

# **Four Seasons Health Care**

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2016



**Four Seasons**  
Health Care

## Contents

Group financial highlights	1
Commentary on results	2
Commentary on the unaudited condensed consolidated financial statements	5
Condensed consolidated financial statements (unaudited)	8
Consolidated profit and loss account and other comprehensive income (unaudited)	10
Consolidated balance sheet (unaudited)	11
Consolidated statement of changes in equity (unaudited)	12
Consolidated cash flow statement (unaudited)	13
Notes	14

### Presentation of financial data

This report summarises the consolidated financial and operating data derived from the unaudited consolidated financial statements of Elli Investments Limited. The summary financial information provided has been derived from our records for the quarter ended 30 September 2016 which are maintained in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. These interim results are not necessarily indicative of the results to be expected for the full year.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA" and "EBITDAR", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items (and rent). Our Management believes that EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

### DISCLAIMER

**THIS DOCUMENT HAS BEEN PREPARED BY ELLI INVESTMENTS LIMITED. BY REVIEWING THIS DOCUMENT OR PARTICIPATING ON THE CONFERENCE CALL THAT PRESENTS IT, YOU AGREE TO BE BOUND BY THE FOLLOWING CONDITIONS.**

**THIS DOCUMENT IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ELLI FINANCE (UK) PLC. FURTHERMORE, IT DOES NOT CONSTITUTE A RECOMMENDATION BY ELLI INVESTMENTS LIMITED OR ANY OTHER PARTY TO SELL OR BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ANY OTHER SECURITIES. ALL WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO ELLI INVESTMENTS OR PERSONS ACTING ON THEIR BEHALF ARE QUALIFIED IN THEIR ENTIRETY BY THESE CAUTIONARY STATEMENTS.**

## Group financial highlights

- Q3 2016 turnover for Elli Investments Limited is £13.9m, or 9.0%, higher than Q3 2015 after adjusting for the impact of disposals and closures (an average reduction of c2,600 effective beds)
- Q3 2016 EBITDA of £19.7m is £6.1m higher than Q2 2016 and £7.7m higher than Q3 2015
- Group occupancy % in Q3 2016 saw a 4.0 percentage point increase over Q3 2015 (Four Seasons Health Care: 4.6 percentage point increase; brighterkind: 1.4 percentage point increase; THG: 1.7 percentage point increase) and a 1.8 percentage point increase compared to Q2 2016
- The level of occupancy in our care homes of 89.6% is now ahead of the overall sector estimate of 88.4% based on submissions by major operators in a recent study by Knight Frank
- Q3 2016 Average Weekly Fee in the group's care homes was £675, a 7.8% increase over Q3 2015 before a mix benefit of approximately 1 percentage point from closed and sold homes. NHS Funded Nursing Care increase from 1 April 2016 contributed approximately 2 percentage points of this increase
- Continued and significant progress on quality:
  - Just four embargoes in the group's care homes at the end of October 2016
  - Under the new CQC rating regime the percentage of Inadequate ratings in the group's care homes continues to decrease and is below 3%
- Q3 2016 payroll as a percentage of turnover in the group's care homes improved by 1.5 percentage points compared to Q2 2016(1). Within THG, payroll as a percentage of turnover increased by 4.0 percentage points on the previous quarter and by 2.1 percentage points on Q3 2015
- Agency as a percentage of payroll of 7.6% in the group's care homes represented a 1.2 percentage point improvement compared to Q3 2015. Within THG, agency as a percentage of payroll of 11.1% in Q3 2016 represented a 1.5 percentage point improvement compared to Q3 2015
- £13.2m net cash inflow from operations in Q3 2016
- Closing Q3 2016 cash balance of £51.2m; net debt of £513.8m at September 2016 (excluding amounts owed to related undertakings and debt issue costs)

### Notes

- 1 Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period.

## Commentary on results

Four Seasons Health Care is pleased to announce its results for the quarter ended 30 September 2016.

The results and KPIs for the group since Q1 2015 are summarised below.

