Four Seasons (H2) Limited

Directors' report and financial statements

Registered number 5842381

31 December 2013

Contents

Directors' report

The directors present their annual report together with the audited financial statements of the company for the year ended 31 December 2013.

Principal activity

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

Business and financial review

Details of key performance indicators including available beds, occupancy levels and average fee rates of the FSHC Group Holdings Limited, of which the company is a member, can be found in the financial statements of FSHC Group Holdings Limited. Copies of these financial statements can be obtained from the address given in note 15.

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 FSHC Group Holdings Limited.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. With this in mind, the directors have formally considered and concluded that the preparation of the financial statements on a going concern basis is appropriate. Further details are shown in the "Basis of preparation" section of note 1 to the financial statements.

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 *(2012: £nil)*.

Directors

The directors during the year under review were:

P Calveley (resigned 4 November 2013)
D J Kay
M C Royston (appointed 13 December 2013)
I Smith (appointed 4 November 2013)
B R Taberner

Employment policies

The company encourages staff involvement through a process of communication and participation. This involves the provision of information through normal management channels including regular manager briefing letters, annual conferences and meetings.

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.

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 FSHC Group Holdings Limited.

Directors' report *(continued)*

Details of ultimate ownership

The ultimate parent undertaking is Terra Firma Holdings Limited, an entity incorporated in Guernsey.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

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

By order of the board

D J Kay
Director

Norcliffe House
Station Road
Wilmslow
Cheshire
SK9 1BU

29 September 2014

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 the directors have elected to prepare the financial statements in accordance with UK 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 judgments and accounting 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 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.

KPMG LLP
St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditor's 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 2013 set out on pages 6 to 15. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and to express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Four Seasons (H2) Limited
(continued)

Matters on which we are required to report by exception

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 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 in not preparing a strategic report.

Nicola Quayle

Nicola Quayle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

29 September 2014

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	2	**2,522**	2,544
Cost of sales		**(2,314)**	(2,561)
Operating profit/(loss)		**208**	(17)
Interest payable and similar charges	4	**(31)**	(30)
Profit/(loss) on ordinary activities before taxation	3-6	**177**	(47)
Tax on profit/(loss) on ordinary activities	8	**-**	-
Retained profit/(loss) for the financial year	12	**177**	(47)

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

All amounts relate to continuing operations.

The financial statements include the notes on pages 9 to 15.

Balance sheet
at 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Tangible assets	*8*		**265**		287
Current assets					
Debtors	*9*	**2,959**		2,298	
Cash		**-**		5	
		2,959		2,303	
Creditors: amounts falling due within one year	*10*	**(4,754)**		(4,297)	
Net current liabilities			**(1,795)**		(1,994)
Total assets less current assets			**(1,530)**		(1,707)
Net liabilities			**(1,530)**		(1,707)
Capital and reserves					
Called up share capital	*11*		**50**		50
Profit and loss account	*12*		**(1,580)**		(1,757)
Shareholder's deficit			**(1,530)**		(1,707)

The financial statements include the notes on pages 9 to 15.

These financial statements were approved by the board of directors on 29 September 2014 and were signed on its behalf by:

B. R. Taberner

B R Taberner
Director

Reconciliation of movements in shareholder's deficit
for the year ended 31 December 2013

	2013	2012
	£000	£000
Opening shareholder's deficit	**(1,707)**	(1,660)
Profit/(loss) for the financial year	**177**	(47)
Closing shareholder's deficit	**(1,530)**	(1,707)

The financial statements include the notes on pages 9 to 15.

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 2006.

Going concern

The company, together with its intermediate parent company Elli Investments Limited and fellow subsidiary undertakings (collectively the "Elli Investments group"), is party to a number of financing arrangements under which the company has provided guarantees. In July 2012, the Elli Investments group issued £350 million of senior secured notes which pay interest at 8.75%, and which are due for repayment in 2019, and £175 million of senior notes which pay interest at 12.25%, and which are due for repayment in 2020. In addition to the external debt, the group owes £270.7 million to related undertakings which accrues interest at 15% on a compounding basis and which is due for repayment in 2022. The group also has access to a £40 million revolving credit facility which is available until 2018. £15 million of this facility was drawn down at the year end and was repaid by the end of February 2014.

During the first quarter of 2014 Terra Firma provided an additional £50 million of equity which will be used by the Elli Investments group to fund both its capital expenditure programme and the increased costs associated with the group's strategic segmentation plan (see the consolidated financial statements of Elli Investments Limited for further detail).

The directors of Elli Investments Limited have prepared trading and cash flow forecasts for the Elli Investments group, including Four Seasons (H2) Limited, to September 2015 which, after adjustment for sensitivity analysis to incorporate the impact of reasonably foreseeable changes in trading and cash flow performance, and taking into account resources available to the group, show that it has sufficient funding and covenant headroom within its current financing arrangements.

