

# **Elli Investments Limited**

Annual report and consolidated financial statements

Registered number 55185  
31 December 2014



**Four Seasons**  
Health Care

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## Chairman's review

I am pleased to report on the 2014 trading for the Elli Investments group. 2014 saw a number of pleasing developments which included the transition to full operational segmentation led by our three new CEOs, a successful start to the group's refurbishment plans, the on-going evolution of our freehold estate, with a number of extensions and a further disposal of properties that do not fit in with the group's strategy, as well as regulatory improvements:

- Occupancy steady at 87.6%
- Over £1m invested in two fully refurbished homes, resulting in a c4% occupancy increase and a c6% weekly fee rate improvement
- One extension completed and a further three developments underway, adding over 100 beds to the portfolio
- £12.9m realised from the disposal of 20 care homes no longer required in the estate
- A reduction of seven in care home embargoes across the year

However, despite steady occupancy rates and fee income, 2014 was also a challenging year for the group – having started the year with almost 30 embargoes a number of care homes were restricted as to the number of residents that they could admit whilst at the same time incurring punitive payroll costs, largely driven by the need to hire agency staff. Indeed, the on-going industry-wide regulatory pressures, and agency usage driven by the significant shortage of nurses across the wider healthcare sector, meant that increased payroll costs was the defining driver of the year's results.

### *The segmented businesses*

We now have three operationally independent businesses to provide focussed and bespoke management in order to better meet the requirements of the group's service users. The three businesses are as follows:

- *Four Seasons Health Care*<sup>1</sup> – a national network of around 360 homes offering high quality dementia care together with other specialist and nursing capabilities to meet the anticipated growing demand of people requiring dementia care, all operated under the umbrella of our award winning dementia service, "PEARL";
- *brighterkind*<sup>1</sup> - a group of homes offering high quality elderly care together with hotel standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice; and
- *The Huntercombe Group* – specialist units providing care, treatment and rehabilitation services in mental health, acquired brain injury and neurodisability that are complementary to, and in partnership with, the NHS.

As is often the case with large scale transformations, the segmentation process that began in 2013 was a significant undertaking for the group. However, the appointment of the three new CEOs, and the teams that they have subsequently built, has increased stability and provided the platform required to take each of the businesses forward - Tim Hammond and Jeremy Richardson joined as CEO of Four Seasons Health Care and brighterkind respectively in May 2014 and Valerie Michie joined The Huntercombe Group as CEO in August.

### *Quality and assurance*

Our aim is to be the leading care home operator and provider of specialist services in the UK. We are committed to providing the highest standards of care for our residents and patients and we believe the best way to do that is with a stable, well trained and motivated workforce. 2014 saw the investment in a comprehensive series of leadership development and training courses at all levels in the business, ranging from home managers to operational directors. The number of courses will increase during 2015 covering an even broader range of skills. In addition, we are currently training our teams in the use of new and improved care documentation which, together with other initiatives, should make our quality and audit procedures more effective and open.

<sup>1</sup> Four Seasons Health Care and brighterkind when taken together form the Care Home Division

## Chairman's review *(continued)*

### *Quality and assurance (continued)*

In addition, during the year Dr Claire Royston was appointed to the UK Board as Group Medical Director, placing a clinician at the highest level of the organisation. Previously Dr Royston has held a number of senior positions within the NHS and she was registered as a specialist in General Adult and Old Age Psychiatry in 1997.

### *Developments and disposals*

During the year we completed an extension at Silver Springs, one of our top performing homes, extending its capacity by 26 beds. The redevelopment of the Park Lodge site in Wimbledon continues with completion expected around December 2015. In addition, we have planning permission agreed for further expansion and development at a number of sites across the group to improve the strategic offering.

We continue to progress our disposal programme for those homes which do not fit into one of the business segments or which are no longer deemed to be fit for purpose. During the year we disposed of 20 properties and the disposal of a further five properties was well advanced at the year end, with the sales now completed in 2015.

### *Market and sector*

#### Commissioning

The Commissioning landscape is beginning to bed down after a number of changes over the last few years. Commissioning remains heterogeneous, with over 200 Clinical Commissioning Groups ("CCG"), and is very dependent on local relationships to identify and respond to opportunities. Funding constraints remain the key issue with Local Authority commissioning, with recent analysis by the BBC<sup>1</sup> showing that spending on care for people aged over 65 has fallen by a fifth in England over the last ten years, at a time when clinical complexity has been rising as the population continues to age. At the same time, NHS England is more established as a commissioner of complex services at a national level (especially relevant for The Huntercombe Group) and is now clearly leading the development of strategy for the short and medium term. We wait to see the impact, from April 2015, of the £5bn fund, mostly of NHS funding, which has been set aside to help integrate health and social care.

#### Regulation

The regulatory environment continued to tighten during 2014, a process which started in mid-2013, in response to the service failures of Mid Stafford and Winterbourne View and the findings of the Francis Report. In October 2014 the CQC introduced a new quality rating system providing greater differentiation of 'Outstanding and Good' from 'Requires Improvement or Inadequate' as opposed to the previous emphasis on non-compliance. Regulation is now based on whether the service is safe, effective, caring, responsive and well led.

It is expected that there will be increased communication between regulators and commissioners, in part driven by the emerging importance of the Quality Surveillance Groups that were established last year under the direction of NHS England, with increasing input/influence into service provision outside of acute hospital care. Other care regulators (Scotland, Northern Ireland) are launching their own consultations.

Whilst all major providers saw their compliance impacted, the group has a lower compliance record than its competitors due to a core of underperforming homes which are either in the process of being turned around or being closed or sold. Overall the embargoes have been less severe than historically in terms of non-compliance, and a period of continuous churn of new and lifted embargoes has been stabilised.

1 "Care spending cut by fifth in 10 years" by Nick Triggle, Health Correspondent, BBC News, published 28 January 2015

## Chairman's review *(continued)*

### Legislation

One of the biggest drivers over the coming years in the care sector will be the implementation of the 2014 Care Act. This will have widespread implications for all care delivery within our sector in terms of financial eligibility criteria and market management. Implications from The Act began to come into force from April 2015. The Act is wide-ranging including changes to the process for the assessment of care needs and eligibility that puts the local authority at the heart of the process for all individuals who have care needs. This will give local authorities more influence over the provision of social care to all residents irrespective of who funds the care. There will also be a new framework for financial monitoring.

In addition, there will be a significant increase in the means threshold of care costs paid for by individuals. It is estimated that out of more than 400,000 people in elderly residential care, around 35,000 private residents will become eligible for local authority funding from April 2016. While at the same time, an estimated 115,000 residents will have their care costs tracked and capped. There are likely to be both positive and negative impacts from the Care Act. We are monitoring them carefully and, as the largest provider in the sector, are actively engaged in shaping the process.

### Labour market

One of the key issues across the care home and wider healthcare sector is the significant shortage of nurses, a current estimate being a 20,000 shortfall. This trend has been exacerbated by the NHS employing 5% more nurses in response to the findings of the Francis Report. This shortage, together with the regulatory pressures discussed above, has resulted in a material increase in payroll costs in 2014 due to increased staffing and increased levels of agency spend.

We have a fully staffed nurse recruitment team tasked with addressing the shortfall; this will be addressed in part by a pipeline of overseas nurse recruitment, both EU and non-EU. However it will take time for the overseas recruits to be fully operational within the group. At the same time we are developing home by home models to ensure that residents receive the appropriate funding to address their individual needs.