	2015					2016		
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
<b>Turnover (£m)<sup>(7)</sup></b>								
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9	124.6	120.8
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8	22.8	22.8
- THG <sup>(6)</sup>	27.7	28.0	27.8	28.2	111.7	29.0	29.5	28.0
<b>Effective beds</b>								
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659	17,086	16,041
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298	2,264	2,209
- THG	1,185	1,193	1,138	1,087	1,151	1,088	1,088	1,088
<b>Occupancy %</b>								
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%	87.7%	89.8%
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%	86.0%	87.5%
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%
<b>Average weekly fee (£)<sup>(7)</sup></b>								
- FSHC	588	597	597	594	594	603	640	645
- brighterkind	785	801	811	812	802	831	891	899
- THG	2,254	2,252	2,301	2,379	2,296	2,390	2,425	2,386
<b>Payroll % (of turnover)<sup>(1)(7)</sup></b>								
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%	64.3%	63.0%
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%	60.1%	57.4%
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%
<b>Agency to total payroll %<sup>(1)</sup></b>								
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%	6.3%	8.2%
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%	5.7%	4.0%
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%	10.2%	11.1%
<b>EBITDARM % (of turnover)<sup>(7)</sup></b>								
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%	21.3%	23.4%
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%	27.0%	29.8%
- THG <sup>(6)</sup>	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%
<b>Total EBITDA<sup>(4)</sup></b>	9.7	11.1	12.2	5.7	38.7	9.2	13.6	19.7

### Notes:

- 1 Payroll % excludes central payroll from total payroll
- 2 Full year numbers may include minor rounding differences compared to the four quarter aggregate
- 3 From 1 January 2016, 10 sites previously operated by brighterkind and 5 sites previously operated by THG were transferred to FSHC. These transfers are reflected in the comparative numbers
- 4 FRS 102 operating lease charge of £0.8m included within Q4 2015; Q1-Q3 2015 quarterly EBITDA figures have not been adjusted for FRS 102
- 5 "FSHC" Four Seasons Health Care; "THG" The Huntercombe Group
- 6 Q1 - Q3 2016 includes £0.2m rental income
- 7 Q2 and Q3 2016 KPIs other than EBITDA, include the NHS Funded Nursing Care ("FNC") increase announced in July 2016 and backdated to 1 April 2016, in the relevant period.

## Commentary on results (continued)

### Turnover

After adjusting for disposals and home closures Q3 2016 turnover for Elli Investments Limited was approximately £13.9m higher than Q3 2015.

#### *Average Weekly Fee<sup>(1)</sup>*

During Q3 2016 the Average Weekly Fee ("AWF") of £760 across the group was 8.3% higher than the comparative quarter in 2015. FSHC saw an increase of 8.1%, brighterkind a 11.0% increase and THG a 3.7% increase.

#### *Occupancy*

Average care home occupancy in the group in Q3 2016 was 89.6%, compared to 85.3% in Q3 2015. Within this number FSHC occupancy increased by 4.6 percentage points, brighterkind increased by 1.4 percentage points and THG increased by 1.7 percentage points.

### Payroll<sup>(1)</sup>

Payroll in the group's care homes as a percentage of turnover was at 62.1% in Q3 2016, a 1.5 percentage point improvement compared to the same quarter in the comparative period. THG payroll as a percentage of turnover increased by 2.1 percentage points in Q3 2016 compared to the same quarter in the comparative period.

Agency costs have reduced in the group's care homes from 8.8% in Q3 2015 to 7.6% in Q3 2016 due to operational improvements and a reduction in the number of embargoes. In THG, Q3 2016 saw a 1.5 percentage points decrease compared to Q3 2015.

The number of embargoes in the group's care homes remained low at four during Q3 2016, (three in FSHC and one in brighterkind).

### Care expenses<sup>(1)</sup>

Q3 2016 expenses (care and facility combined) at 13.1% of turnover have improved by 0.6 percentage points compared to Q2 2016 and by 1.1 percentage points compared to the same quarter in the comparative period.

### Rent

£12.4m was charged for rent in Q3 2016, which is £0.4m lower than Q3 2015<sup>(2)</sup>.

### Central costs<sup>(1)</sup>

Central costs, at 6.0% of turnover in Q3 2016, are 0.5 percentage points above the comparable period in 2015 and consistent with the Q2 2016 central costs.

### EBITDA

As a consequence of the factors outlined above, the EBITDA of £19.7m for Q3 2016 was £7.7m above the comparable period in 2015 of £12.0m<sup>(2)</sup>, with a 3.1% increase in the EBITDARM margin. The LTM EBITDA at September 2016 has therefore increased to £48.8m<sup>(2)</sup> compared to the £41.1m<sup>(2)</sup> for the year to June 2016.

### Capital expenditure and disposals

Capital expenditure in Q3 2016 was £10.9m. Seven homes have been sold during Q3 2016 which, together with the final proceeds on a development project, realised approximately £11.7m cash proceeds.

