European Lifestyles (NE) Limited

Directors' report and financial statements

Registered number 06330418

For the 18 month period ended 30 June 2013

Directors and Advisors

Directors	David Manson Ted Smith
Secretary	Katharine Kandelaki (resigned 6 September 2013)
Company Number	06330418
Registered Office	Two Parklands Business Park Great Park Rubery Birmingham B45 9PZ
Auditors	KPMG LLP One Snow Hill Snow Hill Queensway Birmingham B4 6GH United Kingdom

Contents

Directors' report

The directors present their report and financial statements for the 18 month period ended 30 June 2013

Change of accounting reference date

The company has changed its accounting reference date from 31 December to 30 June

Principal activities and review of the business

The principal activity of the company in the period under review was to provide a wide range of services to disabled children and adults, who experience complex learning and/or physical difficulties and who may demonstrate associated behaviours that are challenging

Change of ownership

In July 2012, the Directors of Esquire Consolidated Group Limited ('Old Group') of which the Company is a 100% owned subsidiary entered into a new Facilities Agreement with its Senior Lenders the aim of which was to put the Group on a secure five year platform However the external bank debt remained significant and subsequently the directors of the Group entered into negotiations around a debt restructuring with its senior lenders

On 16 April 2014, Embrace Group Limited ('New Group') a company whose significant shareholders are Varde Partners and D E Shaw & Co, acquired certain of the subsidiaries of European Care & Lifestyles (UK) Limited and Esquire Realty Holdings Limited This transaction was made with a view to maintaining substantially all of the operations of Old Group, but in the context of a new ownership structure with a smaller overall debt obligation for New Group At 30 June 2013 the Old Group's external debt was £317 5 million The companies that were acquired by Embrace Group Limited have total shareholder loan notes of £79 6 million and equity of £0 5 million As part of the transaction additional cash of £5 million has been injected into the New Group, securing its long term future and meaning we can commit to investing in our business for the benefit of the people we support

This process has also led to the simplification of the Group's structure The current management team inherited a corporate structure whereby the ultimate parent company and a number of the Group's subsidiaries have been domiciled in Guernsey or the British Virgin Islands From April 2014 these companies will be domiciled in the UK for Corporation Tax purposes These subsidiaries had previously been subject to UK income tax under HMRC's Non-resident landlord scheme

The Group's management team (which has remained in place following the acquisition noted above) has been developing a new brand that is more fitting of the Group's ethos and values From 17 April 2014 the group has been operating under the name of Embrace Our new brand has been developed in conjunction with key stakeholders including people we support, relatives, staff and commissioners

Results and dividends

The results for the period are set out on page 6

The directors do not recommend payment of an ordinary dividend

Directors

The following directors have held office since 1 January 2012

Anoup Treon	(resigned 15 March 2012)
David Perry	(resigned 21 May 2012)
Jaynee Treon	(resigned 15 March 2012)
David Manson	(appointed 15 March 2012)
Ted Smith	(appointed 15 March 2012)

Directors' report *(continued)*

Company Secretary

The company secretary (Katharine Kandelaki) resigned on 6 September 2013 No new company secretary has been appointed

Statement of disclosure 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

On 3 April 2014, KPMG LLP was appointed as auditor

Pursuant to Section 485 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

Preparation of accounts on Going Concern basis

The Directors have considered the appropriateness of the going concern basis for the preparation of the financial statements in note 1

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006

By order of the board

David Manson
Director

Two Parklands Business Park
Great Park
Rubery
Birmingham
B45 9PZ

30 April 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 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 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 its financial statements comply with the Companies Act 2006 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

Independent auditor's report to the members of European Lifestyles (NE) Limited

We have audited the financial statements of European Lifestyles (NE) Limited for the period ended 30 June 2013 set out on pages 6 to 12 The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Framework for Smaller Entities (Effective April 2008) (UK Generally Accepted Accounting Practice applicable to Smaller Entities)

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 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 (APB'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 web-site 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 30 June 2013 and of its profit for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to smaller entities, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent auditor's report to the members of European Lifestyles (NE) Limited
(continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