Given the timing of the next general election, issues around the minimum wage and living wage have become much more politicised. The national minimum wage increased by c3% in October 2014 and a similar increase has been announced for October 2015. These increases are above the local authority fee rate increases that we have received in recent years.

### *Looking forward*

Despite the challenges encountered during 2014, an improvement in performance is expected as we go through 2015 and the individual business focus delivers occupancy growth from the continued reduction in embargoes, a reduction in agency usage and an improving run rate by the end of the year.

Finally, I would once again like to take this opportunity to thank our colleagues across the whole business for all of their hard work and effort during the year. With their support and commitment, together with the determination of the three new leadership teams, I believe that 2015 will begin to show positive results from the foundations which have been put in place over the last year.



**Ian Smith**

*Chairman*

## Strategic report

### Background and ownership structure

Elli Investments Limited is a parent company of the Four Seasons Health Care group of companies comprising Four Seasons Health Care, brighterkind and The Huntercombe Group (together referred to as the "group"). The company is ultimately owned by funds managed by Terra Firma Investments (GP) 3 Limited. The ultimate controlling party is Guy Hands.

### Principal activities

The group has two principal activities. Firstly, the operation of care homes for the elderly and specialised healthcare facilities in the Care Home Division and The Huntercombe Group respectively. Secondly, the ownership of healthcare real estate and its leasing to providers of long term care for the elderly and other specialised care activities.

### Health and social care sector review

#### *Market overview*

We operate within the health and social care markets, with a focus on providing elderly care and specialised care services. Within these markets, we provide a broad range of services, predominantly funded by the public sector, with a smaller amount of revenue from privately funded sources. These markets have historically experienced steady growth due to the demographic trends of an ageing population that lives longer, on average, but suffers from ill health for more years.

Social care in the United Kingdom is primarily the responsibility of local authorities, although the Department of Health has a supervisory role and contributes certain funding. Social care is a means-tested service with individuals who have income or savings above minimum thresholds required to partially or fully fund the cost of their care.

Health care is managed by the NHS on behalf of the Department of Health. Provision of health care is, therefore, not means-tested, and is free at the point of care. Traditionally, the provision of most Department of Health funded services has been undertaken by NHS organisations.

#### *Elderly care market*

The elderly care services market provides a wide range of services to residents including, but not limited to:

- Residential care: which includes the provision of accommodation, housekeeping services, meals, recreational social activities and well-being programmes
- Nursing care: which includes the provision of residential care plus nursing care services of varying levels, depending on the needs of the particular resident
- Continuing healthcare: which includes complex care above and beyond nursing care
- Step-down and intermediate care: which includes the provision of mainly nursing care, but on a time scheduled basis, generally measured in weeks, not months, that sees the resident move to a new setting, such as their own home; this is generally used as a substitute to NHS hospital care provision
- Dementia care and palliative care: which includes the provision of specialised care within a residential setting, often including both residential and nursing services

## Strategic report (continued)

### Health and social care sector review (*continued*)

#### *Mental health services*

Mental health services are segmented across three patient groups:

- Acute psychiatry, encompassing acute general psychiatry, adolescent psychiatric treatment, eating disorders and addiction treatments
- Brain injury and neuro-rehabilitation, covering a wide range of services, from post hospital discharge to long term care
- Secure treatment, encompassing high, medium and low secure treatment for people with mental health problems detained under the Mental Health Act as well as non-secure and step-down services for people who are nevertheless liable to be compulsorily detained under the Mental Health Act

Independent mental health hospitals account for approximately 10% of the overall sector supply. The independent sector supply of mental health capacity has been driven by NHS purchasing of independent sector services, which is due to the reductions in NHS in-house supply resulting from the closure of large NHS mental health hospitals in the 1970s and 1980s.

In contrast with elderly care, demographic factors are not expected to drive major changes in the demand for mental health services. The key source of future growth will be public sector outsourcing, driven by the range of services and their customisation, capacity and operational efficiencies which the independent sector can provide.

#### *Social care and learning disabilities*

Social care and learning disabilities services refer to the provision of long term care for adults who have suffered from a mental illness or addiction, and the provision of care and education for children suffering from complex conditions and/or emotional and social difficulties which materially impact their education.

There has recently been a migration away from services in registered care home settings towards supported living arrangements. In these structures, learning disabled and mentally ill people in need of long term care will be accommodated in flats or houses as tenants (or owners) while receiving home care and other community based services rather than living in more highly regulated care homes.

#### *Competition*

We compete in several fragmented markets in which a variety of for-profit and not-for-profit groups and the public sector operate. Most competition is local, based on relevant catchment areas and local placement and procurement initiatives.

We are the largest operator in the for-profit sector with a market share of over 6%. The other three major operators in the for-profit elderly care market are BUPA Care Homes, HC-One and Barchester Healthcare.

Within the not-for-profit sector, which represents approximately 15% of the total care home market, the major providers include Anchor Trust, Sanctuary Care, The Orders of St John Care Trust, Methodist Homes and The Abbeyfield Society.

The four largest providers of the mental health services market account for c45% of the total independent market by bed capacity. Our major competitors in the provision of mental health services through specialist hospitals are the NHS, Priory Group, Partnerships in Care Limited, St Andrew's Healthcare and Cygnet Health Care.

The independent learning disabilities and mental illness care home sector remains fragmented, with the top four providers accounting for less than 10% of independent sector capacity. Such an absence of a truly large-scale portfolio leaves considerable scope for consolidation, with our major competitors in this sector being Priory Group, Voyage Group and Dimensions (UK) Ltd.

## Strategic report (continued)

### Four Seasons Health Care group

We are the largest independent provider of elderly care services in the United Kingdom, measured by both the number of facilities and number of beds, and we are a leading provider of specialised services, including brain injury rehabilitation and mental healthcare services. As at December 2014, we operated approximately 22,500 (2013: 23,500) beds in c470 facilities, including care homes, specialised hospitals and other centres. We employ approximately 31,000 people across the United Kingdom, the Channel Islands and the Isle of Man and we provide care for approximately 20,000 residents.

As stated in more detail on page 1, we operate as three businesses:

- Four Seasons Health Care;
- brighterkind; and
- The Huntercombe Group.

In addition to our three businesses, we also generate rental income through the leasing of 30 care homes and specialised units to third party operators.

#### *Competitive strengths*

Our business benefits from a number of competitive strengths, including:

- *We operate in an industry with a growing potential client base and favourable industry trends*

Increased life expectancy is resulting in a rapidly ageing profile of the population of the United Kingdom. According to the UK Office for National Statistics, by 2035 the number of people aged 85 and over is projected to be almost 2.5 times larger than in 2010, reaching 3.5 million and accounting for 5% of the total population, and the population aged 65 and over is expected to account for 23% of the total population, compared to 17% in 2010.

