

**Four Seasons Health Care Properties (Care Homes)
Limited**

**Directors' report and financial
statements**

Registered number 3934732

31 December 2002



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Directors' report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2002.

Principal activity

The principal activity of the company is the investment in long term care facilities for elderly and disabled people. The directors do not anticipate any change in activity in the foreseeable future.

Business review

The directors consider the state of affairs of the company to be satisfactory.

Results and dividends

The results for the period are shown in the profit and loss account on page 4. The directors do not recommend the payment of a dividend (2001: £nil).

Directors and directors' interests

The directors who served the company during the period were as follows:

H D Anstead
G Willis
G M Crowe

None of the directors held any beneficial interest in the share capital of the company.

The interests of the directors in the share capital of the ultimate parent company, Four Seasons Health Care Limited, are shown in the accounts of that company.

Employment policies

The company encourages 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.

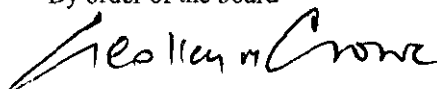
The group gives full consideration to application for employment from disabled persons where the requirement of the job can be adequately fulfilled by a handicapped or disabled person.

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.

Auditors

Ernst & Young LLP resigned as auditors during the period. KPMG LLP were appointed to fill the casual vacancy arising. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP will be proposed at the next Annual General Meeting.

By order of the board



G M Crowe
Director

Emerson Court
Alderley Road
Wilmslow
Cheshire
SK9 1NX
29 October 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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;
- 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 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 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 Four Seasons Health Care Properties (Care Homes) Limited

We have audited the financial statements on pages 4 to 13.

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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

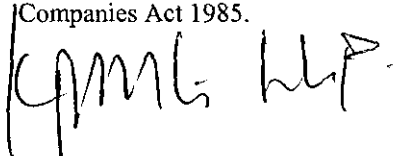
Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
Chartered Accountants
Registered Auditor

29 October 2003

Profit and loss account
for the year ended 31 December 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	3	8,254	8,187
Cost of sales		(2,141)	(2,443)
		<hr/>	<hr/>
Gross profit		6,113	5,744
Administrative expenses		-	-
		<hr/>	<hr/>
Operating profit		6,113	5,744
Interest receivable and similar income		-	1
Interest payable and similar charges	7	(5,607)	(5,790)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation	4	506	(45)
Tax on profit/(loss) on ordinary activities	8	(52)	(193)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after tax and retained for the financial year		454	(238)
		<hr/>	<hr/>

The company has no recognised gains or losses in the year other than those reported above and therefore no separate statement of total recognised gains and losses has been presented.

All amounts relate to continuing operations.

The movement in reserves is detailed in note 16 on page 12 of these financial statements.

Balance sheet

at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	9	83,538	85,679
Current assets			
Debtors	10	21,345	12,993
Cash at bank and in hand		139	78
		<u>21,484</u>	<u>13,071</u>
Creditors: amounts falling due within one year	11	<u>(45,397)</u>	<u>(37,689)</u>
Net current liabilities		<u>(23,913)</u>	<u>(24,618)</u>
Total assets less current liabilities		<u>59,625</u>	<u>61,061</u>
Creditors: amounts falling due after more than one year	12	<u>(59,626)</u>	<u>(61,646)</u>
Provisions for liabilities and charges	14	<u>(1,815)</u>	<u>(1,685)</u>
Net liabilities		<u>(1,816)</u>	<u>(2,270)</u>
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	<u>(1,816)</u>	<u>(2,270)</u>
Equity shareholders' funds		<u>(1,816)</u>	<u>(2,270)</u>

These financial statements were approved by the board of directors on 29 October 2003 and were signed on its behalf by:

G Willis
 Director



Reconciliation of movements in shareholders' funds
for the year ended 31 December 2002

	2002 £000	2001 £000
Opening shareholders' funds	(2,270)	(2,032)
Profit/(loss) for the financial year	454	(238)
	<hr/>	<hr/>
Closing shareholders' funds	<u>(1,816)</u>	<u>(2,270)</u>

Notes

(forming part of the financial statements)

1 Fundamental accounting concept

The company is dependant upon continuing finance being made available by its shareholders. Continuing finance is required both to enable the company to meet its liabilities as they fall due and to continue operating without immediate realisation of all its assets.

The holding company has confirmed its willingness to continue to support the company. The group companies who are owed a total of £42,042,000 have agreed not to demand repayment until at least 31 August 2004.

The directors believe that continuing finance will be available and that it is therefore appropriate to prepare the accounts on a going concern basis. However should continuing finance not be available, the going concern basis would be invalid and adjustments would have to be made to reduce the value of assets to their realisable amount, to provide for any further liabilities which might arise and to reclassify fixed assets as current assets.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements: The company has adopted FRS18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. No prior year adjustment is required as a result of the adoption of these standards.

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.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, Paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Cash flow statement

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as at 31 December 2002 as it was a wholly owned subsidiary undertaking of Four Seasons Health Care Limited, and its cash flows are included within the consolidated cash flow statement of that company.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is written off using the following annual rates:

Freehold buildings	-	50 years
Fixtures and fittings	-	5-15 years

Assets in the course of construction

Costs incurred in constructing and developing new homes are capitalised as assets in the course of construction. At such time as the home is opened, the assets are transferred to land and buildings or fixtures and fittings as appropriate and depreciated from the start of the next accounting period.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Notes (continued)

3 Turnover

Turnover represents the amounts (including value added tax) derived from property rental income and all arose in the United Kingdom.