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 prepare the financial statements and the directors' report in accordance with the small companies regime

S. Smith

Stuart Smith (Senior Statutory Auditor) 30 April 2014
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Profit and loss account
for the period ended 30 June 2013

	Note	Period ended 30 June 2013 £'000	Year ended 31 December 2011 £'000
Turnover	2	**980**	538
Cost of sales		**(666)**	(345)
Gross profit		**314**	193
Administrative expenses (includes exceptional costs of £6,000 (2011 £Nil))		**(130)**	(107)
Operating profit		**184**	86
Interest payable and similar charges		-	-
Profit on ordinary activities before taxation	3	**184**	86
Taxation on profit on ordinary activities	4	(4)	-
Profit for the financial period	10	**180**	86

The profit and loss account has been prepared on the basis that all operations are continuing operations

There were no recognised gains or losses during the current period or preceding year apart from the profit for the financial period shown above

Balance Sheet
at 30 June 2013

	Note	30 June 2013		31 December 2011	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	5		33		44
Current assets					
Debtors	6	877		225	
Cash at bank and in hand		3		2	
		880		227	
Creditors. amounts falling due within one year	7	(682)		(224)	
Net current assets			198		3
Total assets less current liabilities			231		47
Provisions	8		(4)		-
Net assets			227		47
Capital and reserves					
Called up share capital	9		-		-
Profit and loss account	10		227		47
Shareholders' funds	11		227		47

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008).

These financial statements were approved by the board of directors on 30 April 2014 and were signed on its behalf by

D. M

David Manson
Director

Company registered number 06330418

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, except as noted below

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008)

Under FRS1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Going concern

To assess the company's ability to continue as a going concern, the directors have considered the financial position and performance of both the company and the largest group of which the company is a member and for which consolidated financial statements are prepared As at 30 June 2013, Esquire Consolidated Group Limited was the largest such group ('Old Group') Following the acquisition of certain of the subsidiaries of European Care & Lifestyles (UK) Limited and Esquire Realty Holdings Limited by Embrace Group Limited on 16 April 2014, Embrace Group Limited is the largest such Group ('New Group') In signing these financial statements therefore the Directors of the Company have considered the New Group's financial position in assessing the Company's ability to continue as a going concern

Varde Partners and D E Shaw & Co financed the acquisition of certain of the former Group's subsidiaries by way of a combination of ordinary share capital and loan notes and included a cash injection of £5 million The Directors of Embrace Group Limited have prepared financial projections in line with their five year plan, having taken into account reasonably possible sensitivities and in the context of the significantly reduced overall debt burden in the New Group structure These financial forecasts and projections demonstrate that the New Group will continue to have sufficient funds to meet its cash requirements and its liabilities as they fall due for the next twelve months from approval of these financial statements

Having due regard to the factors noted above, these financial statements have been prepared on the going concern basis

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Fixtures, fittings & equipment - 20% reducing balance

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives Obligations under such agreements are included in creditors net of the finance charge allocated to future periods The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

Notes *(continued)*

1 Accounting policies *(continued)*

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease The benefit of incentives from lessors is recognised on a straight-line basis over the lower of the first break clause or to the term of the lease

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future An asset is only recognised to the extent that the transfer of economic benefits in the future is deemed to be more likely than not Deferred tax assets and liabilities recognised are not discounted

2 Turnover

Revenue comprises the fair value of fee income receivable for the period in respect of the provision of care services and is recognised in respect of the days that care has been provided in the relevant period Revenue invoiced in advance is included in deferred income until service is provided

3 Profit on ordinary activities before taxation

	Period ended 30 June 2013 £'000	Year ended 31 December 2011 £'000
Profit on ordinary activities before taxation is stated after charging		
Depreciation of tangible assets	**11**	10
Operating lease rentals – land and buildings	**9**	-
Operating lease rentals – plant and machinery	**-**	-
Fees payable to the company's auditor		
Audit of these financial statements	**2**	5