1 Q2 and Q3 2016 KPIs other than EBITDA and EBITDAR, include the NHS Funded Nursing Care ("FNC") increase announced in July 2016 and backdated to 1 April 2016, in the relevant period.

2 Adjusted for £0.2m quarterly FRS 102 charge in relation to operating leases

# **Four Seasons Health Care**

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2016

## **Commentary on the unaudited condensed consolidated financial statements**

### **Summary**

#### *Profit and loss account and other comprehensive income*

The consolidated profit and loss account and other comprehensive income of Elli Investments Limited is for the quarter ended 30 September 2016. The comparative period is for the quarter ended 30 September 2015.

#### *Balance sheet*

Elli Investments Limited is an intermediate holding company in a wider group headed by FSHC Group Holdings Limited. There are therefore certain balances between Elli Investments Limited and other members of the wider FSHC Group Holdings Limited group of companies which only net out on consolidation further up the corporate structure.

### **Profit and loss account and other comprehensive income (page 10)**

For an analysis of profit and loss account categories above interest, please see the "Commentary on results" section.

#### *Interest*

The interest charge for the period includes £13.0m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £14.4m of accrued interest on the balances owed to related party undertakings, £1.9m in respect of the amortisation of debt issue costs and £0.7m interest on the term loan.

#### *Tax*

The tax credit for the quarter was £0.2m, being a £0.3m tax charge, reflecting the current estimate of the full year charge, offset by a £0.5m credit for the utilisation of group relief.

### **Balance sheet (page 11)**

#### *Goodwill*

The negative goodwill balance is a function of the 12 July 2012 acquisition structure, the fair value of the acquired net assets and the acquisition costs.

#### *Fixed assets*

Land and buildings are included in the Elli Investments Limited consolidated balance sheet at their fair value on acquisition plus any subsequent movements for additions, disposals, depreciation or impairment.

## Commentary on the unaudited condensed consolidated financial statements (continued)

### Balance sheet (continued)

#### Debtors

The following table presents the debtors at 30 September 2016 and 30 September 2015.

	<b>September 2016 £000</b>	September 2015 £000
<i>Extract</i>		
Trade debtors	<b>43,200</b>	39,642
Prepayments, other debtors and accrued income	<b>23,030</b>	23,356
	<b>66,230</b>	62,998

#### Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 30 September 2016 and 30 September 2015.

	<b>September 2016 £000</b>	September 2015 £000
<i>Extract</i>		
Trade creditors	<b>22,434</b>	24,914
Accruals and deferred income	<b>31,318</b>	24,854
Taxation and social security	<b>7,676</b>	7,757
Other creditors	<b>49,624</b>	44,455
	<b>111,052</b>	101,980

Q3 2015 debtors and creditors have been restated to present the allocation of certain items on a comparable basis.

#### Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties. In addition there is a provision of £12.3m to reflect guaranteed increases in operating leases, other than those linked to RPI, on a straight line basis over the life of the lease.

#### Long term liabilities

At 30 September 2016 the group's long term liabilities comprised the following:

- Senior Secured Notes: £350m, 8.75% interest rate
- Senior Notes: £175m, 12.25% interest rate
- Term loan: £40m, LIBOR + 6% interest rate
- Amounts owed to related and parent undertakings: £399.0m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies



## **Commentary on the unaudited condensed consolidated financial statements (continued)**

### **Cash flow statement (page 13)**

#### *Cash flow and liquidity*

At 30 September 2016 the group's cash balance was £51.2m. Net cash generated from operating activities, including interest payments, in the quarter ended 30 September 2016 was £12.6m. In the quarter to 30 September 2015, the net cash generated from operating activities, including interest payments, was £10.4m.

#### *Working capital*

The cash generated from working capital was £5.3m in the quarter, compared to a £0.3m inflow in Q3 2015.

#### *Interest paid*

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. No interest has been paid on the £40 term loan during the quarter as interest is payable in May and November.

