

REGISTERED NUMBER: 01952719 (England and Wales)

HC-One Properties 5 Limited

Directors' Report and

Audited Financial Statements for the Year Ended 30th September 2023



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HC-One Properties 5 Limited

**Company Information
for the Year Ended 30th September 2023**

DIRECTORS:

Mr J W Tugendhat
Mr D A Smith

REGISTERED OFFICE:

Southgate House
Archer Street
Darlington
County Durham
DL3 6AH

REGISTERED NUMBER:

01952719 (England and Wales)

INDEPENDENT AUDITORS :

KPMG LLP
Quayside House
110 Quayside
Newcastle-upon-Tyne
NE1 3DX

BANKERS:

Bank of Scotland Corporate
St James's Gate
14-16 Cockspur Street
London
SW1Y 5BL

HC-One Properties 5 Limited

Directors' Report for the Year Ended 30th September 2023

The directors present their report with the financial statements of the Company for the year ended 30th September 2023.

PRINCIPAL ACTIVITIES

The principal activities of the Company in the year under review were those of property holding and rental.

REVIEW OF BUSINESS

A Group restructure had taken place within the year-ended 30th September 2021. As at 31 August 2021, the trading activity of ("the company") transferred to HC-One Limited. The principal activity of ("the company") prior to this date was the provision of nursing and residential care services, caring for over 1,000 residents across 30 homes in the UK. After this date, the principal activity changed to that of property holding and rental company.

The company is a subsidiary of HC-One Holdco 3 Limited (the "Group").

For further detail of the group's performance for the year ended 30 September 2023, please refer to the consolidated financial statements for the holding company, HC-One TopCo Limited; these accounts can be found at Companies House.

RESULTS

The Company's profit for the year ended 30 September 2023 amounted to £3,212,000 (2022: profit £2,249,000).

The Company's operating profit for the year ended 30 September 2023 amounted to £2,140,000 (2022: £2,202,000).

As at 30 September 2023 the Company had net assets of £74,210,000 (2022: £77,214,000).

FUTURE DEVELOPMENTS

The Group has established a reputation as a high quality provider of residential and nursing care in the UK. The Group has invested heavily in the portfolio and workforce in order to ensure it offers the best possible environments in which to deliver high quality and kind care. The Group is striving to become the provider of the kindest care in the UK and the first choice care home provider in each community. To do this, the Group will continue to develop relationships with local authority and NHS commissioners with the aim of becoming a genuine and a trusted partner within increasingly integrated and area specific health and social care systems.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1st October 2022 to the date of this report.

Mr J W Tugendhat
Mr D A Smith

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force to the date of this report.

**Directors' Report
for the Year Ended 30th September 2023**

GOING CONCERN

In assessing the basis of preparation of the financial statements for the year ended 30 September 2023, the Directors use our anticipated future cash flows and undertake a range of sensitivities to identify any plausible situations which could put pressure on our ability to continue as a going concern. In challenging the Directors' assessment in respect of the going concern statements, which were based on anticipated future cash flows agreed by the Board as part of our planning process, the Directors focused on our headroom within our financial covenants and the liquidity available in the Group. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

As at 30 September 2023, our principal facility is a loan of £570.0m, which consisted of £540.0m towards repayment of existing Group indebtedness and a further facility of £30.0m available for draw down to fund working capital and capital expenditure. Financial covenants were tested within the period to 30 September 2023 and there is no amortisation during the term of the loan. Financial covenant testing took place on 30 September 2023, and all covenant tests were met. This loan is a mortgage without which we would pay rent.

On 5 October 2023, HC-One Finco Limited entered a five year £635m Amendment and Restatement Facility Agreement relating to the facility agreement above. Further details can be found in the Contingent liabilities and guarantees note.

The Directors have undertaken a rigorous assessment of going concern and liquidity, taking into account financial forecasts, as well as the potential impact of key uncertainties and sensitivities on our future performance. In making this assessment the Directors have considered our existing debt levels, the committed funding and liquidity positions under our debt covenants, our ability to generate cash from trading activities and our working capital requirements. The Directors have also identified a series of mitigating actions that could be used to preserve cash in the business should the need arise.

The basis of the assessment continues to be the Board-approved business plan. The business plan is prepared annually for the next five-year period and is based on a bottom-up approach to all of our existing operations, potential new operations and administrative functions. As part of the planning process, consideration was given to occupancy growth, fee pricing, labour usage and labour pricing.

