Four Seasons (H2) Limited

Directors' report and financial statements

Registered number 5842381

31 December 2007

Contents

Directors' report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2007. The comparative period from incorporation on 9 June 2006 to 31 December 2006.

Principal activity

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

Business and financial review

On 14 August 2007, the company acquired the trade and assets of a care home from Four Seasons (Headington) Limited, a related undertaking. The fair value of the consideration was £534,000 which comprised a loan. The company did not trade prior to this acquisition.

Details of key performance indicators including available beds, occupancy levels and average fee rates of the Four Seasons Health Care group, of which the company is a member, can be found in the financial statements of Four Seasons Health Care Limited. Copies of these financial statements can be obtained from the address given in note 16.

Principal risks and uncertainties

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

Going concern

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

Results and dividends

The results for the year are shown in the profit and loss account on page 6. The directors do not recommend the payment of a dividend (*2006: £nil*).

Directors

The directors during the year under review were:

A G Heywood	(resigned 13 December 2007)
P Calveley	(appointed 24 June 2008)
N J Mitchell	
D J Kay	

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 company gives full consideration to applications 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.

Directors' report (*continued*)

Environmental policy

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

Details of ultimate ownership

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

Disclosure of information to auditors

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

Auditors

In accordance with section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually and to authorise the directors to fix their remuneration from time to time as they should think fit.

By order of the board

D J Kay
Secretary

Emerson Court
Alderley Road
Wilmslow
Cheshire
SK9 1NX

20/1/2009

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

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

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

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

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

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Four Seasons (H2) Limited

We have audited the financial statements of Four Seasons (H2) Limited for the year ended 31 December 2007 which comprise the Profit and loss account, the Balance sheet, the Reconciliation of movements in shareholders' deficit and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Independent auditors' report to the members of Four Seasons (H2) Limited (*continued*)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company, together with its parent and fellow subsidiary undertakings (the Group), is party to a number of financing agreements under which the Group is currently in default. The Group has entered into a standstill with certain, although not all, of the lenders which expires on 22 January 2009. The Directors of Fino Seniorco Limited, a related undertaking, are currently in negotiations with the lenders with the aim of achieving a consensual recapitalisation and refinancing/restructuring of the Group.

These conditions, along with the other matters set out in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20/1/ 2009

Profit and loss account

for the year ended 31 December 2007

	Note	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Turnover	*2*	**1,158**	407
Cost of sales		**(2,009)**	(465)
Operating loss		**(851)**	(58)
Interest payable and similar charges	*4*	**(27)**	(9)
Loss on ordinary activities before tax	*3-6*	**(878)**	(67)
Tax on loss on ordinary activities	*7*	**-**	-
Loss on ordinary activities after taxation		**(878)**	(67)
Retained loss for the financial period	*13*	**(878)**	(67)

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

All amounts relate to continuing operations.

Balance sheet

at 31 December 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets	8		-		569
Tangible assets	9		647		10
			647		579
Current assets					
Debtors	10	74		135	
		74		135	
Creditors: amounts falling due within one year	11	(1,616)		(731)	
Net current liabilities			(1,543)		(596)
Total assets less current assets			(895)		(17)
Net liabilities			(895)		(17)
Capital and reserves					
Called up share capital	12		50		50
Profit and loss account	13		(945)		(67)
Equity shareholders' deficit			(895)		(17)

These financial statements were approved by the board of directors on 20/1/2009 and were signed on its behalf by:

N J Mitchell
Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2007

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Opening shareholders' deficit	**(17)**	-
Loss for the financial year	**(878)**	(17)
Closing shareholders' deficit	**(895)**	(17)

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and within the requirements of the Companies Act 1985.

Going Concern

As explained further below, the company, together with its parent and fellow subsidiary undertakings, is party to a number of financing agreements which are currently in default.