The industry has seen a significant shift to private-sector providers, which represented only 5% of the market in 1993, but 85% by September 2013. This trend is expected to continue as Local Authorities seek to reduce their costs following recent central government cutbacks. We expect that these factors will underpin the long-term sustainability of overall demand in our core markets and we believe that as the largest independent elderly care operator in the United Kingdom we are well positioned to benefit from these dynamics.
- *Market leading position*

In the United Kingdom, we are the largest independent provider of elderly care with a c6% share of beds. We believe that our size and position provide us with numerous benefits, such as the ability to realise economies of scale, spread the cost of complying with increasing regulatory burdens over a greater number of units and develop best practices and new service offerings across all of our facilities.
- *High quality asset base*

We have a property portfolio of around 470 facilities, approximately 60% of which are owned on a freehold basis. We continually invest in and maintain our facilities to high specifications, and we believe that the high level of maintenance of our properties helps us to maintain our quality of care standards, which are critical to attracting new residents and patients and maintaining and improving our occupancy rates. In addition, we believe that our strong portfolio of freehold, as opposed to leasehold, properties provides us with greater operating flexibility to reconfigure and reposition units as needed.
- *Segmented business*

We believe that our new segmented operational structure will deliver further improvements in operational performance. The segment specific management teams have started to provide targeted skill sets which are not possible in a more generalist operating environment.



## Strategic report (continued)

### Four Seasons Health Care group (continued)

#### *Competitive strengths (continued)*

- *Stable and diversified client base*  
We have a diversified public payer base of more than 300 purchasers. We have contracted with a large number of public sector commissioners across the UK, including more than 170 Local Authorities and more than 150 NHS commissioners.
- *Diversified service offering, with a focus on higher dependency services*  
We believe that we have the largest breadth of diversified services among elderly care operators in the United Kingdom. Within the elderly care division, we have been increasingly focusing on higher dependency services, such as dementia and other specialist care under our person-centred approach to care, PEARL.
- *High service quality recognised by regulatory bodies*  
We have driven significant improvement in our quality ratings by introducing clarity in operating goals and establishing a culture of care excellence with a structured quality assurance framework. This has seen a reduction in the number of embargoes impacting our business during 2014. We have made, and continue to make, substantial investments in training our employees and maintaining and improving our properties to ensure improving quality standards and to observe and enforce an established and constantly monitored set of policies and measures to ensure high levels of service quality and strict regulatory compliance.

#### *Strategy*

Since October 2013 the group has been operated as three distinct businesses with the CEO of each in place by August 2014.

This segmentation will give increased focus and management oversight so that each division develops by best meeting the requirements of its respective customer and patient groups. These three businesses are underpinned by the group's strategy to be the highest quality provider of elderly care and specialised healthcare services in the UK. The key elements of our strategy continue to be to:

- *Provide higher dependency, higher acuity services from our facilities as well as increasing the percentage of private payers*  
In line with our business strategy we regularly review the service offerings of each facility and, where appropriate and in consultation with the relevant local commissioner, change the service offering to one that is oriented towards higher dependency or higher acuity, which caters to a shortage of services in the local market.
- *Increase occupancy by maintaining and continually improving our quality of care and relationships with Local Authorities and commissioners*  
We believe that our focus on quality of care and the recognised quality of our services are key drivers of our longstanding relationships with Local Authorities and commissioners. We plan to continue delivering industry leading service quality and implementing best practices and new service offerings across our facilities, including a continued focus on higher dependency residents, such as through our industry leading PEARL dementia service. We believe that this approach supports the stability of our revenues and will allow us to increase our occupancy rates and to continue to find new growth opportunities and serve our customers better.
- *Increase proportion of self-funding residents*  
As part of the group's segmentation strategy into three separate businesses, additional capital expenditure will continue to be deployed to attract a higher proportion of self-funding residents. Together with additional operational expenditure this investment will reduce the group's exposure to the funding constraints which affect the fee rates paid in respect of Local Authority funded residents.

## Strategic report (continued)

### Four Seasons Health Care group (continued)

#### *Strategy (continued)*

- *Leverage our reputation, expertise and diverse asset base and drive further synergies from within our business*

We intend to continue tapping our broad and deep expertise and to take advantage of our diverse asset base in order to develop new tailored offerings in our markets and to improve business performance. In addition, where appropriate, we intend to continue centralising management functions and to implement procurement and staffing efficiencies in order to improve consistency and quality of service to our customers and to achieve cost savings.

- *Continually optimise our real estate portfolio*

We continually evaluate our real estate assets with a view to optimising our portfolio by further improving the quality of our units, repositioning homes into higher-value markets such as higher dependency care and the private-pay market, developing or selectively acquiring new units and exploring alternative uses for facilities within our portfolio, including with respect to our investment properties. Similarly, assets which are not deemed to fit any of the group's strategic objectives will be put up for disposal.

- *Evaluate and execute strategic and accretive acquisitions*

We plan to continue our disciplined approach to evaluating acquisition opportunities in order to improve our capabilities in existing service areas and to expand our range of service offerings. The markets in which we participate are highly fragmented, and smaller competitors may experience difficulties in meeting regulatory requirements and maintaining quality standards.

## Strategic report (continued)

### Financial review

These financial statements present the results of the company and its subsidiary undertakings (the "group") for 2014 with comparatives for 2013 and 2012. As the group was acquired in July 2012, full year statutory results are not available so unaudited proforma full year comparatives have been prepared instead for illustrative purposes only. It should be noted that there was an extra week of trading in 2012.

<b>Profit and loss account (unaudited, proforma)</b>	<b>Year ended 31 December 2014 (52 weeks) £000</b>	<b>Year ended 31 December 2013 (52 weeks) £000</b>	<b>Proforma year ended 31 December 2012 (53 weeks) £000</b>
<b>Turnover</b>	<b>712,876</b>	<b>709,793</b>	<b>711,682</b>
Cost of sales	(637,640)	(606,591)	(605,922)
<b>Gross profit</b>	<b>75,236</b>	<b>103,202</b>	<b>105,760</b>
Administrative expenses – ordinary	(45,585)	(41,389)	(38,099)
Administrative (expenses)/income – exceptional	(98,762)	(9,516)	13,181
	(144,347)	(50,905)	(24,918)
<b>Operating (loss)/profit</b>	<b>(69,111)</b>	<b>52,297</b>	<b>80,842</b>
Ordinary activities	29,651	61,813	67,661
Exceptional activities	(98,762)	(9,516)	13,181
<b>(Loss)/profit before interest</b>	<b>(69,111)</b>	<b>52,297</b>	<b>80,842</b>
<b>Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)</b>			
<i>Analysed as:</i>			
Operating profit before exceptional items as analysed above	29,651	61,813	67,661
Add back: depreciation of tangible fixed assets and amortisation of capital grants	36,659	33,286	32,649
Deduct: amortisation of negative goodwill	(2,197)	(1,225)	(3,708)
<b>EBITDA before exceptional items</b>	<b>64,113</b>	<b>93,874</b>	<b>96,602</b>

## Strategic report (continued)

### Financial review (continued)

#### *Key factors affecting results of operations*

The group's operating profit is affected by a number of factors including the number of effective beds, occupancy rates, payer and resident mix, fee rates, operating and other expenses together with any acquisitions and extensions. Each of these factors is discussed in more detail below.

*Effective beds:* The group's results are impacted by the number of beds in the care homes and specialised units, measured as effective beds, as the bed capacity determines the maximum number of residents and patients that the group can care for. The beds in the Investment Properties, which are operated by third party operators, are not included in our total effective beds.

*Occupancy rates:* The group's results are also affected by the occupancy rates in its care homes and specialised units. Occupancy rates are measured as the ratio of the average number of residents and patients to the effective bed count for a particular period.

When a new home is built or an extension at an existing care home is completed there is a period after opening during which it incurs start-up and operating costs prior to achieving mature occupancy levels. It typically takes approximately 18 months for a newly opened 60-bed care home to reach a mature occupancy rate during which time the home may incur operating losses.