4 Profit/(loss) on ordinary activities before taxation

	2002 £000	2001 £000
<i>Profit/(loss) on ordinary activities before taxation is arrived at after charging:</i>		
Depreciation - owned assets	2,141	2,441

The auditors' remuneration was borne by another group undertaking.

5 Directors' remuneration

None of the directors received any remuneration from the company during the period.

Their total emoluments are included in the aggregate of directors' emoluments disclosed in the accounts of the ultimate parent company.

6 Staff numbers and costs

The company has no employees other than the directors.

7 Interest payable and similar charges

	2002 £000	2001 £000
Bank loans and overdrafts	5,460	5,644
Amortisation of finance costs	147	146
	<u>5,607</u>	<u>5,790</u>

Notes (continued)

8 Tax on profit on ordinary activities

	2002		2001
	£000	£000	£000
<i>UK corporation tax</i>			
Current tax on income for the period	-		78
Adjustments in respect of prior periods	(78)		-
	<hr/>		<hr/>
Total current tax		(78)	78
<i>Deferred tax (see note 14)</i>			
Origination/reversal of timing differences	130		115
	<hr/>		<hr/>
		130	115
		<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities		52	193
		<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001: *higher*) than the standard rate of corporation tax in the UK 30%, (2001: 30%) due principally to the availability of current year losses in other group companies. The differences are explained below.

	2002	2001
	£000	£000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	506	(45)
	<hr/>	<hr/>
Current tax at 30% (2001 : 30%)	152	(13)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	513	503
Capital allowances for period in excess of depreciation	(130)	(115)
Group relief	(536)	(297)
Adjustments in respect of prior periods	(78)	-
	<hr/>	<hr/>
Total current tax charge (see above)	(78)	78
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Land and buildings £000	Fixtures and fittings £000	Total £000
Cost			
At beginning and end of year	84,208	13,256	97,464
At end of year	84,208	13,256	97,464
Depreciation			
At beginning of year	8,233	3,552	11,785
Charge for year	1,684	457	2,141
At end of year	9,917	4,009	13,926
Net book value			
At 31 December 2002	74,291	9,247	83,538
At 31 December 2001	75,975	9,704	85,679

10 Debtors

	2002 £000	2001 £000
Amounts owed by group undertakings	21,345	12,993

Notes (continued)

11 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdrafts	2,137	2,114
Amounts owed to group undertakings	42,042	34,365
Corporation tax	-	78
Accruals and deferred income	1,218	1,132
	<u>45,397</u>	<u>37,689</u>

12 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Bank loans (see note 13)	<u>59,626</u>	<u>61,646</u>

The above figure is shown net of capitalised finance costs of £631,000 (2001: £778,000) which are being amortised over the life of the loan.

13 Bank loans

	2002 £000	2001 £000
Bank loans are due for repayment as follows :		
Within one year	2,137	2,114
In one to two years	2,137	2,114
In two to five years	6,411	6,334
In more than five years	51,078	53,198
	<u>61,763</u>	<u>63,760</u>

The bank loan is a seven year term facility which is interest bearing at a rate of 8.65% per annum. The facility is secured by the charges referred to in note 17.

Notes (continued)

14 Provisions

	Deferred taxation £000
At 1 January 2002	1,685
Charged to profit and loss account	130
	<hr/>
At 31 December 2002	1,815
	<hr/>

The elements of deferred taxation are as follows:

	2002 £000	2001 £000
Difference between accumulated depreciation and amortisation and capital allowances	1,815	1,685
	<hr/>	<hr/>
Undiscounted provision	1,815	1,685
	<hr/>	<hr/>

15 Called up share capital

	31 December 2002		31 December 2001	
	No. of shares	£000	No. of shares	£000
<i>Authorised:</i>				
Ordinary shares of £1 each	1,000	1	1,000	1
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of £1 each	1	-	1	-
	<hr/>	<hr/>	<hr/>	<hr/>

16 Profit and loss

	£000
At beginning of year	(2,270)
Retained profit for the financial year	454
	<hr/>
At end of year	(1,816)
	<hr/>

Notes (continued)

17 Contingent liabilities

Under the terms of the £84.0 million facility agreement entered into by the company (£65.6 million) and Four Seasons Health Care Properties (Specialist) Limited (£18.4 million) used to acquire the properties and to provide working capital for the Four Seasons Group Limited sub group of companies, the company granted the following charges in favour of Morgan Stanley Mortgage Limited as security trustee:

- a first fixed charge on all the company's right, title, and interest from time to time in real property, tangible moveable property, intellectual property, goodwill, investments and shares;
- a floating charge over the whole of the company's undertaking and assets, present and future, other than assets assigned by way of fixed security in favour of the security trustee;
- a cross guarantee of the obligations of Four Seasons Health Care Properties (Specialist) Limited under the above facility agreement.

18 Ultimate parent company

The immediate parent company of the company is Four Seasons Health Care Properties Limited. The ultimate parent company is Four Seasons Health Care Limited, a company incorporated in Great Britain. The consolidated accounts for this company are available to the public and may be obtained from Four Seasons Health Care Limited, 1st Floor, Emerson Court, Alderley Road, Wilmslow, Cheshire, SK9 1NX.