The Directors believe that appropriate sensitivities in assessing our ability to continue as a going concern are to model reductions in occupancy growth; lower fee increases; increased labour usage; and increased labour pricing. The Directors believe that a stress test of these sensitivities to assess the headroom available under our debt covenants and available liquidity provides meaningful analysis of our ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach our financial covenants, or exhaust available liquidity, are plausible.

This stress test shows that, even after assuming a reduction in occupancy growth; lower fee increases; increased labour usage; and increased labour pricing, we can still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with our financial covenants.

Consequently, the Directors are confident that we will have sufficient funds to continue to meet our liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**Directors' Report
for the Year Ended 30th September 2023**

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risks

The Company's activities expose it to a number of financial risks, including credit risk and liquidity risk.

Credit Risk

The Company holds no external trade or other receivables, liquid funds or derivative instruments. Therefore, credit risk is not considered applicable.

Liquidity Risk

The Company has continued to maintain liquidity and sufficient working capital for its ongoing operations and future developments.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's activities are exposed to a number of operational risks, which are listed below:

Reputational Risk

Any serious incident relating to the provision of care services could result in negative publicity and increased scrutiny from regulators, residents and families.

In order to mitigate this risk, the Group delivers employee training via a multi award winning mandatory and specialist Learning and Development programme, has independent quality inspectors, carries out a Disclosure and Barring Service check on all care staff and monitors compliance with an industry best electronic system.

Regulatory Risk

The Group's operations are subject to an increasingly high level of regulation and scrutiny by various regulators across the UK. Inspections are largely unannounced and often involve several inspectors per home visit. The failure to meet the national regulations could lead to a service being placed under special measures, being subjected to enforcement notices or possibly forced to close.

To mitigate this risk, the Group has a team of internal inspectors who operate using an intelligence-based internal inspection framework to continually monitor compliance with internal quality measures and external regulations. The internal inspections are shared with home managers and their line managers and progress against subsequent required actions is reviewed by both line management and our inspectors. Quality measures, including Key Clinical Indicators, are monitored on a weekly basis, with management interventions where appropriate. The Group also monitors complaints, incidents and safeguarding concerns, with a robust framework in place to assess, investigate, resolve and learn.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Colleague Capacity and Competency

There is a risk of not recruiting the right leadership and/or not developing the competencies needed in order to manage an organisation of the Group's scale and complexity. There is also a risk to not having the correct resources in place and establishing the level of carer, manager and clinical capacity and competency, for the different levels of care our residents need and/or for which we are commissioned.

Leadership and cultural changes within the business have supported us in securing further talent. Succession planning has been developed for the leadership team and personal development plans are now being established as part of the performance management process. Our overseas nursing programme is a key mitigating tool to bringing in additional nursing skills. We also have a Workforce Plan in place that matches the right people and skills with the levels of care needed in homes. Our Nursing Assistant Programme helps the upskilling of Nursing Assistants, reducing the care burden and workload of the nurses. Monitoring of key clinical indicators gives management the view of acuity and changing care needs, such that changes can be made to the care model as required.

Property Risks

Property risks include the risk of major fire, legionella outbreak, other loss of buildings and major equipment failure. The impact of a major fire could endanger lives of our residents and colleagues. The effect of loss of buildings and/or major equipment failure may result in significant disruption to care service provided.

External fire risk assessments are completed every two years with an internal review carried out in between. This highlights any fire risk concerns, be that physical aspects of the building or elements of operational control. Full compliance is targeted for all statutory pre-planned maintenance activities and this includes fire alarms and gas certification. An extensive programme of colleague training is in place to ensure colleagues are adequately equipped to deal with fire emergencies but also they are aware of things that may result in fire. Legionella testing and compliance programme is in place in all homes.

A significant and comprehensive pre-planned maintenance schedule exists for all major pieces of equipment. Much of this is legally driven and full compliance is the consistent target. The business has various contingencies in place for a variety of major equipment failure.

Changes to Commissioning

Changes to national Adult Social Care funding arrangements, legislation or changes to levels of council/National Health Service funding, in relation to how an individual funds their care, could have a material impact on our business model operations and Group profitability.

The Group has quality processes and arrangements, which allow us to be first choice provider in the communities we serve, to ensure continued demand, regardless of funding and system changes. The Group continues to lobby through national, regional and local Care Associations and partner with professional bodies. The Group monitors and contributes to Government research, working groups and consultation exercises.

Potential future pandemics

The impact of a pandemic, like COVID-19, is demonstrably a major risk for those we care for and for the Group's finances and ability to deliver its long term goals.