*Payer and resident mix:* Results are affected by the payer and resident mix. In the Four Seasons Health Care and brighterkind businesses an increase in the proportion of privately funded residents will positively affect the group's results. Similarly, the changing mix of residents between those classified as "residential" and those classified as "nursing" together with the related levels of dependency can impact the group's results. Resident mix is particularly important in The Huntercombe Group where the average weekly fee varies widely across the diverse range of services provided.

*Fee rates:* The fee rates that the group charges for its services are generally subject to annual adjustments applicable from April except for self-funding residents in England for whom the increase applies from February.

The majority of the group's revenue is generated from spot purchasing or under framework agreements agreed in advance with commissioners. Small fluctuations in average weekly fees occur on a continuous basis due to a combination of changes in resident and geographical mix.

*Payroll costs:* The group's most significant operating expense is payroll costs, which represent the staff costs incurred in providing services and running the group's facilities. Payroll costs can be split into two categories: site-based payroll costs and central and regional support costs. Site-based payroll includes agency costs that are incurred to obtain the services of nurses and care staff on a temporary basis to meet staffing requirements that cannot be satisfied by the group's permanent workforce.

*Other operating costs:* Other operating costs are principally comprised of the care and facility costs required to operate the care homes and specialised units. Key items of care expenditure are generally volume related and variable in nature, such as food, medical supplies, laundry and cleaning and waste disposal. Certain costs are more fixed in nature, primarily relating to utility costs, insurance, registration fees and maintenance.

*Rent:* The group pays rental charges under operating leases in respect of approximately 40% of its properties. The remainder are owned and operated as freehold assets or leased to third-party operators. Under the majority of the leaseholds agreements, the rent payable is subject to index-linked annual increases within certain caps and collars, whilst certain lease agreements contain flexing rent mechanisms linked to the performance of the home or specialised unit, which provides downside protection while preserving incremental profit margin.

## Strategic report (continued)

### Financial review (continued)

#### Key performance indicators ("KPIs")

The main financial KPIs which the group uses to measure its performance are: EBITDA before exceptional items; weekly fee rates; payroll costs; and direct expenses. In addition, the group monitors occupancy as its main operational KPI.

Unaudited	2013					2014				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full Year
Turnover (£m)	174.7	178.2	179.3	177.5	709.8	177.9	179.2	179.4	176.4	712.9
CHD Turnover (£m)	145.2	147.1	148.2	147.7	588.1	147.0	148.5	148.4	145.5	589.4
THG Turnover (£m)	28.5	30.2	30.1	29.8	118.7	29.9	29.8	30.0	29.8	119.5
CHD EBITDARM (% of turnover)	25.2%	26.2%	26.6%	21.7%	24.9%	21.6%	22.0%	23.6%	18.3%	21.4%
THG EBITDARM (% of turnover)	19.1%	21.6%	20.7%	16.1%	19.4%	15.3%	16.7%	19.5%	15.0%	16.7%
EBITDAR (£m)	35.2	38.4	38.1	32.3	143.9	28.5	29.9	32.9	22.6	113.9
EBITDA (£m)	22.8	25.4	25.6	20.1	93.9	15.9	17.5	19.9	10.8	64.1
Effective beds – group	23,772	23,844	23,788	23,632	23,759	23,447	23,322	23,016	22,607	23,098
Occupied beds – group	20,676	20,611	20,752	20,478	20,629	20,321	20,274	20,077	19,602	20,069
CHD occupancy %	87.8%	87.2%	88.0%	87.4%	87.6%	87.4%	87.5%	88.0%	87.5%	87.6%
THG occupancy %	74.6%	75.5%	75.3%	75.2%	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%
CHD average weekly fee (£)	569	579	579	580	577	587	596	599	602	596
THG average weekly fee (£)	1,944	2,076	2,077	2,056	2,038	2,060	2,071	2,097	2,104	2,083
CHD payroll (% of turnover)	59.9%	59.7%	59.3%	63.2%	60.5%	63.2%	63.3%	62.6%	66.4%	63.8%
THG payroll (% of turnover)	68.4%	66.9%	67.5%	71.3%	68.5%	72.3%	71.1%	69.3%	72.3%	71.2%
Agency to total payroll (%)	3.3%	3.7%	5.7%	6.7%	4.9%	6.1%	7.2%	8.1%	9.3%	7.7%
Expenses (% of turnover)	14.5%	13.6%	13.6%	14.7%	14.1%	14.7%	14.2%	13.3%	14.8%	14.2%
Central costs (% of turnover)	4.2%	4.0%	4.1%	4.4%	4.2%	4.8%	4.6%	4.9%	5.3%	4.9%

Full year numbers may include minor rounding differences compared to the four quarter aggregate

CHD = Care Home Division (comprising Four Seasons Health Care and brighterkind), THG = The Huntercombe Group

#### Turnover

The group generated an additional £3.1m of turnover in 2014.

- *Average Weekly Fee*

The Average Weekly Fee ("AWF") in 2014 in the Care Home Division ("CHD") increased by 3.3% to £596 from £577 in 2013. This was driven by an increase of 2.5% in Northern Ireland from April 2014, together with private fee rate increases of up to 5% across the division. However the increase in English Local Authority fees, blended across all regions, was between only 1.0% and 2.0% whilst the increase in Scotland was only 1.2%.

Within The Huntercombe Group ("THG") the AWF in 2014 increased by 2.2% to £2,083 from the average of £2,038 in 2013.

- *Occupancy*

Despite challenging conditions, average occupancy in 2014 for CHD was 87.6%, in line with 2013, albeit with approximately 1,000 fewer beds as a result of closures and disposals during the year. In 2014, average THG occupancy increased by 0.3 percentage points compared to 2013, to 75.5%.

## Strategic report (continued)

### Financial review (continued)

#### Turnover (continued)

- *Investment property income*

Income from the group's investment properties was £3.8m in 2014 consistent with the prior year.

#### Payroll

CHD payroll, as a percentage of turnover, increased from 63.2% in quarter one of 2014 to 66.4% in quarter four of 2014. This is compared to 60.5% during 2013. Throughout 2014 significant additional payroll costs have been incurred, due to a combination of increased own staff hours and agency spend required to address a sector-wide shortage of nurses together with the impact of continued intense regulatory scrutiny across the sector. In addition, in October 2014 the National Minimum Wage increased by 3%, the highest increase since it was introduced and non-minimum wage staff received a 1.5% pay increase. Pension costs have also increased year on year due largely to the full year effect of auto-enrolment.

#### Care expenses

In 2014, expenses (care and facility combined) as a percentage of turnover, at 14.2%, were consistent with the prior year, albeit net of £1.4m of utility savings compared to the prior year.

#### Rent

Rent of £49.7m was paid in 2014, a 0.8% decrease compared to the 2013 charge of £50.1m – underlying annual inflationary uplifts on the majority of the leasehold estate were offset by a £0.7m year on year decrease following the acquisition of five freehold properties that we had leased until July 2013 as well as variations in rental charges in care homes with flexing rental agreements based on EBITDARM.

#### Central costs

Central costs, at 4.9% of turnover in 2014, have increased by 0.7 percentage points compared to 2013. The increase predominantly reflects the additional cost of moving to a segmented operational structure and the additional resource deployed to drive service quality through the estate.