At 31 December 2013 the company is dependent on funding provided by group companies. For this reason, the funding position of the company is dependent on that of the Elli Investments group as a whole.

Based on these forecasts, the directors of Four Seasons (H2) Limited have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The directors therefore believe that it is appropriate to prepare the financial statements on a going concern basis.

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 FSHC Group Holdings 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 2012 it was a wholly owned subsidiary undertaking of FSHC Group Holdings Limited, and its cash flows are included within the consolidated cash flow statement of that company.

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

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

Short leasehold assets	over life of lease
Equipment and fixtures	20% per annum

No depreciation is provided on freehold land.

Leases

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

Taxation

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

Guarantees

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

2 Turnover

Turnover represents the amounts derived from the provision of health care services to customers and all arose in the United Kingdom.

Notes *(continued)*

3 Profit/(loss) on ordinary activities before taxation

	2013	2012
	£000	£000
Profit /(loss) on ordinary activities before taxation is arrived at after charging:		
Depreciation - owned assets	75	70
Operating leases - land and buildings	413	617

The auditor's remuneration of £1,350 *(2012: £1,350)* 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

	2013	2012
	£000	£000
Interest on intercompany balances	31	30

5 Directors' remuneration

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

6 Staff numbers and costs

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

	Number of employees	
	2013	2012
Administration	2	2
Healthcare facilities	82	86
	84	88

The aggregate payroll costs of these persons were as follows:

	2013	2012
	£000	£000
Wages and salaries	1,353	1,393
Social security costs	111	121
	1,464	1,514

Notes *(continued)*

7 Tax on profit/(loss) on ordinary activities

	2013 £000	2012 £000
UK corporation tax		
Current tax on income for the period	-	-
Deferred tax		
Origination/reversal of timing differences	-	-
Tax on profit/(loss) on ordinary activities	-	-

Factors affecting the tax charge for the current period

The current tax charge for the year is lower *(2012: higher)* than the standard rate of corporation tax in the UK 23.25% *(2012: 24.5%)* due principally to the availability of current year losses in other group companies. The differences are explained below.

	2013 £000	2012 £000
Current tax reconciliation		
Profit/(loss) on ordinary activities before taxation	177	(47)
Current tax at 23.25% *(2012: 24.5%)*	41	(12)
Effects of:		
Expenses not deductible for tax purposes	2	2
Depreciation in excess of capital allowances	16	15
Group relief received for nil consideration	(59)	(5)
Total current tax charge	-	-

Factors that may affect future current and total tax (credit)/charge:

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability at 31 December 2013 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes *(continued)*

8 Tangible fixed assets

	Short leasehold assets £000	Equipment and fixtures £000	Total £000
Cost			
At beginning of year	110	435	545
Additions	-	53	53
At end of year	110	488	598
Depreciation			
At beginning of year ost	8	250	258
Charge for the year	2	73	75
At end of year	10	323	333
Net book value			
At 31 December 2013	**100**	**165**	**265**
At 31 December 2012	102	185	287

9 Debtors

	2013 £000	2012 £000
Amounts owed by group undertakings	**2,954**	2,292
Prepayments and accrued income	**5**	6
	2,959	2,298

The amounts owed by group undertakings are interest free, unsecured and repayable on demand.

10 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	**26**	25
Amounts owed to group undertakings	**4,502**	4,059
Other taxes and social security	**28**	27
Other creditors	**162**	140
Accruals and deferred income	**36**	46
	4,754	4,297

The amounts due to group undertakings are unsecured and repayable on demand. Where applicable, interest is charged at 5%.

Notes *(continued)*

11 Called up share capital

	2013 No. of shares	2013 £000	2012 No. of shares	2012 £000
Allotted, called up and fully paid:				
Ordinary shares of £1 each	**50,001**	**50**	50,001	50

12 Profit and loss account

	2013 £000
At beginning of year	**(1,757)**
Retained profit for the financial year	**177**
At end of year	**(1,580)**

13 Commitments

The annual commitment under non-cancellable operating leases is as follows:

	2013 £000	2012 £000
Operating leases that expire:		
More than five years– land and buildings	**425**	635

14 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.

15 Ultimate parent

The company's immediate parent company is Four Seasons Group Holdings Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking is Terra Firma Holdings Limited, an entity incorporated in Guernsey.

The largest group in which the results of the company are consolidated is that headed by FSHC Group Holdings Limited. The consolidated financial statements of this company are available to the public and may be obtained from Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.

The smallest group in which the results of the company are consolidated is that headed by Elli Investments Limited. The consolidated financial statements of this company are available to the public and may be obtained from Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.