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Four Seasons Group Limited

**Directors' report and financial
statements**

Registered number 1637C

31 December 2004



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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 2004.

Principal activity

The principal activity of the company is the investment in and operation of facilities for the care of elderly people and other specialised care activities.

Results and dividends

The results for the year are shown in the profit and loss account on page 5. An interim dividend of £4,800,000 (2003 final: £7,500,000) was paid during the year.

Directors and directors' interests

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

H D Anstead	(resigned 31 March 2005)
G Willis	(resigned 31 March 2005)
G M Crowe	(resigned 30 June 2005)
R M Bicknell	
A McGill	
A G Heywood	(appointed 31 March 2005)
N J Mitchell	(appointed 31 March 2005)
D J Kay	(appointed 30 June 2005)

The directors' beneficial interest in the share capital of the parent company Four Seasons Health Care Limited are as detailed below. The directors did not have any other beneficial interest in the shares of the company or group undertakings at the year end.

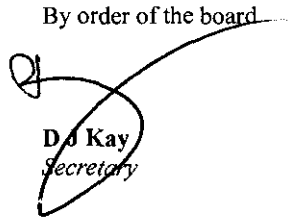
	31 December 2004	31 December 2003
	Ordinary shares	Ordinary shares
	No	No
H D Anstead	-	13,502
G Crowe	-	564

Directors' report *(continued)*

Auditors

A resolution for the re-appointment of KPMG Audit LLC will be proposed at the next Annual General Meeting under section 12(2) of the Isle of Man Companies Acts 1931 to 2004.

By order of the board.....



D J Kay
Secretary

Saddle Mews Clinic
Grove Road
Douglas
Isle of Man
27 October 2005

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 Acts 1931 - 2004. 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 Audit LLC

Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Independent auditors' report to the members of Four Seasons Group Limited

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with Section 15 of the Companies Act 1982. 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 3, the financial statements in accordance with applicable Isle of Man law and United Kingdom 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 Acts 1931 - 2004. 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' transactions with the company is not disclosed.

We read the Directors report accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Acts 1931 - 2004.

KPMG Audit LLC
Chartered Accountants

30 January 2006

Profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover	2	-	-
Cost of sales		(5,912)	(5,610)
		<hr/>	<hr/>
Gross operating loss	3	(5,912)	(5,610)
Income from group undertakings		10,200	13,300
Interest receivable	4	18	37
		<hr/>	<hr/>
Profit on ordinary activities before taxation		4,306	7,727
Tax on profit on ordinary activities	5	-	233
		<hr/>	<hr/>
Profit on ordinary activities after tax		4,306	7,960
Equity dividend	6	(4,800)	(7,500)
		<hr/>	<hr/>
Retained (loss)/profit for the financial year	12	(494)	460
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing operations.

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

The notes on pages 8-15 form part of these financial statements.

Balance sheet
at 31 December 2004

	<i>Note</i>	2004	2003
		£000	£000
Fixed assets			
Tangible assets	7	1,546	1,671
Investments	8	33,941	18,172
		<u>35,487</u>	<u>19,843</u>
Current assets			
Debtors	9	134,947	142,125
Cash at bank and in hand		1,623	1,629
		<u>136,570</u>	<u>143,754</u>
Creditors: amounts falling due within one year	10	(109,378)	(100,424)
Net current assets		<u>27,192</u>	<u>43,330</u>
Net assets		<u>62,679</u>	<u>63,173</u>
Capital and reserves			
Called up share capital	11	19,110	19,110
Share premium	12	43,468	43,468
Profit and loss account	12	101	595
Equity shareholders' funds		<u>62,679</u>	<u>63,173</u>

The notes on pages 8-15 form part of these financial statements.

These financial statements were approved by the board of directors on 27 October 2005 and were signed on its behalf by:



N J Mitchell
Director



AG Heywood
Director

Reconciliation of movements in equity shareholder's funds
for the year ended 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	4,306	7,960
Equity dividends	(4,800)	(7,500)
	<hr/>	<hr/>
Net (reduction)/addition to equity shareholders' funds	(494)	460
Opening equity shareholders' funds	63,173	62,713
	<hr/>	<hr/>
Closing equity shareholders' funds	62,679	63,173
	<hr/>	<hr/>

The notes on pages 8-15 form part of these financial statements.