#### Exceptional items

The operating profit during the year includes exceptional costs of £98.8m (2013: £9.5m). Within this total are property impairments totalling £80.8m, segmentation-related strategy costs of £4.3m, £2.8m in relation to the exit fee for surrendering five leases, a further £1.1m related to the termination of the operations of certain homes, onerous lease provisions of £2m, professional fees and specific project costs of £3.3m, £3.9m relating to closed homes and redundancy costs and a net profit on disposal of £1.1m in relation to the disposal of properties during the year.

In the prior year there were exceptional costs of £9.5m. Within this total were segmentation strategy costs of £2.2m, procurement efficiency and other project costs of £3.3m, onerous lease provisions of £2.6m, and £1.7m relating to closed homes and redundancy costs.

## Strategic report (continued)

### Financial review (*continued*)

#### *EBITDA*

As a consequence of the factors outlined above, the EBITDA of £64.1m for 2014 was £29.8m below that achieved in 2013 of £93.9m, resulting from a 27.0% decrease in gross profit. The primary reason for this was significantly higher payroll costs, driven by additional own staff costs but primarily agency usage as a result of the shortage of nurses across the wider healthcare sector and regulatory pressure. In addition, central costs increased as a result of the segmented business structure and the additional resources deployed to drive service quality.

#### *Interest*

The interest charge in the statutory profit and loss account for the year primarily relates to interest on the group's £350m senior secured notes at an interest rate of 8.75% and the £175m senior notes at an interest rate of 12.25%. The interest charge relating to the notes in the year was £52.1m. The balance, within the total charge for the year of £102.0m, relates primarily to non-cash, accrued interest of £41.0m on balances owed to related undertakings in the wider Four Seasons Health Care group, together with £7.0m in respect of the amortisation of debt issue costs.

#### *Tax*

The tax charge for the year was £0.4m, predominantly due to non-deductible expenses and depreciation in excess of capital allowances offset by payment for group relief.

The group has unrecognised deferred tax assets of £77m arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

## Strategic report (continued)

### Financial review (continued)

#### Balance sheet

The table below shows the consolidated balance sheet of Elli Investments Limited as at 31 December 2014, 31 December 2013 and 31 December 2012.

<b>Proforma (unaudited)</b>	<b>2014</b>	2013	2012
	<b>£000</b>	£000	£000
<b>Fixed assets</b>			
Intangible assets - goodwill	<b>(38,507)</b>	(40,704)	(83,247)
Tangible assets	<b>790,850</b>	881,692	908,848
Investment properties	<b>29,780</b>	29,780	29,780
	<b>782,123</b>	870,768	855,381
<b>Current assets</b>			
Debtors	<b>54,859</b>	63,241	64,963
Cash at bank and in hand	<b>85,369</b>	29,653	26,677
	<b>140,228</b>	92,894	91,640
<b>Creditors: amounts falling due within one year</b>	<b>(97,406)</b>	(92,865)	(91,016)
<b>Net current assets</b>	<b>42,822</b>	29	624
<b>Total assets less current liabilities</b>	<b>824,945</b>	870,797	856,005
<b>Creditors: amounts falling due after more than one year</b>	<b>(851,545)</b>	(780,208)	(722,323)
<b>Provisions for liabilities and charges</b>	<b>(28,225)</b>	(24,068)	(22,367)
<b>Net (liabilities)/assets</b>	<b>(54,825)</b>	66,521	111,315



## Strategic report (continued)

### Financial review (continued)

#### *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. Negative goodwill is being amortised over 20 years. A fair value adjustment was made in 2013 to reflect the impairment of the property portfolio at the date of acquisition.

#### *Fixed assets*

The valuation of the group's acquired properties was carried out by an external valuer on an individual property basis for balance sheet purposes in February 2012. This valuation was used as the basis of the statutory balance sheet valuation at 31 December 2012. The directors who have delegated authority to manage the day to day operations of the group, have carried out a review of the group's property assets at 31 December 2014 following which an impairment of £80.8m has been reflected on the group's balance sheet as at that date.

#### *Debtors*

Within total debtors, trade debtors decreased by £5.4m during 2014 which is a function of the timing of the group's billing cycle around the year end and an increase in receipts immediately prior to the year end. Prepayments and other debtors have decreased by £2.5m. This is the net effect of a decrease in prepayments of £4.5m, and an increase in other debtors of £2.0m.

#### *Creditors*

Trade creditors are £6.2m lower than 2013 which is primarily due to timing differences in the payment cycle at the year end. Accruals have increased by £11.2m of which £2.4m is attributable to the timing of utilities invoicing, £3.5m is in relation to insurance premiums, £3m is for provisions relating to redundancy and future operating losses on units identified for closure. Other creditors have decreased by £1.9m primarily due to a decrease in rent creditors which is a function of the timing of rent payments at the year end.

#### *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.

#### *Financing arrangements*

At 31 December 2014 the group's long term liabilities comprised the following:

- *Senior secured and senior notes*
  - Senior Secured Notes: £350m at a fixed interest rate of 8.75%, due to be repaid in 2019
  - Senior Notes: £175m at a fixed interest rate of 12.25%, due to be repaid in 2020
- *Term loan*

At the end of 2014, the group amended the terms of its £40m revolving credit facility ("RCF"). Following the amendment, interest is charged at LIBOR + 6% and in early 2015 the facility was converted to a term loan. The loan is due to be repaid in December 2017.

In addition there was £311.3m owed to related undertakings within the wider Four Seasons Health Care group of companies, accruing interest at 15% on a compounding basis.

The purpose of these financial instruments is to finance the group's operations. It is, and was throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken. The group has borrowed predominantly at fixed interest rates to avoid exposure to interest rate fluctuations.

## Strategic report (continued)

### Financial review (continued)

#### Share capital

During the year the group received an additional £50m of equity funding from its shareholder.

#### Liquidity and capital resources

The group maintains cash to fund the day-to-day requirements of the business, which display limited seasonality and are relatively constant throughout the year, subject to intra-month peaks and troughs related to the timing of fee receipts compared to purchase ledger, payroll and rent payment cycles. At the year end the group had £85.4m of unrestricted cash on its balance sheet.

#### Cash flow statement

<b>Proforma, unaudited</b>	<b>Elli Investments Limited Year ended 31 December 2014 £000</b>	<b>Elli Investments Limited Year ended 31 December 2013 £000</b>	<b>Elli Investments Limited Period ended 31 December 2012 £000</b>	<b>FSHC (Jersey) Holdings Limited (proforma, unaudited) Year ended 31 December 2012 £000</b>
<b>Net cash inflow from operating activities</b>	<b>60,572</b>	<b>89,247</b>	<b>47,688</b>	<b>79,013</b>
Returns on investments and servicing of finance	(53,114)	(53,149)	(24,414)	(85,205)
Capital expenditure and financial investment	(25,540)	(44,900)	(17,664)	(34,733)
Taxation	262	(3,222)	(1,818)	(533)
Acquisitions and disposals	-	-	41,418	(29,582)
<b>Net cash (outflow)/inflow before financing</b>	<b>(17,820)</b>	<b>(12,024)</b>	<b>45,210</b>	<b>(71,040)</b>
Revolving credit facility amendment costs	(1,464)	-	(42,488)	-
Financing	75,000	15,000	23,955	23,895
<b>Increase/(decrease) in cash in the period</b>	<b>55,716</b>	<b>2,976</b>	<b>26,677</b>	<b>(47,145)</b>

At 31 December 2014 the group's cash balance was £85.4m. Net cash generated from operating activities in the year ended 31 December 2014 was £60.6m (2013: £89.2m).