Audit fees for the period ended 30 June 2013 have been borne by a fellow subsidiary undertaking, European Care & Lifestyles (UK) Limited Fees paid to KPMG LLP and its associates for non-audit services to the company itself are not disclosed because Esquire Consolidated Group Limited is required to disclose such fees on a consolidated basis

	Period ended 30 June 2013 £'000	Year ended 31 December 2011 £'000
Exceptional costs charged to the profit and loss account is comprised of		
Administrative		
Bad debt provision[1]	**6**	-

[1]These items have been classified as exceptional because they are considered to relate to matters coming to light during the period as a result of both the restructuring exercise and the introduction of a new financial platform

Notes *(continued)*

4 Taxation

	Period ended 30 June 2013 £'000	Year ended 31 December 2011 £'000
Deferred tax		
- current year	(4)	-
- prior year	8	-
Tax charge for the period	**4**	-

5 Tangible fixed assets

	Fixtures, fittings & equipment £'000
Cost	
At beginning and end of period	54
Depreciation	
At beginning of period	10
Charge for period	11
At end of period	21
Net book value	
At 30 June 2013	**33**
At 31 December 2011	44

6 Debtors

	30 June 2013 £'000	31 December 2011 £'000
Trade debtors	**113**	38
Amounts owed by parent and fellow subsidiary undertakings	**743**	186
Other debtors	**1**	1
Prepayments and accrued income	**20**	-
	877	225

Notes *(continued)*

7 Creditors: amounts falling due within one year

	30 June 2013 £'000	31 December 2011 £'000
Trade creditors	-	1
Amounts owed to parent and fellow subsidiary undertakings	662	218
Other creditors	20	5
	682	224

8 Provisions

	Deferred tax £'000
At beginning of period	-
Charge for the period	4
At end of period	4

	30 June 2013 £'000	31 December 2011 £'000
Accelerated capital allowances	5	-
Short term timing differences	(1)	-
	4	-

9 Called up share capital

	30 June 2013 £	31 December 2011 £
Allotted, called up and fully paid		
1 ordinary share of £1 each	1	1

10 Profit and loss account

	£'000
At beginning of period	47
Profit for the period	180
At end of period	227

Notes *(continued)*

11 Reconciliation of movements in shareholders' funds

	30 June 2013 £'000	31 December 2011 £'000
Profit for the financial period	180	86
Opening shareholders' funds/(deficit)	47	(39)
Closing shareholders' funds	227	47

12 Commitments

At 30 June 2013, the company was committed to making the following annual payments under non-cancellable operating leases

	30 June 2013 £'000	31 December 2011 £'000
Operating leases which expire		
In over five years	10	-

13 Contingent liabilities

The company has given cross guarantees to the bankers of the holding company and some of its fellow subsidiaries and connected companies, up to £280,719,000

14 Remuneration of directors

The directors of the company are paid by European Care & Lifestyles (UK) Limited Details of their remuneration are disclosed in that company's financial statements

15 Related party disclosures

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8 from the requirements to make disclosure of transactions with entities that are part of the group on the grounds that the voting rights in the company are 100% controlled within the group headed by Esquire Consolidated Group Limited and the company is included in the consolidated financial statements

16 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Directors regard European Lifestyles Group Limited, a company registered in England and Wales, as the immediate parent company of European Lifestyles (NE) Limited, and as of 16 April 2014, Embrace Group Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom At 30 June 2013, Esquire Group Investment (Holdings) Limited, a company incorporated in the British Virgin Islands, was the ultimate parent company Embrace Group Limited is beneficially owned by funds managed by Varde Partners and D E Shaw & Co who are considered by the directors to be the ultimate controlling party of the group

17 Post balance sheet events

On 16 April 2014, Embrace Group Limited, a company whose significant shareholders are Varde Partners and D E Shaw & Co, acquired certain of the subsidiaries of European Care & Lifestyles (UK) Limited and Esquire Realty Holdings Limited More details and the impact of this on the Company's financing are outlined in the Going Concern section of Note 1