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 company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost accounting rules and within the requirements of the Isle of Man Companies Acts 1931 to 2004.

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
Fixtures and fittings	-	15-20% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold land.

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.

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.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risk and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest element of the rental obligation is charged in the profit and loss account over the period of the leases and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding. Rental payments under operating leases are charged in the profit and loss account on the straight line basis over the lease term.

Cash flow statement

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as at 31 December 2004 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.

Post retirement benefits

Four Seasons Health Care Limited operates defined contribution pension schemes. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account of the company represents the contributions payable to the scheme in respect of the accounting period.

Notes (continued)

1 Accounting policies (continued)

Investment policy

Investments are included at cost, less amounts written off.

Group accounts

The company has taken advantage of FRS 2 Paragraph 21(b) which permits the parent company not to prepare group accounts as it is itself a subsidiary undertaking and its parent undertaking is established under the law of a member state of the European Economic Community.

2 Turnover

Turnover represents the amounts, (stated net of value added tax), derived from the provision of services to customers, and all arose in the United Kingdom.

3 Profit before taxation

	2004 £000	2003 £000
<i>Profit on ordinary activities before taxation is arrived at after charging:</i>		
Depreciation of tangible fixed assets	623	379

The auditors' remuneration in the current and prior year was borne by another group undertaking.

4 Interest receivable

	2004 £000	2003 £000
Income from bank deposits	18	37

Notes (continued)

5 Tax on profit on ordinary activities

	2004		2003	
	£000	£000	£000	£000
<i>Isle of Man income tax</i>				
Current tax on income for the year	-		-	
Adjustment in respect of prior years	-		233	
	<hr/>		<hr/>	
		-		233
Total current tax				
<i>Deferred tax</i>				
Origination/reversal of timing differences	-		-	
	<hr/>		<hr/>	
		-		-
		<hr/>		<hr/>
Tax on profit on ordinary activities		-		233
		<hr/>		<hr/>

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2003: lower) than the standard rate of corporation tax in the UK: 30% (2003: 30%). The differences are explained below.

	2004	2003
	£000	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	4,306	7,727
	<hr/>	<hr/>
Current tax at 30% (2003 : 30%)	1,292	2,318
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2	2
Capital allowances for period in excess of depreciation	69	-
Group relief	1,697	1,491
Income not taxable	(3,060)	(3,811)
Adjustment in respect of prior years	-	233
	<hr/>	<hr/>
Total current tax charge (see above)	-	233
	<hr/>	<hr/>

The company has an unprovided deferred tax asset of £363,000 (2003: £320,000). The asset has not been recognised due to the uncertainty of sufficient taxable profits arising to fully utilise the asset.

6 Dividends

	2004	2003
	£000	£000
Equity dividend	4,800	7,500
	<hr/>	<hr/>

Notes (continued)

7 Tangible fixed assets

	Land and buildings £000	Buildings under construction £000	Leasehold property £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
<i>Cost or fair value</i>						
At beginning of year	105	42	125	1,693	957	2,922
Additions	10	-	-	224	264	498
Transfers	42	(42)	-	-	-	-
At end of year	157	-	125	1,917	1,221	3,420
<i>Depreciation</i>						
At beginning of year	4	-	20	599	628	1,251
Charge for year	1	-	6	457	159	623
At end of year	5	-	26	1,056	787	1,874
<i>Net book value</i>						
At 31 December 2004	152	-	99	861	434	1,546
At 31 December 2003	101	42	105	1,094	329	1,671

8 Investments

	Total £000
At beginning of year	18,172
Additions	15,769
At end of year	33,941

Notes (continued)

8 Investments (continued)

The company's principal subsidiaries are as follows:

<i>Company</i>	<i>Holding</i>	<i>Nature of business and place of incorporation</i>
Four Seasons Health Care (Northern Ireland) Limited	100%*	Operator of health care facilities Incorporated in Isle of Man
Four Seasons Health Care (England) Limited	100%*	Operator of health care facilities Incorporated in Isle of Man
Four Seasons Health Care (Scotland) Limited	100%	Operator of health care facilities Incorporated in Great Britain
Four Seasons Health Care (Isle of Man) Limited	100%*	Operator of health care facilities Incorporated in Isle of Man
Huntercombe Manor Limited	100%*	Operator of health care facilities Incorporated in Great Britain
Four Seasons Health Care Properties Limited	100%	Development and investment in health care facilities Incorporated in Isle of Man
Four Seasons Homes No 1 Limited	100%	Operator of health care facilities Incorporated in Great Britain
Four Seasons Homes No 2 Limited	100%	Development and investment in health care facilities Incorporated in Great Britain
Four Seasons Homes No 3 Limited	100%	Non-trading Incorporated in Great Britain
Four Seasons Homes No 4 Limited	100%	Operator of health care facilities Incorporated in Great Britain
Four Seasons Homes No 5 Limited	100%	Operator of health care facilities Incorporated in Great Britain
Lincrest 2001 Limited	100%*	Operator of health care facilities Incorporated in Great Britain
Four Seasons Health Care (UK) Limited	100%	Non-trading Incorporated in Great Britain
Arkroy Limited	100%	Non-trading Incorporated in Isle of Man
Four Seasons Health Care Properties (Frenchay) Limited	100%*	Development and investment in health care facilities Incorporated in Great Britain
Linecrest Limited	100%*	Operator of health care facilities Incorporated in Great Britain

Notes (continued)

8 Investments (continued)

Regency House Limited	100%	Operator of and investor in health care facilities Incorporated in Great Britain
Springfield House (Oaken) Limited	100%	Operator of and investor in health care facilities Incorporated in Great Britain
Four Seasons Health Care Properties (Care Homes) Limited	100%*	Development and investment in health care facilities Incorporated in Great Britain
Four Seasons Health Care Properties (Specialist) Limited	100%*	Development and investment in health care facilities Incorporated in Great Britain

* Wholly owned through intermediate holding companies.

With the exception of Four Seasons Health Care (Isle of Man) Limited which operates on the Isle of Man, the other principal subsidiary undertakings operate in the United Kingdom and are resident in the United Kingdom for tax purposes.

9 Debtors

	2004 £000	2003 £000
Prepayments and other debtors	653	1,318
Amounts due from subsidiary undertakings	134,294	140,807
	<hr/> 134,977 <hr/>	<hr/> 142,125 <hr/>

The amounts due from group undertakings are interest free, unsecured and repayable on demand.

Notes (continued)

10 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Trade creditors	103	301
Other creditors and accruals	-	611
Other taxes and social security costs	-	350
Amounts owed to subsidiary undertakings	109,275	72,497
Amounts owed to parent undertakings	-	26,665
	<u>109,378</u>	<u>100,424</u>

The amounts due to group undertakings are interest free, unsecured and repayable on demand.

11 Share capital

	2004 £000	2003 £000
<i>Authorised</i>		
300,000,000 ordinary shares of 10p each	<u>30,000</u>	<u>30,000</u>
<i>Allotted, called up and fully paid</i>		
191,100,000 ordinary shares of 10p each	<u>19,110</u>	<u>19,110</u>

12 Reserves

	2004 £000	2003 £000
<i>Share premium</i>		
At 1 January and 31 December	<u>43,468</u>	<u>43,468</u>
<i>Retained profits</i>		
At 1 January	595	135
(Loss)/profit for the year	(494)	460
At 31 December	<u>101</u>	<u>595</u>

Notes *(continued)*

13 Ultimate parent undertaking

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

The largest group in which the results of the company are consolidated is that headed by Allianz AG. The consolidated accounts of this company are available to the public and may be obtained from Königinstraße 28, D-80802, Munich. The smallest group in which the results of the company are consolidated is that headed by Four Seasons Health Care Limited. The consolidated accounts of this company are available to the public and may be obtained from Emerson Court, Alderley Road, Wilmslow, Cheshire, SK9 1NX.

On 18 August 2004, Four Seasons Health Care Limited was acquired by Allianz AG. Prior to this date the ultimate parent company was Alchemy Partners.

14 Post balance sheet events

On 28 June 2005 one of the company's parent undertakings, Four Seasons Health Care Limited (formerly Rhyme (UK) Limited), and a related undertaking, Rhyme (Jersey) Limited, repaid their external bank borrowings. This repayment was financed through £440,000,000 of debt raised by certain group and related undertakings. Accordingly, certain of the company's securities associated with the original debt were reduced, leaving in place securities over a £25,000,000 revolving credit facility.

Following the year end, the company was part of a group reorganisation, in order to facilitate the refinancing of the group, which resulted in a change to its immediate parent undertaking. The company remains a wholly owned subsidiary of Allianz AG.