#### Working capital

The cash inflow from movements in working capital was £15.8m for the year (2013: £4.9m).

#### Interest paid

£52.1m was paid on the group's senior secured and senior notes during 2014 and £0.7m was paid in respect of the utilisation of the group's revolving credit facility. In addition, £0.2m was paid in respect of debt related costs. Interest payments on the group's Senior Secured and Senior Notes are made in June and December each year.

## Strategic report (continued)

### Financial review (continued)

#### *Capital expenditure and developments*

Maintenance capital expenditure is related to the maintenance of equipment and facilities due to regular use and wear and tear. Generally, the more complex the services provided, the higher the maintenance capital expenditure per bed tends to be in a particular care home or specialised unit. The group's policy is to continually improve and maintain the quality of its estate. Development capital expenditure is incurred to improve or extend the group's facilities where appropriate and to develop potential new facilities.

Total gross capital expenditure for the year ended 31 December 2014 was £38.5m (2013: £49.6m). This decrease of £11.1m compared to 2013 is primarily due to the acquisition cost of nine freehold properties in 2013. Within the 2014 total spend, £1.7m was incurred on the extension at Silver Springs care home in Jersey and £0.6m on the Park Lodge rebuild. Finally, an initial c£1m was deployed on the first private refurbishments within the brighterkind business and approximately £0.7m was spent to develop dementia services across the Four Seasons Health Care estate.

Looking forward there are plans to invest approximately £5m on an extension in one of our THG hospitals – Frenchay over the next two years. This development will complement THG's strategic focus on highly specialist complex mental health services.

At the same time, underlying maintenance capex across the estate increased from an average of £1,050 per effective bed to £1,250 to reflect the on-going commitment to investment across the whole care home and specialised unit estate.

#### *Disposals*

During the year the group continued to dispose of those assets which are underperforming or are not aligned with the strategy of any of the three businesses. Proceeds of £12.9m were received in respect of those disposals, (2013: £1.8m).

The group also negotiated a deal with the one of its landlords to close five sites, thereby eliminating £1.2m of recurring operating losses in future years.

## Strategic report (continued)

### Principal risks and uncertainties

The group's management structures, coupled with its policies and procedures, are designed to enable the achievement of business objectives while controlling the risks associated with the environment in which it operates. The group has a risk management process in place which is designed to identify, manage and mitigate business risk. Reporting of these risks and the monitoring of actions and controls is conducted by the Audit Committee, which reports its findings to the board.

The principal risks and uncertainties affecting the group, their potential impact, together with the means by which the group manages them are as follows:

#### *Financial risks*

- *Budget constraints and public spending cuts*

Potential impact: publicly funded entities could allocate less money to the services that the group provides. In addition, political or policy changes could lead to fewer services being purchased from the group with more people being cared for at home.

Mitigation: the group continues to focus on its strong partnering relationships with local authorities and care commissioners to ensure that placements are made within our facilities. In addition, we regularly assess the services we provide to ensure they represent value for money and where necessary reposition services to align with demand. The segmentation of the group into three separate businesses is intended to more closely align the service offering with the service users and commissioners of those services and aims to reduce the proportion of service users funded by public funds.

- *Reduction in the demand for our services*

Potential impact: the majority of our revenues are not guaranteed, as they are generated either from spot purchasing or under framework agreements where no volume commitments are given.

Mitigation: the group continues to focus on its strong partnering relationships with local authorities and care commissioners to ensure that placements are made within our facilities. In addition, we are focussed on continually improving the quality of our services and facilities to ensure that the group's brands are synonymous with quality of care.

- *Agency costs*

Potential impact: appropriate staffing levels are required to ensure that the correct level of care is provided. With a shortage in qualified nursing staff across the sector, the group may be required to use agency staff which cost considerably more than own staff.

Mitigation: the group actively monitors agency usage. Alternative sources of nurses are continually investigated both within the UK and internationally.

- *National Minimum Wage increases are higher than inflation*

Potential impact: a significant number of employees in the healthcare sector have salaries based on the statutory National Minimum Wage or close to the minimum wage. As such, increases in the National Minimum Wage which are in excess of income inflation could significantly reduce the group's profitability. Due to continued local authority budget constraints, the rise in the National Minimum Wage has not been matched by the inflationary increase in local authority fee rates.

Mitigation: the group budgets carefully for National Minimum Wage increases and the impact on its cash flow and profitability.

- *Interest rate risk*

Potential impact: the group finances the majority of its operations through called up share capital and external debt. At 31 December 2014, the group had £837.7m of fixed rate debt and £40.0m of variable rate debt, thereby minimising interest rate risk. The interest rate on the variable rate debt is LIBOR + 6%.

Mitigation: as at 31 December 2014, only 4.6% of the total debt is at a variable rate and as such interest rate risk is minimal.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### Financial risks (continued)

- *Liquidity risk*

Potential impact: a reduction in occupancy and fee rates combined with an increase in costs could result in reduced cash generation.

Mitigation: the group historically has a strong track record of generating stable cash flows, even in challenging market conditions, by improving the quality of our services and managing our cost base. This is achieved by exercising strong financial and management accounting through the finance function, monthly tracking of business plans and budgets against actual performance in line with obligations under financing agreements. The group has a good track record of generating cash from the disposal of properties which do not fit its strategic priorities.

- *Failure to comply with debt covenants*

Potential impact: withdrawal of funding prior to its 2017-2020 maturity dates.

Mitigation: our covenants are monitored on a monthly basis and are constantly assessed in light of any changes within the group (e.g. acquisitions). If a potential issue were to arise this would be addressed in a timely manner.

- *Failure to comply with debt service requirements*

Potential impact: The group's ability to generate sufficient cash from operating profits to fulfil its interest payments and refinance its existing indebtedness as required will be dependent on many factors, including some that are beyond the company's control.

All of the aforementioned risks will have an impact on cash generation along with the external market conditions including the economic environment of the industry and the ability to obtain new finance in the existing markets.

Mitigation: the group carefully monitors its liquidity levels and sources of additional liquidity, as well as external market conditions.

#### Operational risks

- *Reputational risk*

Potential impact: a serious incident relating to the provision of health care services or involving harm to one or more residents or patients could result in negative publicity, as could similar incidents at our competitors' facilities. Such incidents may result in an increase in scrutiny from regulators as well as from residents, patients and their families. Furthermore, the damage to our reputation could be exacerbated by any failure on our part to respond effectively to such an incident.

Mitigation: in order to mitigate this risk as far as possible, we have implemented rigorous clinical governance, carry out substantial employee training, employee inductions and employee reference procedures, including a criminal background check for all frontline staff.

- *Regulatory risk*

Potential impact: the regulatory requirements relevant to our business cover the entire range of our operations from the establishment of new facilities, to the recruitment and appointment of staff, occupational health and safety and duty of care to our residents and patients. Licensing, accreditation and certification requirements are subject to change and we may be required to adapt our facilities, equipment, personnel and services in order to comply with such changes.

In addition, a failure to comply with regulations can result in the levy of fines and/or the revocation or suspension of a facility registration or a temporary suspension of resident placements (an "embargo"). An embargo can have a significant effect on the profitability of a facility as the suspension of new placements results in a decline in occupancy and potentially increased staff costs.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Operational risks (continued)*

- *Regulatory risk (continued)*

Mitigation: the group devotes a considerable amount of time to the management of regulatory matters. Compliance with the on-going requirements of these licences and changes arising from the evolving regulatory environment mean that significant attention by senior management has been, and will continue to be, dedicated to regulatory compliance.