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate following discussions with the Board of Directors of Fino Seniorco Limited ("Seniorco"), a related undertaking and whose directors are engaged in discussions on behalf of the Fino Propco Holdco group (the "Group") with the Senior Lenders, the Senior Mezzanine Lenders and the Junior Mezzanine Lenders referred to below. The Seniorco Directors have summarised in a letter to the company the situation as follows as at the date of approval of these financial statements:

> "On 31 August 2006, Seniorco and others, including the company, entered into the Four Seasons Whole Loan which is a £1,348,000,000 term and revolving loan agreement with a number of financial institutions as lenders (the "Senior Lenders"). On the same date, Seniorco and others, including the company, entered into a £60,000,000 senior mezzanine facility agreement and a £165,000,000 junior mezzanine facility with various financial institutions as lenders (the "Senior Mezzanine Lenders" and the "Junior Mezzanine Lenders" respectively).
>
> In August and September 2008, a number of Events of Default (as defined in the various facilities agreements) occurred which remain outstanding. Such defaults include a failure to repay the Four Seasons Whole Loan on its contractual maturity (1 September 2008), a failure to repay the senior mezzanine facility on its contractual maturity (29 August 2008) and a failure to repay the junior mezzanine facility on its contractual maturity (29 August 2008).
>
> On 2 September 2008, a Standstill Agreement was entered into by, amongst others, Seniorco, the Servicer and Special Servicer of the Four Seasons Whole Loan on behalf of the Senior Lenders, the Senior Mezzanine Agent on behalf of each of the Senior Mezzanine Lenders and the Junior Mezzanine Agent on behalf of the Junior Mezzanine Lenders, in order to enable the Group to conduct negotiations with the various lenders. Under the Standstill Agreement, the various lenders have agreed not to exercise their rights against the Group resulting from the Events of Default which have occurred.
>
> Notwithstanding the Events of Default, the directors confirm that the Group has continued to trade as normal and continues to have adequate working capital for its operational needs. Trade creditors are being paid in accordance with the Group's normal terms. However, it is apparent that the overall debt structure put in place in August 2006 is no longer appropriate or viable in current circumstances and that a financial restructuring of certain of the non–operating companies in the Group will be required.
>
> The Seniorco Directors believe that a consensual recapitalisation is the appropriate and preferable route for achieving the long term stability of the Group. With a view to this we are working with the various lenders under the Four Seasons Whole Loan, the Senior Mezzanine Lenders and the Junior Mezzanine Lenders to achieve a consensual recapitalisation and refinancing/restructuring of the Group. We do not anticipate that such a consensual refinancing/restructuring will have any material impact on the day to day operations of the company.

Notes *(continued)*

1 Accounting policies *(continued)*

Going Concern (continued)

> Although the original Standstill Agreement terminated on 31 October 2008, on 29 October 2008, the Senior Lenders, subject to certain termination rights, entered into a new Standstill Agreement ending on 22 January 2009 to allow the relevant discussions to continue and for any agreed restructuring to be implemented. The Senior Mezzanine Lenders and the Junior Mezzanine Lenders are not a party to the new Standstill Agreement but we do not believe that it would be in these lenders interests to take steps to enforce their rights under the various loan agreements.
>
> The Seniorco Directors believe it is appropriate that the financial statements of the companies within the Group, and in particular the Company, be prepared on a going concern basis. The use of the going concern basis assumes that there will be a solvent recapitalisation of the Group which will place the Group on a viable footing for the future. The Seniorco Directors having considered all the circumstances and having made due enquiry, including taking professional advice, have concluded that the prospects of a solvent recapitalisation remain good, particularly in respect of all operating companies including the company."

As a result of the current discussions referred to above between the directors of the company and the directors of Seniorco and the lenders, the financial statements have been presented on a going concern basis. The directors of both the company and Seniorco acknowledge that the probability of achievement of a solvent recapitalisation, although good, remains uncertain. In accordance with ISA 570 the directors are required to state that this material uncertainty may cast significant doubt on the company's ability to continue as a going concern and therefore the company may be unable to continue to realise their assets and discharge their liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Related party transactions

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

Cash flow statement

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as at 31 December 2007 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

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

Buildings	- 2% per annum
Equipment and fixtures	- 20% per annum

No depreciation is provided on freehold land.

Deferred taxation

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

Notes *(continued)*

1 Accounting policies (*continued*)

Guarantees

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

Leases

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

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised. Positive goodwill is amortised by equal annual instalments over its estimated useful economic life. The directors' estimate of the useful economic life is considered on an individual basis. Goodwill capitalised to date is being amortised over 20 years.

