

BHFS Two Limited

Annual Report and Financial Statements

Year ended

31 December 2020



BHFS Two Limited

Financial Statements

Year ended 31 December 2020

Contents	Page
Officers and Professional Advisers	1
Strategic Report	2
Directors' Report	3
Independent Auditor's Report to the Members	6
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13

BHFS Two Limited

Officers and Professional Advisers

THE BOARD OF DIRECTORS

E Boland
G Fee
J Casagrande
R Marshall

COMPANY SECRETARY

S Kramer

REGISTERED OFFICE

2 Crown Court
Rushden
Northamptonshire
NN10 6BS

INDEPENDENT AUDITOR

BDO LLP
Arcadia House
Martime Walk
Ocean Village
Southampton
SO14 3TL

BHFS Two Limited

Strategic Report

Year ended 31 December 2020

The directors present their Strategic Report together with the audited financial statements for the year ended 31 December 2020.

Review of Business

The company is a member of the Bright Horizons Group and is a wholly owned subsidiary of BHFS One Limited.

The results of this company are reported in the BHFS One Limited group consolidated accounts.

Key Performance Indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the business. The KPIs of the group are discussed in the BHFS One Limited group accounts.

This report was approved by the board of directors on Jul 16, 2021 and signed on behalf of the board by:

Gary Fee
Gary Fee (Jul 16, 2021 12:17 GMT+1)

G Fee
Director

BHFS Two Limited

Directors' Report

Year ended 31 December 2020

The directors present their report and the financial statements of the company for the year ended 31 December 2020.

Principal Activities

The principal activity of the company is that of a holding company.

Directors

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

E Boland	
G Fee	(Appointed 13 April 2020)
J Casagrande	(Appointed 13 April 2020)
R Marshall	(Appointed 13 April 2020)
D Lissy	(Resigned 13 April 2020)
J Tugendhat	(Resigned 13 April 2020)
S Dreier	(Resigned 13 April 2020)

Results and Dividends

The loss for the year, after taxation, amounted to £197,000 (2019: loss £446,000).

The directors do not propose the payment of a final dividend (2019: £nil).

Financial Risk Management

BHFS 2 Limited is wholly owned by BHFS One Limited which is the ultimate parent undertaking of the UK Group. The Group is a wholly owned subsidiary of Bright Horizons Family Solutions LLC, a wholly owned subsidiary of Bright Horizons Family Solutions Inc. The Company is quoted on the New York Stock Exchange with a market capitalisation of \$8.5bn as at 10 May 2021. The Group's growth has been supported and funded in part by its US parent company with a combination of equity capital and intercompany loans. The Group is financially strong and it complements its operational and competitive strengths.

The main risk arising from the company's financial instruments is capital risk management.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to provide adequate returns for shareholders whilst adding value and benefits for our stakeholders. The Company manages its capital usage and liquidity through closely monitoring and reviewing cash flows.

The Company has no externally imposed capital requirements and no external debt.

Management consider that the Company's exposure to credit risk is limited due to the fact that the majority of the Company's revenue is collected from parents via direct debit.

Further commentary on principal risks and uncertainties faced by the Company is provided in the Strategic Report.

BHFS Two Limited

Directors' Report *(continued)*

Year ended 31 December 2020

Qualifying Indemnity Provision

The company has indemnified one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the period and remains in place to the date of this report.

Going Concern

In the light of the coronavirus pandemic and the subsequent lock down in the UK, the directors have reviewed the current financial performance and the liquidity of the business. In light of the decline in revenue in 2020 and the potential uncertainties brought by the pandemic, the directors have also reviewed the forecasts covering 12 months from the date of signing of the annual report.

Since the first national UK lockdown commencing in March 2020, the Company has taken advantage of a number of Government initiatives aimed at minimising the impact of COVID 19 for businesses in the UK, including the business rates holiday in England, the Time To Pay Scheme and the Job Retention Scheme. Utilising this support has been instrumental for keeping liquidity in the business since the first national UK lockdown commencing in March 2020.

As a result of the measures outlined above, the UK Group, including the company which is headed by BHFS One Limited, maintained a strong cash position throughout the year and as of 31 December 2020 cash reserves held stood at £18.5m compared to £5.0m as of 31 December 2019.