### Corporate social responsibility

#### *Investing in our people*

The group continues to invest in its most important asset – its 31,000 employees. Their performance is critical if we are to deliver the group's demanding objectives. Considerable progress has been made to create the framework, structure and support required to enable our employees to both fulfil their potential and deliver a high quality service to our residents and patients. During 2014 additional training and development courses have been provided at all levels of management from home level through to senior operational management.

The group provides induction training to all new recruits, including those which are employed on a temporary basis. We have a comprehensive e-learning system in place which incorporates formal, informal, scheduled and unscheduled learning for our staff. The system provides the group with the ability to continually communicate a diverse range of industry critical information, disperse knowledge and share best practice with every care home and specialised unit.

The group operates a number of employee groups as internal agencies, as well as providing the opportunity for flexible working. This structure helps to increase the employee familiarity for residents and their families.

We believe that it is important that employees feel recognised and rewarded for the work that they do. We ensure that our employees are appropriately remunerated and benchmark our salaries and benefits against our key competitors, the local market and the NHS. In addition to remuneration, the Recognition Of Care and Kindness (ROCK) award scheme has been designed by the group to give residents and/or their families and friends the opportunity to nominate an employee for a special award. This is a simple way of honouring any employee who residents or relatives believe has gone that extra mile or have shown exemplary standards of care towards a resident.

#### *Community involvement and charitable giving*

The group is proud that its care homes and facilities form part of the communities they serve. These community links are especially important when the majority of residents previously lived locally and maintaining these bonds are key to resident experience.

The group's care homes engage with many community organisations in a variety of ways. In addition to the annual gardening competition, community tea parties and summer fairs, the group is proud to freely offer facilities as meeting points for local charities and increasingly provides advice to those living locally such as dementia care drop in sessions.

The group also raises funds for causes that local communities believe in, as well as supporting the wider community by raising funds for national charities.

## Strategic report (continued)

### Corporate social responsibility (continued)

#### *Health and safety*

The group is committed to the highest standards of health and safety for our clients, staff and visitors, fully in compliance with statutory requirements. To this end, clearly defined policies, procedures, roles and responsibilities are in place, and supervision, instruction, information and appropriate training are provided. A management information system is in place to monitor safety standards and to review and report incidents. Policies and training needs are kept under review and the main board receives monthly incident reports.

#### *Complaints, concerns and incidents*

The group is committed to the highest standards of openness, probity and accountability.

The group operates a comprehensive complaints policy, enabling clients, their families, employees and third parties to raise concerns or make complaints. The principles of the Public Interest Disclosure Act are applied where relevant and a dedicated confidential line is provided for whistleblowing. The group has comprehensive processes for recording and reporting wider incidents and also for surveying service users' views as to the quality of the service offered.

Where complaints and concerns are raised these are investigated in accordance with the policy. Any complaint is taken seriously and handled sensitively and efficiently. An initial acknowledgement is sent within two working days. The complaint will be investigated and assessed to determine what action should be taken. This may involve an internal enquiry or a more formal investigation. Following investigation a full written response will be provided to the complainant, usually within twenty working days. For disclosures that concern potential criminal allegations, the company will normally inform the police, subject to Data Protection restrictions.

#### *Environmental policy*

The group seeks excellence in every aspect of its business and recognises the importance of good environmental practice. We are committed to improving further our environmental performance by setting and achieving a number of environmental objectives and targets.

In implementing the group's environmental commitment, we will:

- Comply with relevant existing environmental regulations wherever we operate
- Endeavour to minimise the consumption of resources within the properties we occupy and consider the environmental impact of our operations, concentrating particularly on the use of energy, waste disposal, water discharges and land management
- Promote awareness amongst our staff of the environmental impact of travel and to reduce the need wherever possible
- Adopt a policy of 'reduce, reuse and recycle' in our consumption of resources with sustainability being a key element especially within our administrative centres as well as, where applicable, our care home and hospital settings
- Encourage the use of e-procurement and e-tendering where possible and practical
- Regularly review our policies to ensure that they remain properly aligned to the need to reduce waste and encourage the most effective utilisation of scarce resources

## Strategic report (continued)

### Corporate social responsibility (continued)

#### *Energy efficiency*

The group is part of the CRC Energy Efficiency Scheme and the Board and senior management team are committed to reducing the group's Carbon Emissions Footprint. The group continues to look for new initiatives for energy saving investment including:

- Installing greater efficiency boilers
- The use of low energy light bulbs across all of our facilities
- Increased employee awareness to promote energy efficiency behaviours

#### **Employees**

The directors would like to take this opportunity to thank all employees for their dedication and hard work over the past year. It is their on-going commitment and focus that has enabled the group to deliver a high quality of care.

The group aims to provide equal opportunities regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin, recognising that the continued success of the group depends upon its ability to attract, motivate and retain people of the highest calibre.

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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

By order of the Board



**Rupert Mackay**

*Director*

27 April 2015



## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2014.

### Results and dividends

The loss for the year was £171,346,000 (2013: £44,794,000). The directors do not recommend the payment of a dividend with respect to ordinary shares (2013: £nil).

### Fixed assets and investment properties

During the year the group disposed of 20 properties which did not fit with the group's strategic objectives for any of the group's businesses or which were no longer deemed fit for purpose. These disposals resulted in a net profit on disposal of £1.1 million. In addition, the directors with delegated authority have reviewed the carrying value of the group's land and buildings as at 31 December 2014 taking into account the views of qualified property valuers. This has resulted in a reduction in the carrying value of the group's freehold properties and related assets by £80.8 million. The group's investment properties continue to be valued at £29.8 million.

### Going concern and liquidity management

The group monitors liquidity very closely on a day to day basis and also longer term to ensure there is sufficient cash to support the on-going business and future three year plan. During the year, the company's shareholder injected a further £50 million of equity to support the strategic segmentation of the business.

In addition, during the year, the group amended the terms of its existing revolving credit facility to be a fully drawn term loan. As a result, the group's year end unrestricted cash balance was £85.4 million. These cash resources together with the group's on-going successful disposal programme of its under-performing assets, means the group has sufficient liquidity going forward.

At the time of approving the financial statements, the directors have a reasonable expectation that the company and the group have 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.

### Corporate governance

The board of directors of Elli Investments Limited believes that effective corporate governance is a fundamental aspect of a well-run business and is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business.

The following paragraphs describe the key governance structures and internal controls operating within the group.

#### *Board constitution and procedures*

The Elli Investments Limited board comprises two directors whose biographies are shown on page 25.

The board of Elli Investments Limited acts as an overseeing body, fulfilling a corporate governance role. The board has delegated authority to manage the group's day to day operations to Elli Finance (UK) plc whose board includes the Chairman, Chief Executive Officer of Four Seasons Health Care, Chief Financial Officer and Group Medical Director and four non-executive directors. They are responsible for the leadership, strategic direction, financial performance, corporate governance, internal control, risk management and corporate and social responsibility for the group, and report directly to the board.

The Chairman is responsible for the effective running of the Elli Finance (UK) plc board and for communications with all directors and shareholders. An agenda is established for all scheduled board meetings, generally on a monthly basis. The Chairman ensures that all members of the board receive sufficient information on agenda items, including financial, business and corporate issues prior to each meeting, whether they are able to attend or not. This enables the board members to be regularly appraised on financial and operational performance and to make informed decisions on issues under consideration.