We continue to work with the Department for Health and Social Care, enabling us to proactively prepare for such events. The Group also has local NHS partnerships and strong relationships with colleague union representatives. Significant emphasis is placed on cost control and cash flow, due to the financial impact of any home going into outbreak and unable to accept admissions. Furthermore, the Group performs scenario analysis and modelling of forecasts and cash flows for next five financial years.

**Directors' Report
for the Year Ended 30th September 2023**

ENGAGEMENT WITH EMPLOYEES

Disabled employees

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 Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employment consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and the weekly newsletters.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

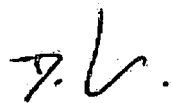
So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

The auditors, KPMG LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

APPROVED BY THE BOARD AND SIGNED ON ITS BEHALF:



Mr D A Smith - Director

29th February 2024

**Directors' Responsibilities Statement
for the Year Ended 30th September 2023**

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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of HC-One Properties 5 Limited ("the Company") for the year ended 30 September 2023 which comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations - ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, and management, and inspection of policy documentation as to HC-One Holdco 3 Limited's high-level policies and procedures to prevent and detect fraud, including the HC-One Holdco 3 Limited's channel for whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and board performance committee minutes.

**Report of the Independent Auditors to the Members of
HC-One Properties 5 Limited**

- Considering remuneration incentive schemes and performance targets for senior management and directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of properties within the group. On this audit we do not believe there is a fraud risk related to revenue recognition because:

- Revenue recognition is non-complex in nature; and

- There is sufficient segregation of duties within the revenue recognition process to mitigate the opportunity for revenue recognition to be fraudulently manipulated.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted unusual postings to revenue, unusual postings to cash and loans, and unusual postings to investment property.

- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and UK Care Standards as defined by the Care Quality Commission, Care and Social Services Inspectorate Wales and Care Inspectorate (Scotland) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, general data protection regulation (GDPR), anti-bribery, employment law, and environmental protection legislation, recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

Report of the Independent Auditors to the Members of HC-One Properties 5 Limited

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**Report of the Independent Auditors to the Members of
HC-One Properties 5 Limited**

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.



Clare Partridge (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Quayside House
110 Quayside
Newcastle-upon-Tyne
NE1 3DX

29th February 2024

HC-One Properties 5 Limited

Statement of Comprehensive Income
for the Year Ended 30th September 2023

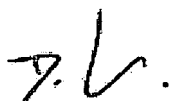
	Notes	2023 £'000	2022 £'000
TURNOVER	4	2,692	2,672
Administrative expenses		(552)	(470)
OPERATING PROFIT		2,140	2,202
Exceptional Costs	6	(215)	97
PROFIT BEFORE TAXATION	7	1,925	2,299
Tax on profit	8	1,287	(50)
PROFIT FOR THE FINANCIAL YEAR		3,212	2,249
OTHER COMPREHENSIVE INCOME			
Property revaluations		(6,216)	-
Income tax relating to other comprehensive income		-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		(6,216)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(3,004)</u>	<u>2,249</u>

The notes on pages 15 to 24 form part of these financial statements

Balance Sheet
30th September 2023

	Notes	2023 £'000	2022 £'000
FIXED ASSETS			
Investment property	10	36,311	42,475
CURRENT ASSETS			
Debtors	11	43,864	41,786
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	(3,312)	(3,314)
NET CURRENT ASSETS		40,552	38,472
TOTAL ASSETS LESS CURRENT LIABILITIES		76,863	80,947
PROVISIONS FOR LIABILITIES	13	(2,653)	(3,733)
NET ASSETS		74,210	77,214
CAPITAL AND RESERVES			
Called up share capital	14	-	-
Revaluation reserve		-	38,075
Other reserves		11	11
Retained earnings		74,199	39,128
SHAREHOLDERS' FUNDS		74,210	77,214

The financial statements were approved by the Board of Directors and authorised for issue on 29th February 2024 and were signed on its behalf by:



Mr D A Smith - Director

HC-One Properties 5 Limited

Statement of Changes in Equity
for the Year Ended 30th September 2023

	Called up share capital £'000	Retained earnings £'000	Revaluation reserve £'000	Other reserves £'000	Total equity £'000
Balance at 1st October 2021	-	36,879	38,075	11	74,965
Total comprehensive income	-	2,249	-	-	2,249
Balance at 30th September 2022	-	39,128	38,075	11	77,214
Realise revaluation reserve	-	31,859	(31,859)	-	-
Total comprehensive income	-	3,212	(6,216)	-	(3,004)
Balance at 30th September 2023	-	74,199	-	11	74,210

The notes on pages 15 to 24 form part of these financial statements

1. **STATUTORY INFORMATION**

HC-One Properties 5 Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. **ACCOUNTING POLICIES**

Basis of preparing the financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets.