# **Elli Investments Limited**

Condensed consolidated financial statements -  
unaudited

Quarter ended 30 September 2016

## Contents

Consolidated profit and loss account and other comprehensive income (unaudited)	10
Consolidated balance sheet (unaudited)	11
Consolidated statement of changes in equity (unaudited)	12
Consolidated cash flow statement (unaudited)	13
Notes	14

## Consolidated profit and loss account and other comprehensive income (unaudited)

for the quarter ended 30 September 2016

	<i>Note</i>	<b>Quarter ended September 2016 £000</b>	Quarter ended September 2015 £000
<b>Turnover</b>	4	<b>174,281</b>	172,472
Cost of sales		<b>(150,334)</b>	(157,637)
<b>Gross profit</b>		<b>23,947</b>	14,835
Administrative expenses – ordinary		<b>(13,375)</b>	(11,448)
Administrative expenses – exceptional		<b>(9,014)</b>	(1,393)
Other operating income – exceptional	5	<b>1,148</b>	776
		<b>(21,241)</b>	(12,065)
<b>Operating profit</b>		<b>2,706</b>	2,770
Ordinary activities		<b>10,572</b>	3,387
Exceptional activities		<b>(7,866)</b>	(617)
		<b>2,706</b>	2,770
Interest payable and similar charges		<b>(30,382)</b>	(28,429)
Interest receivable and other income		<b>59</b>	54
Net interest payable and similar charges		<b>(30,323)</b>	(28,375)
<b>Loss on ordinary activities before taxation</b>		<b>(27,617)</b>	(25,605)
Tax on loss on ordinary activities	6	<b>203</b>	195
<b>Retained loss for the financial period</b>		<b>(27,414)</b>	(25,410)

<b>Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)</b>			
<i>Analysed as:</i>			
Operating profit before exceptional items as analysed above		<b>10,572</b>	3,387
Add back: depreciation of tangible fixed assets and amortisation of capital grants		<b>9,631</b>	9,159
Deduct: amortisation of negative goodwill		<b>(549)</b>	(549)
<b>EBITDA before exceptional items</b>		<b>19,654</b>	11,997

All amounts relate to continuing operations.

There were no recognised gains or losses in the current or prior period other than those reported above and therefore no separate statement of other comprehensive income has been prepared.

Quarter ended September 2015 profit and loss account has been restated to reflect a £0.2m reduction in EBITDA on transition to FRS 102 (see note 2)

## Consolidated balance sheet (unaudited)

at 30 September 2016

	<i>Note</i>	<b>September 2016 £000</b>	September 2015 £000
<b>Fixed assets</b>			
Negative goodwill	7	<b>(34,663)</b>	(36,860)
Tangible assets	8	<b>528,430</b>	791,836
Investment properties	9	-	29,780
		<b>493,767</b>	784,756
<b>Current assets</b>			
Debtors	10	<b>69,243</b>	65,437
Cash at bank and in hand		<b>51,226</b>	52,334
		<b>120,469</b>	117,771
<b>Creditors: amounts falling due within one year</b>	11	<b>(126,642)</b>	(117,725)
<b>Net current (liabilities)/assets</b>		<b>(6,173)</b>	46
		<b>487,594</b>	784,802
<b>Creditors: amounts falling due after more than one year</b>	12	<b>(950,905)</b>	(891,339)
<b>Provisions for liabilities and charges</b>			
Deferred tax liabilities	13	<b>(5,066)</b>	(4,975)
Other provisions	14	<b>(52,246)</b>	(33,737)
		<b>(57,312)</b>	(38,712)
<b>Net liabilities</b>		<b>(520,623)</b>	(145,249)
<b>Capital and reserves</b>			
Called up share capital	15	<b>174,368</b>	174,368
Profit and loss account		<b>(694,991)</b>	(319,617)
<b>Shareholder's deficit</b>		<b>(520,623)</b>	(145,249)

## Consolidated statement of changes in equity (unaudited)

<i>Note</i>	Called up share capital £000	Profit and loss account £000	<b>Total £000</b>
<b>Balance at 1 July 2015</b>	174,368	(294,207)	<b>(119,839)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	-	(25,410)	<b>(25,410)</b>
Total comprehensive income for the period	-	(25,410)	<b>(25,410)</b>
<b>Balance at 30 September 2015</b>	<i>15</i> 174,368	(319,617)	<b>(145,249)</b>
<b>Balance at 1 July 2016</b>	174,368	(667,577)	<b>(493,209)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	-	(27,414)	<b>(27,414)</b>
Total comprehensive income for the period	-	(27,414)	<b>(27,414)</b>
<b>Balance at 30 September 2016</b>	<i>15</i> 174,368	(694,991)	<b>(520,623)</b>