2 Turnover

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

3 Loss on ordinary activities before taxation

	Year ended 31 December 2007	Period ended 31 December 2006
Loss on ordinary activities before taxation is stated after charging:	**£000**	£000
Depreciation – owned assets	**3**	1
Amortisation of goodwill	**29**	10
Impairment of goodwill – exceptional cost	**540**	-
Operating lease rentals – land and buildings	**375**	130

The auditors' remuneration of £1,400 (*2006: £nil*) for audit services was borne by another group undertaking. Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4 Interest payable and similar charges

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Interest on intercompany balances	**27**	9

5 Directors' remuneration

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

Notes *(continued)*

6 Staff numbers and costs

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

	Number of employees Year ended 31 December 2007	Number of employees Period ended 31 December 2006
Healthcare facilities	**48**	46
Administration	**2**	2
	50	48

The aggregate payroll costs of these persons was as follows:

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Wages and salaries	**726**	247
Social security costs	**63**	24
	789	271

Notes *(continued)*

7 Tax on loss on ordinary activities

	Year ended 31 December 2007		Period ended 31 December 2006	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	-		-	
Total current tax		-		-
Deferred tax				
Origination/reversal of timing differences		-		-
Tax on profit on ordinary activities		-		-

Factors affecting the tax charge for the current period

The current tax charge for the year is higher (*2006: higher*) than the standard rate of corporation tax in the UK (30%, *2006: 30%*) due principally to the availability of current year losses in other group companies. The differences are explained below.

	Year ended 31 December 2007 £000	Period ended 31 December 2006 £000
Current tax reconciliation		
Loss on ordinary activities before tax	**(878)**	(67)
Current tax at 30%	**(263)**	(20)
Effects of:		
Permanent differences - ordinary	**10**	3
Permanent differences - exceptional	**162**	-
Group relief given for nil consideration	**92**	17
Total current tax charge (see above)	-	-

On 21 March 2007, it was announced that the standard rate of corporation tax in the UK was to be changed to 28% and that there would be changes to capital allowance legislation with effect from 1 April 2008. As the change in rate of corporation tax was enacted at 31 December 2007 deferred tax has been accounted for at a rate of 28%.

Notes *(continued)*

8 Intangible fixed assets

	Goodwill
	£000
Cost	
At beginning and end of year	579
Amortisation	
At beginning of year	10
Charge for the year	29
Impairment	540
At end of year	579
Net book value	
At 31 December 2007	-
At 31 December 2006	569

Goodwill relates to the acquisition of the trade and assets of care homes on 14 August 2006. The directors consider its carrying value to be impaired and have written its value down to nil.

9 Tangible fixed assets

	Assets in course of construction £000	Equipment and fixtures £000	Total £000
Cost			
At beginning of year	-	11	11
Reclassification	3	(3)	-
Additions	615	25	640
At end of year	618	33	651
Depreciation			
At beginning of year	-	1	1
Charge for the year	-	3	3
At end of year	-	4	4
Net book value			
At 31 December 2007	**618**	**29**	**647**
At 31 December 2006	-	10	10

Notes *(continued)*

10 Debtors

	2007 £000	2006 £000
Trade debtors	**21**	15
Amounts owed by group undertakings	**50**	79
Prepayments and other debtors	**3**	41
	74	135

11 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	**28**	19
Amounts owed to group undertakings	**1,502**	625
Taxation and social security	**36**	42
Other creditors and accruals	**50**	45
	1,616	731

12 Called up share capital

	2007 No. of shares	 £000	2006 No. of shares	 £000
Authorised:				
Ordinary shares of £1 each	**50,001**	**50**	50,001	50
Allotted, called up and fully paid:				
Ordinary shares of £1 each	**50,001**	**50**	50,001	50

13 Profit and loss account

	2007 £000
At beginning of year	**(67**
Retained loss for the financial year	**(878)**
At end of year	**(945)**

Notes *(continued)*

14 Commitments

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

	Land and buildings 2007 £000	Land and buildings 2006 £000
Operating leases that expire:		
In over five years	**386**	266

15 Contingent liabilities

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

16 Ultimate parent

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

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

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

The smallest group in which the results of the company are consolidated is that headed by Four Seasons Health Care Limited. The consolidated financial statements of this company are available to the public and may be obtained from Emerson Court, Alderley Road, Wilmslow, Cheshire, SK9 1NX.