The average monthly number of employees (excluding executive directors) was nil (2022: nil).

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of paragraphs 12.26, 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirement of paragraph 33.7.

Related party exemption

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

2. ACCOUNTING POLICIES - continued

Going concern

In assessing the basis of preparation of the financial statements for the year ended 30 September 2023, the Directors use our anticipated future cash flows and undertake a range of sensitivities to identify any plausible situations which could put pressure on our ability to continue as a going concern. In challenging the Directors' assessment in respect of the going concern statements, which were based on anticipated future cash flows agreed by the Board as part of our planning process, the Directors focused on our headroom within our financial covenants and the liquidity available in the Group. The period of assessment is considered to be at least 12 months from the date of approval of these financial statements.

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The basis of the assessment continues to be the Board-approved business plan. The business plan is prepared annually for the next five-year period and is based on a bottom-up approach to all of our existing operations, potential new operations and administrative functions. As part of the planning process, consideration was given to occupancy growth, fee pricing, labour usage and labour pricing.

The Directors believe that appropriate sensitivities in assessing our ability to continue as a going concern are to model reductions in occupancy growth; lower fee increases; increased labour usage; and increased labour pricing. The Directors believe that a stress test of these sensitivities to assess the headroom available under our debt covenants and available liquidity provides meaningful analysis of our ability to continue as a going concern. Based on the headroom available, the Directors are then able to assess whether the reductions required to breach our financial covenants, or exhaust available liquidity, are plausible.

This stress test shows that, even after assuming a reduction in occupancy growth; lower fee increases; increased labour usage; and increased labour pricing, we can still retain sufficient liquidity to meet all liabilities as they fall due and remain compliant with our financial covenants.

Consequently, the Directors are confident that we will have sufficient funds to continue to meet our liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Turnover

Turnover represents rental income (excluding value added tax) and is accounted for on an accrual basis under the terms of the rental agreements.

2. **ACCOUNTING POLICIES - continued**

Investment property

Investment properties for which fair value can be measured reliably without undue costs or effort on an ongoing basis are measured at fair value annually with any change recognised in the profit and loss account. Otherwise they are measured at cost.

No depreciation is provided on investment properties.

Finance costs

Finance costs include interest payable on borrowings calculated using the effective interest method. Interest expenses are recognised in the profit and loss account as they accrue.

Taxation

Current 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 that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing differences and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to non-depreciable property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset. In other cases, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense and income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise that assets and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: (a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and (b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis; or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. **ACCOUNTING POLICIES - continued**

Debtors

Debtors are recognised at cost less any provision for impairment.

Creditors

Trade creditors are recorded initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised and the redemption value is recognised in the profit and loss account over the year of the borrowing using the effective interest rate method.

Other creditors and accruals are measured at the best estimate of the expenditure required to settle the obligation.

Share Capital

Ordinary shares are classified as equity and recorded at the par value of proceeds received, net of direct issue costs.

3. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies and key source of estimation uncertainty

The following are the key sources of estimation uncertainty that the directors have assessed as being applicable to the entity and that have the most significant effect on the amounts recognised in the financial statements. It is deemed that there are no critical accounting judgements.

Revaluation of properties

Determining the fair value of freehold properties requires estimation based upon the market and cash flows of assets. In the year ended 30 September 2023, management sought advice with a valuation specialist to address the risk of estimation uncertainty in revaluing properties. A revaluation of these assets was undertaken in the prior year; and subsequently recognised in the revaluation reserve.

Deferred tax assets and liabilities

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised; in particular judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. Refer to note 13 for further details of deferred tax liabilities recognised.

4. **TURNOVER**

The turnover and profit before taxation are attributable to the principal activities of the Company.

An analysis of turnover by class of business is given below:

	2023 £'000	2022 £'000
Property rental	2,692	2,672
	<u>2,692</u>	<u>2,672</u>

5. **DIRECTORS' EMOLUMENTS**

	2023 £	2022 £
Directors' remuneration	-	-
	<u>-</u>	<u>-</u>

6. **EXCEPTIONAL ITEMS**

	2023 £'000	2022 £'000
Onerous lease provision	207	-
Loss on sale of fixed assets	8	(97)
Total exceptional costs	<u>215</u>	<u>(97)</u>

Onerous lease provision

During the year, the Company incurred an onerous lease provision of £207,000 (2022: £nil).