## Consolidated cash flow statement (unaudited)

for the quarter ended 30 September 2016

	<b>Quarter ended September 2016 £000</b>	Quarter ended September 2015 £000
<b>Cash flows from operating activities</b>		
Loss for the period	<b>(27,414)</b>	(25,410)
Adjustments for:		
Depreciation and amortisation	<b>9,082</b>	8,610
Net interest payable and similar charges	<b>30,323</b>	28,375
Gain on sale of tangible fixed assets	<b>(2,982)</b>	(776)
Taxation	<b>(203)</b>	(195)
	<b>8,806</b>	10,604
Increase in cash arising from movement in working capital	<b>5,345</b>	335
Decrease in provisions	<b>(915)</b>	(112)
	<b>13,236</b>	10,827
Interest paid	<b>(104)</b>	(108)
Tax paid	<b>(561)</b>	(320)
<b>Net cash from operating activities</b>	<b>12,571</b>	10,399
<b>Cash flows from investing activities</b>		
Proceeds from sale of tangible fixed assets	<b>11,720</b>	2,112
Acquisition of tangible fixed assets	<b>(10,894)</b>	(11,512)
<b>Net cash from investing activities</b>	<b>826</b>	(9,400)
<b>Net cash from financing activities</b>		
	-	-
Increase in cash and cash equivalents	<b>13,397</b>	999
Cash and cash equivalents at 1 July	<b>37,829</b>	51,335
<b>Cash and cash equivalents at 30 September</b>	<b>51,226</b>	52,334

## Notes

*(forming part of the financial statements)*

### 1 General information

Elli Investments Limited (the "company") is a company registered in Guernsey. The condensed interim financial statements of the company are for quarter ended 30 September 2016.

This report does not constitute statutory financial statements and is unaudited.

### 2 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements of Elli Investments Limited for the year ended 31 December 2015 which were prepared in accordance with UK Generally Accepted Accounting Practice.

### 3 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2015 annual report and accounts of Elli Investments Limited.

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Direct costs incurred in enabling a care facility to become registered are capitalised together with, where appropriate, finance costs associated with the period of construction, and are included in the cost of the facility.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 45 years
- Equipment and fixtures – 3 to 5 years
- Motor vehicles – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### *Operating leases*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.



## **Notes (continued)**

*(forming part of the financial statements)*

### **3 Accounting policies (continued)**

#### *Goodwill*

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

#### *Negative goodwill*

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in profit or loss in the periods expected to benefit.

#### *Taxation*

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### *Exceptional items*

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gains or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

#### *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.

## Notes (continued)

(forming part of the financial statements)

### 4 Segmental information

Quarter ended 30 September 2016						
	Four Seasons Health Care	brighterkind	The Huntercombe Group	Investment Properties	Unallocated	Total
	£000	£000	£000	£000	£000	£000
Turnover	123,097	23,191	27,993	-	-	174,281
EBITDARM before exceptional items	30,549	7,182	4,557	-	-	42,288
Rent					(12,420)	(12,420)
Central costs					(10,214)	(10,214)
EBITDA						19,654

Two sublet properties previously reported within Investment Properties have been included within The Huntercombe Group from 2016 with operating profit for the quarter of £0.2m (*Q3 2015: operating profit £0.2m*).

Quarter ended 30 September 2015						
	Four Seasons Health Care	brighterkind	The Huntercombe Group	Investment Properties	Unallocated	Total
	£000	£000	£000	£000	£000	£000
Turnover	118,876	23,702	28,910	984	-	172,472
EBITDARM before exceptional items	21,376	6,670	5,437	984	-	34,467
Rent					(12,831)	(12,831)
Central costs					(9,639)	(9,639)
EBITDA						11,997

In 2015 brighterkind includes 10 properties and THG includes 5 properties which were transferred to FSHC on 1 January 2016. The turnover and EBITDARM were £2,918,000 and £737,000 in the quarter (*Q3 2015: £3,698,000 and £583,000*) respectively.

The above disclosure of financial information correlates with the information presented to the board.

No analysis of individual business assets and liabilities is presented to the board on a monthly basis and therefore no measure of business assets and liabilities is disclosed above. The total group assets and liabilities are as presented in the consolidated balance sheet.

In July 2016 a c£44 weekly increase to the level of NHS Funded Nursing Care ("FNC") was announced. The increase is effective from 1 April 2016. Due to the timing of this announcement the additional fee income was not reflected in the Q2 2016 financial statements. Q3 2016 includes c£5.2m additional fee income from the FNC increase, c£2.6m of which relates to Q2 2016.