The UK Group is 100% owned by Bright Horizons Family Solutions Inc., a Company incorporated in the USA and listed on New York Stock Exchange. The immediate parent company is BHFS LLC, a company incorporated in the USA. The immediate parent company has declared its ability and willingness to support the UK business as it continues its recovery from the COVID-19 pandemic, by providing liquidity where required. Whilst Bright Horizons Family Solutions Inc. has also been affected by the pandemic, its liquidity position remains stable and the latest public filing as of 31 December 2020 shows a cash position of \$384m and an unutilised multi-currency revolving credit facility of \$400m.

The directors, having reviewed current performance, forecasts, and stress testing, and the factors listed above, have a reasonable expectation that the Group and Company has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

Corporate Governance and Obligations

Bright Horizons meets corporate governance obligations and compliance which is supported by internal and external auditors.

There is a comprehensive governance framework that draws on external expertise as appropriate. This framework provides for regular governance meetings of the UK senior leadership team and review of performance indicators.

The Company is in the process of reviewing its governance structure to comply with the latest UK Corporate Governance Code for large privately-held businesses.

Disclosure of Information in the Strategic Report

The company's business activities, together with a review of the business and key performance indicators are set out in the Strategic Report.

BHFS Two Limited

Directors' Report *(continued)*

Year ended 31 December 2020

Directors' Responsibilities Statement

The directors are responsible for preparing the strategic report, 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 accounting estimates that are reasonable and prudent;
- 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 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all 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 auditor is aware of that information.

Auditors

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board of directors on Jul 16, 2021 and signed on behalf of the board by:

Gary Fee
Gary Fee (Jul 16, 2021 12:17 GMT+1)

G Fee
Director

BHFS Two Limited

Independent Auditor's Report to the Members of BHFS Two Limited

Year ended 31 December 2020

Opinion on the Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of BHFS Two Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

BHFS Two Limited

Independent Auditor's Report to the Members of BHFS Two Limited *(continued)*

Year ended 31 December 2020

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 Reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 the returns; or
- certain disclosures of Directors remuneration specified by law are not made; or
- we have not obtained all the information and explanations that we consider necessary for the purpose of our audit.

Responsibilities of Directors

As explained more fully in the Directors' report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

BHFS Two Limited

Independent Auditor's Report to the Members of BHFS Two Limited *(continued)*

Year ended 31 December 2020

Auditor's Responsibilities for the Audit of the Financial Statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the education inspection framework (EIF), Companies Act 2006 and UK tax legislation. We evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override, and considered that the principal risk related to the posting of inappropriate journal entries to improve the result before tax for the year.

We designed audit procedures to respond to this risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

Procedures performed by the audit team included:

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations;
- Obtaining an understanding and testing of the controls around purchase order to invoice matching and approvals which were designed to prevent and detect fraud and irregularities; and
- Evaluating journal entries with specific criteria such as manual journal entries, journal entries posted to key control accounts and in relation to key accounting estimates which were processed during and after the Company's financial year end as part of our planned audit approach.
- A detailed review and challenge of all material accounting estimates, including a review of related principles, methodology and key assumptions.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

BHFS Two Limited

Independent Auditor's Report to the Members of BHFS Two Limited *(continued)*

Year ended 31 December 2020

Use of Our Report

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.

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton

Date:

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

BHFS Two Limited

Statement of Comprehensive Income

Year ended 31 December 2020

	Note	2020 £000	2019 £000
Administrative expenses		133	139
OPERATING PROFIT		<u>133</u>	<u>139</u>
Interest payable and similar expenses	6	(330)	(585)
LOSS BEFORE TAXATION		<u>(197)</u>	<u>(446)</u>
Tax on loss	7	—	—
LOSS AFTER TAXATION		<u>(197)</u>	<u>(446)</u>
Other comprehensive income		—	—
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		<u><u>(197)</u></u>	<u><u>(446)</u></u>

All the activities of the company are from continuing operations.

The notes on pages 13 to 20 form part of these financial statements.

