fixed assets

	Short leasehold interests £000	Fixtures and fittings £000	Total £000
Cost			
At beginning of year	327	314	641
Additions	-	46	46
Reclassification	(5)	5	-
At end of year	322	365	687
Depreciation			
At beginning of year	319	165	484
Charge for the year	-	37	37
At end of year	319	202	521
Net book value			
At 31 December 2008	**3**	**163**	**166**
At 31 December 2007	8	149	157

8 Debtors

	2008 £000	2007 £000
Trade debtors	**18**	4
Amounts owed by group undertakings	**2,104**	1,931
Other debtors	**43**	41
	2,165	1,976

Other debtors includes £38,000 *(2007: 36,000)* which relates to rent security deposits that are not expected to be recovered within the next year.

Notes (continued)

9 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	**16**	22
Amounts owed to other group undertakings	**991**	880
Other taxes and social security	**9**	17
Accruals and deferred income	**68**	67
Other creditors	**49**	50
	1,133	1,036

10 Share capital

	2008 No	2008 £	2007 No	2007 £
Authorised				
Ordinary shares of £1 each	**100**	**100**	100	100
Issued and fully paid				
Ordinary shares of £1 each	**2**	**2**	2	2

11 Profit and loss account

	£000
At beginning of year	1,097
Retained profit for the year	103
At end of year	**1,200**

Notes *(continued)*

12 Commitments

	Land and buildings	
	2008	2007
	£000	£000
Operating leases that expire:		
In over five years	**224**	214

13 Contingent liabilities

The company, together with its parent and fellow subsidiary undertakings is party to a number of financing arrangements. The implications of this are explained more fully in note 1.

14 Ultimate parent

The company's immediate parent company is Four Seasons Health Care Group Limited.

The ultimate parent undertaking is Delta Commercial Property LP, an Isle of Man limited partnership.

The largest group in which the results of the company are consolidated is that headed by Fino Propco Holdco Limited. The consolidated financial statements of this company are available to the public and may be obtained from Ogier Corporate Services (Jersey) Limited, Whiteley Chambers, Don Street, St Helier, Jersey, JE4 9WG.