### 5 Other operating income

	Quarter ended September 2016	Quarter ended September 2015
	£000	£000
Net profit on sale of tangible fixed assets	1,148	776

## Notes (continued)

(forming part of the financial statements)

### 6 Taxation

	Quarter ended September 2016 £000	Quarter ended September 2015 £000
<b>Total tax expense recognised in the profit and loss account and other comprehensive income and equity</b>		
<i>UK corporation tax</i>		
Current tax on loss for the period	(493)	(218)
<i>UK income tax</i>		
Current tax on loss for the period	272	-
<i>Foreign tax</i>		
Current tax on income for the period	8	10
Total current tax	(213)	(208)
<i>Deferred tax (see note 13)</i>		
Origination and reversal of timing differences	10	13
Adjustments in respect of prior periods	-	-
Total deferred tax	10	13
Total tax	(203)	(195)

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the quarter by £280,000. This has been offset by a £493,000 credit for the utilisation of group relief.

### 7 Negative goodwill

	Negative goodwill £000
<b>Net book value</b>	
At beginning of period	(35,212)
Amortisation	549
<b>At 30 September 2016</b>	<b>(34,663)</b>
At 30 September 2015	(36,860)

Negative goodwill is being amortised over 20 years.

## Notes (continued)

(forming part of the financial statements)

### 8 Tangible fixed assets

	<b>Total £000</b>
<b>Net book value</b>	
At beginning of period	<b>535,932</b>
Additions	<b>10,894</b>
Disposals	<b>(8,738)</b>
Depreciation	<b>(9,658)</b>
<b>At 30 September 2016*</b>	<b>528,430</b>
At 30 September 2015	791,836

\*During Q4 2015 an impairment of £224m was recorded against tangible fixed assets

### 9 Investment properties

	<b>September 2016 £000</b>	September 2015 £000
Valuation	-	29,780

### 10 Debtors

	<b>September 2016 £000</b>	September 2015 £000
Trade debtors	<b>43,200</b>	39,642
Prepayments, other debtors and accrued income	<b>23,030</b>	23,356
Amounts owed by related undertakings	<b>538</b>	966
Corporation tax	<b>2,475</b>	1,473
	<b>69,243</b>	65,437

## Notes (continued)

(forming part of the financial statements)

### 11 Creditors: amounts falling due within one year

	<b>September 2016 £000</b>	September 2015 £000
Trade creditors	<b>22,434</b>	24,914
Amounts due to related undertakings	<b>70</b>	70
Accruals and deferred income	<b>31,318</b>	24,854
Taxation and social security	<b>7,676</b>	7,757
Other creditors	<b>49,624</b>	44,455
Accrued interest and finance costs	<b>15,520</b>	15,675
	<b>126,642</b>	117,725

Q3 2015 debtors and creditors have been restated to present the allocation of certain items on a comparable basis.

### 12 Creditors: amounts falling due after more than one year

	<b>September 2016 £000</b>	September 2015 £000
High yield bonds	<b>525,000</b>	525,000
Term loan credit facility	<b>40,000</b>	40,000
Debt issue costs	<b>(13,107)</b>	(20,628)
External debt net of debt issue costs	<b>551,893</b>	544,372
Amounts owed to related undertakings	<b>397,201</b>	345,392
Amounts owed to parent undertakings	<b>1,811</b>	1,575
	<b>950,905</b>	891,339

### 13 Deferred tax liabilities

	<b>September 2016 £000</b>	September 2015 £000
<i>Deferred tax liabilities are attributable to the following:</i>		
Accelerated capital allowances	<b>5,066</b>	4,975

## Notes (continued)

(forming part of the financial statements)

### 14 Other provisions

	Provision for operating leases £000	Provision for onerous contracts £000	Total £000
Balance at beginning of period	12,183	40,752	52,935
Provisions made during the period	124	-	124
Provisions used during the period	-	(1,039)	(1,039)
Unwinding of discounted amounts	-	226	226
<b>Balance at end of period</b>	<b>12,307</b>	<b>39,939</b>	<b>52,246</b>

The provision for onerous contracts will unwind over the period of the relevant contracts.

The provision for operating leases will unwind over the life of the particular leases.

### 15 Share capital and other comprehensive income

	No.	2016 £000	No.	2015 £000
<b>Ordinary shares of £1 each</b> - allotted, called up and fully paid	<b>174,367,500</b>	<b>174,368</b>	174,367,500	174,368

#### *Other comprehensive income*

The group has no recognised gains or losses in the current or prior period other than those reported in the consolidated profit and loss account.