Loss on disposal of fixed assets

During the year, the Company made a loss on the sale of tangible fixed assets of £8,000 (2022 profit: £97,000).

7. **PROFIT BEFORE TAXATION**

Operating profit is stated after charging:

	2023 £'000	2022 £'000
Management charges	552	444
Fees payable to Company's auditors for the audit of the Company's annual financial statements	30	28
	<u>582</u>	<u>472</u>

8. **TAXATION**

Analysis of the tax (credit)/charge

The tax (credit)/charge on the profit for the year was as follows:

	2023 £'000	2022 £'000
Deferred tax	(1,287)	50
Tax on profit	<u>(1,287)</u>	<u>50</u>

UK corporation tax has been charged at 22.01%.

8. TAXATION - continued

Reconciliation of total tax (credit)/charge included in profit and loss

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2023 £'000	2022 £'000
Profit before tax	<u>1,925</u>	<u>2,299</u>
Profit multiplied by the standard rate of corporation tax in the UK of 22.010% (2022 - 19%)	424	437
Effects of:		
Expenses not deductible for tax purposes	(2)	13
Income not taxable for tax purposes	(1)	-
Adjustments to tax charge in respect of previous periods	(57)	-
Effects of group relief	(420)	(418)
Tax rate changes	(147)	12
Gains/ rollover relief	<u>(1,084)</u>	<u>6</u>
Total tax (credit)/charge	<u>(1,287)</u>	<u>50</u>

Tax effects relating to effects of other comprehensive income

	Gross £'000	Tax £'000	2023 Net £'000
Property revaluations	<u>(6,216)</u>	<u>-</u>	<u>(6,216)</u>

	Gross £'000	Tax £'000	2022 Net £'000
Property revaluations	<u>-</u>	<u>-</u>	<u>-</u>

Finance Act 2021 which was Substantively Enacted on 24 May 2021 included provisions to increase the rate further to 25% effective from 1 April 2023 and the rate has been applied when calculating the deferred tax at the year end.

There is no expiry date on timing differences, unused tax losses or tax credits.

Pillar Two legislation was substantively enacted in the UK on 20 June 2023, the jurisdiction in which the company is incorporated, and will come into effect for accounting periods commencing from 1 January 2024. Since the Pillar Two legislation was not effective at the reporting date, the group has no related current tax exposure. The group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to accounting standards issued in May 2023.

The group is in the process of assessing its exposure to the Pillar Two legislation for when it comes into effect. Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable. Therefore, even for those entities with an accounting effective tax rate above 15%, there might still be Pillar Two tax implications. The group is currently engaged with tax specialists to assist it with the assessment of the potential impact of the legislation.

9. **LOSS ON REVALUATION OF FREEHOLD PROPERTIES**

As at 30 September 2023, the directors engaged Knight Frank LLP, independent valuers, to undertake a full open market valuation of the group's property portfolio. As a result of this review the freehold property has been revalued downwards by £6,216,000 as a result of wider market operating conditions. The company's revaluation reserve has been reduced by the full amount of the revaluation.

10. **INVESTMENT PROPERTY**

	Total £'000
FAIR VALUE	
At 1st October 2022	42,475
Additions	111
Disposals	(59)
Revaluations	(6,216)
	<u>36,311</u>
At 30th September 2023	<u>36,311</u>
NET BOOK VALUE	
At 30th September 2023	<u>36,311</u>
At 30th September 2022	<u>42,475</u>
Fair value at 30th September 2023 is represented by:	
Valuation in 2023	<u>£'000</u> <u>36,311</u>

If investment properties had not been revalued they would have been included at the following historical cost:

	2023 £'000	2022 £'000
Cost	<u>23,248</u>	<u>23,248</u>
Aggregate depreciation	<u>(5,249)</u>	<u>(5,249)</u>

Investment properties were valued on an open market basis on 30th September 2023 by Knight Frank LLP..

**Notes to the Financial Statements - continued
for the Year Ended 30th September 2023**

10. INVESTMENT PROPERTY - continued

Investment properties are made up of freehold investment properties.

A full external valuation of the properties was carried out at 30 September 2023 by Knight Frank LLP.