BHFS Two Limited

Statement of Financial Position

31 December 2020

	Note	2020 £000	2019 £000
FIXED ASSETS			
Investments	8	401,248	402,548
CURRENT ASSETS			
Debtors	9	3,943	4,024
CREDITORS: amounts falling due within one year	10	(60,535)	(60,749)
NET CURRENT LIABILITIES		(56,592)	(56,725)
TOTAL ASSETS LESS CURRENT LIABILITIES		344,656	345,823
CREDITORS: amounts falling due after more than one year	11	(10,015)	(10,985)
NET ASSETS		<u>334,641</u>	<u>334,838</u>
CAPITAL AND RESERVES			
Called up share capital	12	2,000	2,000
Share premium account	13	165,571	165,571
Profit and loss account	13	167,070	167,267
SHAREHOLDERS FUNDS		<u>334,641</u>	<u>334,838</u>

These financial statements were approved by the board of directors and authorised for issue on Jul 16, 2021....., and are signed on behalf of the board by:

Gary Fee
Gary Fee (Jul 16, 2021 12:17 GMT+1)

G Fee
Director

Company registration number: 03943326

The notes on pages 13 to 20 form part of these financial statements.

BHFS Two Limited

Statement of Changes in Equity

Year ended 31 December 2020

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
AT 1 JANUARY 2019	2,000	165,571	167,713	335,284
Loss for the year	—	—	(446)	(446)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	—	—	(446)	(446)
AT 31 DECEMBER 2019	2,000	165,571	167,267	334,838
Loss for the year	—	—	(197)	(197)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	—	—	(197)	(197)
AT 31 DECEMBER 2020	2,000	165,571	167,070	334,641

The notes on pages 13 to 20 form part of these financial statements.

BHFS Two Limited

Notes to the Financial Statements

Year ended 31 December 2020

1. GENERAL INFORMATION

BHFS Two Limited is a company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is shown on the officers and professional advisers page. The nature of the company's operations and its principal activities are outlined in the directors' report.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements have been prepared on the historical cost basis.

The financial statements are prepared in sterling, which is the functional currency of the entity.

3.2 Going concern

In the light of the coronavirus pandemic and the subsequent lock down in the UK, the directors have reviewed the current financial performance and the liquidity of the business. In light of the decline in revenue in 2020 and the potential uncertainties brought by the pandemic, the directors have also reviewed the forecasts covering 12 months from the date of signing of the annual report.

Since the first national UK lockdown commencing in March 2020, the Company has taken advantage of a number of Government initiatives aimed at minimising the impact of COVID 19 for businesses in the UK, including the business rates holiday in England, the Time To Pay Scheme and the Job Retention Scheme. Utilising this support has been instrumental for keeping liquidity in the business since the first national UK lockdown commencing in March 2020.

As a result of the measures outlined above, the UK Group, including the company which is headed by BHFS One Limited, maintained a strong cash position throughout the year and as of 31 December 2020 cash reserves held stood at £18.5m compared to £5.0m as of 31 December 2019.

The UK Group is 100% owned by Bright Horizons Family Solutions Inc., a Company incorporated in the USA and listed on New York Stock Exchange. The immediate parent company is BHFS LLC, a company incorporated in the USA. The immediate parent company has declared its ability and willingness to support the UK business as it continues its recovery from the COVID-19 pandemic, by providing liquidity where required. Whilst Bright Horizons Family Solutions Inc. has also been affected by the pandemic, its liquidity position remains stable and the latest public filing as of 31 December 2020 shows a cash position of \$384m and an unutilised multi-currency revolving credit facility of \$400m.

The directors, having reviewed current performance, forecasts, and stress testing, and the factors listed above, have a reasonable expectation that the Group and Company has adequate resources to continue its operations for the foreseeable future. For this reason, they have continued to adopt the going concern basis in preparing the financial statements.

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

3. ACCOUNTING POLICIES *(continued)*

3.3 Disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the 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 Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of BHFS One Limited as at 31 December 2020 and these financial statements may be obtained from The Secretary, 2 Crown Way, Rushden, Northamptonshire, NN10 6BS.