The key assumptions underpinning the valuation of properties are the fair maintainable trade and the yield. The fair maintainable trade assumes that the properties are operating at a maintainable rate. The yield will be specific each property depending on location and physical nature of the asset.

As a result of the valuation the company's portfolio has been revalued downwards by £6,216,000.

If investment properties had not been revalued they would have been included at the following:

	£'000 2023	£'000 2022
Cost	21,798	21,798
Depreciation	(5,889)	(5,889)
Carrying Value	15,909	15,909

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2023 £'000	2022 £'000
Amounts owed by group undertakings	43,864	41,786

As at 30 September 2023, amounts owed by Group undertakings totalled £43,864,000 (2022: £41,786,000). These amounts are due on demand with no fixed repayment date and bear no interest.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2023 £'000	2022 £'000
Amounts owed to group undertakings	3,312	3,314

As at 30 September 2023, amounts owed to Group undertakings totalled £3,312,000 (2022: £3,314,000). These amounts are due on demand with no fixed repayment date and bear no interest.

13. PROVISIONS FOR LIABILITIES

	2023 £'000	2022 £'000
Deferred tax	2,446	3,733
Onerous Lease Provision	207	-
	2,653	3,733

Notes to the Financial Statements - continued
for the Year Ended 30th September 2023

13. PROVISIONS FOR LIABILITIES - continued

	Deferred tax £'000	Onerous lease provision £'000
Balance at 1st October 2022	3,733	-
(Credit)/charge to Statement of Comprehensive Income during year	(1,287)	207
Other Comprehensive Income		
Intra-group transfer		
Balance at 30th September 2023	<u>2,446</u>	<u>207</u>
Deferred tax Liability		
	2023	2022
	£'000	£'000
Deferred tax liability	2,446	3,733
Provisions for liabilities	<u>2,446</u>	<u>3,733</u>
Deferred tax liabilities:	2023	2022
	£'000	£'000
Provision at start of year	3,733	3,683
Adjustment in respect of prior periods	(57)	-
Deferred tax charge/(credit) to profit and loss account for the year	(1,230)	50
Provision at the end of the year	<u>2,446</u>	<u>3,733</u>
	2023	2022
	£'000	£'000
Fixed asset timing differences	3,307	4,593
Losses	(861)	(860)
	<u>2,446</u>	<u>3,733</u>
	2023	2022
	£'000	£'000
Deferred tax (assets)		
Recoverable within 12 months	(861)	(860)
	<u>(861)</u>	<u>(860)</u>
Deferred tax liabilities		
Payable within 12 months	3,307	4,593
	<u>3,307</u>	<u>4,593</u>

14. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:		Nominal value:	2023	2022
Number:	Class:		£	£
6	Ordinary Shares	£1	<u>6</u>	<u>6</u>

14. CALLED UP SHARE CAPITAL - continued

The revaluation reserve represents the surplus or deficit arising between the fair value and book value of freehold properties.

The profit and loss reserve represents cumulative profits and losses.

15. CONTINGENT LIABILITIES AND GUARANTEES

On 5 October 2023, HC-One Finco Limited entered a five year £635m Amendment and Restatement Facility Agreement relating to the facility agreement originally dated 20 April 2021, with a maturity date on 10 October 2028. The loan is secured with unlimited guarantee and by fixed and floating charges over the group assets of HC-One Holdco 3 Limited and its subsidiary undertakings. As at the date of signing the accounts, the drawn down term loan of £619.9m remains outstanding.

16. RELATED PARTY TRANSACTIONS

Identity of related parties

The Company has taken the exemption provided under FRS 102 to not disclose intercompany transactions with other group undertakings within the HC-One Holdco 3 Limited.

17. POST BALANCE SHEET EVENTS

No significant events are noted after the period ended 30 September 2023 to the date of signing this report.

18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Directors regard Skyfall LP, a limited partnership incorporated and registered in the Cayman Islands, as the ultimate parent undertaking. The ultimate controlling party, beyond Skyfall LP, is Skyfall GP Limited, a company incorporated in Cayman Islands.

The smallest group into which these financial statements are consolidated is HC-One Holdco 3 Limited with registered office at C/O Maples Corporate Services Limited PO BOX 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The largest group into which these financial statements are consolidated is HC-One Topco Limited with registered office at C/O Maples Corporate Services Limited PO BOX 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

Copies of financial statements of all the companies for the year ended 30 September 2023 are available from Companies House at Crown Way, Cardiff, Wales, CF14 3UZ.