3.4 Consolidation

The financial statements contain information about BHFS Two Limited as an individual company and do not contain consolidated financial information as the parent of the group. The company has taken advantage of the exemption conferred by section 400 of the Companies Act 2006 not to produce consolidated financial statements as it is included in EEA group accounts of a larger group.

3.5 Judgements and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Determine whether there are indicators of impairment of the company's intangible assets, fixed asset investments and amounts owed by group undertakings. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash generating unit, the viability and expected future performance of that unit.

Key assumptions include:

Discount rates

The discount rate is a pre tax adjusted discount rate of 4.72% (2019: 4.72%) and reflects management's estimate of the company's weighted average cost of capital.

Long-term growth rates

The management forecasts are extrapolated using growth of 3% and assumptions relevant for the business sector and are based on industry research. Despite the impact of COVID-19, management still consider the long-term growth rate of 3% to be appropriate.

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

3. ACCOUNTING POLICIES *(continued)*

3.5 Judgements and key sources of estimation uncertainty *(continued)*

Investments (see note 8)

The most critical estimates, assumptions and judgements relate to the determination of carrying value of investments at the higher of value in use or fair values less cost to sell. When determining this the overriding concept is that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction.

Impairments of goodwill, tangible and intangible assets

During 2020 the Company assessed the need for potential asset impairments or write-downs as a result of the ongoing COVID-19 pandemic.

Goodwill cannot be allocated to each individual CGU (reporting unit) on a non-arbitrary basis and has therefore been tested for impairment by determining the recoverable amount of each Group of CGU's (reporting units) to which goodwill can be attributed on an arbitrary basis.

In performing impairment review, we compare the fair value of the reporting unit with its carrying amount, including goodwill. Fair value for each reporting unit is determined by estimating the present value of expected future cash flows, which are forecasted for each of the next ten years, applying a long-term growth rate to the final year, discounted using the applicable discount rate. If the fair value of the reporting unit exceeds its carrying amount, the goodwill of the reporting unit is considered not impaired. If the carrying amount of the reporting unit exceeds its fair value, we would recognise an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value, up to the amount of goodwill allocated to that reporting unit.

As a result of COVID-19, we have reviewed tangible and intangible assets. Impairment is assessed by comparing the carrying amounts of the assets to the estimated undiscounted future cash flows over the assets remaining lives. If the estimated cash flows are less than the carrying amounts of the assets, an impairment loss is recognised to reduce the carrying amounts of the assets to its estimated fair value. The estimated fair value is determined based on discounting estimated cash flows, including consideration of market rates for leased assets. The impairment is allocated to the fixed assets on a pro rata basis using the relative carrying amounts, but only to the extent the carrying amount of an asset is above its fair value.

The discount rate used in impairment testing was 8%. No changes have been made to the key assumptions applied in managements impairment reviews during the year.

Contingent consideration

The fair value of the contingent consideration is calculated using a real options model based on probability weighted outcomes of meeting certain future performance targets. The key inputs to the valuation are the projections of future financial results in relation to the business.

3.6 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

3. ACCOUNTING POLICIES *(continued)*

3.7 Current taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

3.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

3.9 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out right short term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Investments in non derivative instruments that are equity to the issuer are measured:

- at fair value with changes recognised in the Statement of Comprehensive Income if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

3. ACCOUNTING POLICIES *(continued)*

3.9 Financial instruments *(continued)*

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

4. OPERATING PROFIT/LOSS

The audit fee for the year will be borne by Bright Horizons Family Solutions Limited.

5. DIRECTORS' REMUNERATION

No director received any emoluments during the current year (2019: £nil).

There were no directors in the company's defined contribution pension scheme during the year (2019: £nil).

Directors' costs are borne by Bright Horizons Family Solutions Limited and Bright Horizons Family Solutions Inc.

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2020 £000	2019 £000
Other interest payable and similar charges	330	585

7. TAX ON LOSS

Reconciliation of tax income

The tax assessed on the loss on ordinary activities for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £000	2019 £000
Loss on ordinary activities before taxation	(197)	(446)
Loss on ordinary activities by rate of tax	(38)	(85)
Effect of expenses not deductible for tax purposes	63	83
Group relief claimed	(25)	2
Tax on loss	—	—

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

7. TAX ON LOSS *(continued)*

Factors that may affect future tax income

The UK corporation tax rate was 19% in the year to 31 December 2020 and this rate has been used for the purposes of preparing the tax disclosures. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date.

8. INVESTMENTS

	Investments in subsidiary companies £000
Cost	
At 1 January 2020	402,548
Change in FV of deferred consideration	(1,300)
At 31 December 2020	401,248
Impairment	
At 1 January 2020 and 31 December 2020	—
Carrying amount	
At 31 December 2020	401,248
At 31 December 2019	402,548

The following were subsidiary undertakings of the company:

Name	Principal activity	Class of shares	Holding
BHFS (Maidenhead) Limited	Property company	Ordinary	100%
Conchord Limited	Holding company	Ordinary	100%
Magic Nursery Group Limited	Holding company	Ordinary	100%
Yellow Dot Holdings Limited	Holding company	Ordinary	100%
Bright Horizons Family Solutions Limited	Nursery services	Ordinary	100%
My Family Care Limited	Nursery services	Ordinary	100%
Zoom Nurseries (Blackheath) Limited	Nursery services	Ordinary	100%
Zoom Nurseries (Brockley) Limited	Nursery services	Ordinary	100%
Zoom Nurseries (Eltham) Limited	Nursery services	Ordinary	100%
Zoom Nurseries Limited	Nursery services	Ordinary	100%
Active Learning Childcare (Guernsey) Limited	Dormant	Ordinary	100%
Fran N Bru Limited	Dormant	Ordinary	100%
Kidsunlimited Group Limited	Dormant	Ordinary	100%
Teddies Childcare Provision Limited	Dormant	Ordinary	100%
The Phoenix Day Nursery Limited	Dormant	Ordinary	100%
Westchester House Nursery Schools Limited	Dormant	Ordinary	100%

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

9. DEBTORS

	2020	2019
	£000	£000
Amounts owed by group undertakings	3,773	3,852
Other debtors	170	172
	<u>3,943</u>	<u>4,024</u>

All amounts owed by group undertakings are non interest bearing, unsecured and not subject to any fixed repayment date. The debt is repayable on demand and therefore classified as due within one year.

10. CREDITORS: amounts falling due within one year

	2020	2019
	£000	£000
Amounts owed to group undertakings	59,871	59,234
Accruals and deferred income	12	12
Other creditors	652	1,503
	<u>60,535</u>	<u>60,749</u>

All amounts owed to group undertakings are non interest bearing, unsecured and not subject to any fixed repayment date. The debt is repayable on demand and therefore classified as due within one year.

11. CREDITORS: amounts falling due after more than one year

	2020	2019
	£000	£000
Other creditors	<u>10,015</u>	<u>10,985</u>

Contingent consideration

On 1 February 2019 BHFS Two Limited acquired the shares of My Family Care Limited which included consideration of £15,000k contingent on achieving certain performance targets. On acquisition, the fair value of the contingent consideration was £10,400k.

At the reporting date, the fair value of the contingent consideration was £10,015k. The fair value of the contingent consideration recorded in the year ended 31 December 2020 was calculated using a real options model based on probability weighted outcomes of meeting certain future performance targets. The key inputs to the valuation are the projections of future financial results in relation to the business.

12. CALLED UP SHARE CAPITAL

Issued, called up and fully paid

	2020		2019	
	No.	£000	No.	£000
Ordinary shares of £1 each	<u>2,000,001</u>	<u>2,000</u>	<u>2,000,001</u>	<u>2,000</u>

BHFS Two Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2020

13. RESERVES

The company's reserves are as follows:

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

14. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available in section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

15. CONTROLLING PARTY

The company's immediate parent undertaking is BHFS One Limited, a company registered in England and Wales. The company's ultimate controlling party is Bright Horizons Family Solutions Inc., which is the ultimate parent company incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by Bright Horizons Family Solutions Inc., incorporated in the United States of America. The smallest group in which they are consolidated is that headed by BHFS One Limited, incorporated in England and Wales. The consolidated accounts are available to the public and may be obtained from The Secretary, BHFS One Limited, 2 Crown Court, Rushden, Northamptonshire, NN10 6BS.