## Directors' report (continued)

### Corporate governance (continued)

#### *Board constitution and procedures (continued)*

To ensure that key policy and strategic decisions are made by the board, certain matters must be brought to the board for approval, including but not limited to: final approval of the annual accounts and budget, major acquisitions and disposals and any changes to the group's financing arrangements and financial policies. The directors also have access to the advice and services of the Company Secretary and external advisers, as appropriate.

#### *Board committees*

The Elli Finance (UK) plc board has established three committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The biographies of the company's directors are shown on pages 25 to 27.

#### - *Audit committee*

The audit committee is chaired by Ian Smith and consists of four non-executive directors in addition to the Chairman. The Chief Executive Officer of Four Seasons Health Care, Chief Financial Officer and external auditors are normally invited to attend meetings. The committee meets twice a year at appropriate times in the audit reporting cycle. At each meeting an opportunity is given for the non-executive directors and the external auditors to meet in private. As a matter of course the Chairman of the Audit Committee communicates with the audit partner outside of formal committee meetings.

The committee oversees the relationship with the external auditors. It reviews their audit plan and discusses audit findings with them. In addition, the committee reviews the effectiveness of the group's internal controls and risk management systems and reports to the board on its findings. It also ensures that there is proportionate and independent investigation of any matter brought to its attention.

The committee recommends the reappointment of the group's external auditors and annually reviews a formal letter provided by the auditors confirming their independence and objectivity within the context of applicable regulatory requirements and professional standards. The committee also reviews the terms, areas of responsibility and scope of the audit as set out in the auditors' engagement letter; the overall work plan for the forthcoming year; the cost-effectiveness of the audit, as well as the auditors' remuneration; major audit issues and their resolution; key accounting and audit judgements; the level of errors identified during the audit; the recommendations made to management by the auditors and management's response; the level and scope of non-audit fees to ensure that auditor independence is maintained.

#### - *Finance committee*

The committee is chaired by Robbie Barr and consists of two further non-executive directors, the Chairman and the Chief Financial Officer.

The committee is responsible for making recommendations to the board based on proposals regarding the creation, acquisition or disposal of subsidiaries, approval of investments or divestments and major capital projects within the group. In certain specific circumstances the board has delegated authority to the committee to make decisions in these areas.

#### - *Remuneration and nominations committee*

The remuneration and nominations committee is chaired by Robbie Barr and consists of two further non-executive directors and the Chairman. This committee meets at least once a year and at such other times as the board requires.

The committee's duties and responsibilities include the following:

- Establishing the criteria to be used in selecting directors and ensuring the remuneration package is designed to attract, motivate and retain staff of the highest calibre
- Approving the remuneration of the executive directors and management to provide independent and objective assessment of any benefits granted to directors and management
- Reviewing the design of incentive and performance related pay plans for approval by the board, together with remuneration policies as a whole across the group.

## Directors' report (continued)

### Directors

The directors who held office during the financial period and up to the date of signing the accounts are listed below:

R Mackay (appointed 3 October 2014)

S Holden (appointed 3 October 2014)

N Carey (resigned 3 October 2014)

J Stares (resigned 3 October 2014)

I Stokes (resigned 3 October 2014)

#### Rupert Mackay

*Director*

Rupert has served as an executive director of Terra Firma Capital Management since 2012 and also sits on the boards of several other Guernsey-based companies. He has over ten years' experience of working at Terra Firma. Rupert is a member of the Institute of Chartered Accountants in England and Wales, having qualified with Coopers & Lybrand (now PricewaterhouseCoopers), and has a Bachelor of Arts degree in Modern Languages from the University of Exeter.

#### Simon Holden

*Director*

Simon is an Associate Director of Terra Firma Capital Management. He has Board-level investment and portfolio management experience across a number of buy-outs at both Terra Firma and Candover Investments where he was previously an Investment Manager between 2003-2008, completing five buy-outs. Simon has both a Bachelor and Masters degree in Manufacturing Engineering from the University of Cambridge.

The board of Elli Investments Limited acts as an overseeing body, fulfilling a corporate governance role and has delegated authority to manage the group's day to day operations to Elli Finance (UK) plc. The directors of Elli Finance (UK) plc are as follows:

#### Ian Smith

*Chairman*

Ian was appointed Non-Executive Chairman following the acquisition of the group by funds controlled by Terra Firma. Previously, Chief Executive Officer of Reed Elsevier, an information company, Chief Executive Officer of Taylor Woodrow, the house-building and construction company, and, Chief Executive Officer of General Healthcare Group, which owns and operates nearly 70 hospitals in the UK. Prior to General Healthcare group, Ian was Chief Executive Officer Europe for Excel, the logistics and transportation group, and of Monitor Company Europe, a strategy consulting firm. He started his business career with nearly ten years at the Royal Dutch Shell group of companies, mostly as a CEO of Shell businesses in the Middle East.

#### Tim Hammond

*Chief Executive Officer – Four Seasons Health Care*

Tim was appointed CEO of the Four Seasons Health Care business segment in May 2014. Previously Tim was Chief Executive of Elior UK and prior to that Managing Director of Barchester Healthcare. He is a trustee of Age UK and a Board member of Care England.

## Directors' report (continued)

### Directors (continued)

Ben Taberner  
*Chief Financial Officer*

Ben was appointed CFO in March 2010, having joined the Four Seasons Health Care group in 2003 as Group Financial Accountant with responsibility for the group consolidation, statutory and investor reporting and management of the group's debt-related responsibilities. Ben has over ten years of experience in the health and social care sector. Prior to joining the group he was an assurance senior manager at KPMG.

Claire Royston  
*Group Medical Director*

Dr Claire Royston (MB ChB MSc FRCPsych), was appointed Group Medical Director in January 2014. She is responsible for integrated governance, quality assurance management and supporting the delivery of strategies and innovation within the group to ensure that the group leads the independent sector in its clinical excellence and standards of care. Dr Royston will also contribute on behalf of the organisation to the national development of key policy and decision making within the healthcare sector. She has held a number of senior positions within the NHS and was registered as a specialist in General Adult and Old Age Psychiatry in 1997.

Robbie Barr  
*Non-Executive Director*

Robbie is a Managing Director of Terra Firma Capital Partners. He joined Terra Firma in 2009 and his focus is on operational transformation and value enhancement in Terra Firma's portfolio businesses. In addition to his board position at Four Seasons Health Care, he is currently the Chairman of Odeon & UCI Cinemas. Until recently Robbie was also Deputy Chairman of the Supervisory Board of Deutsche Annington and a director of AWAS. Prior to joining Terra Firma, Robbie held a number of senior positions at Vodafone Group plc, including the role of Group Financial Controller and the regional CFO for Vodafone's businesses outside Western Europe. Robbie is a Fellow of the Institute of Chartered Accountants in England and Wales and has an MA in Mathematics from Magdalen College, Oxford University.

Steven Webber  
*Non-Executive Director*

Steven has worked on some of Terra Firma's most successful investments including transactions as diverse as the recent Annington Homes acquisition, Tank & Rast and the group's pub businesses. Steven also worked on the AWAS deal and the acquisition of Pegasus by AWAS, and has focussed on the leisure, leasing and transportation sectors.

Lorcan Woods  
*Non-Executive Director*

Lorcan joined Terra Firma in London as Finance Director for Portfolio Businesses. Lorcan had board positions at two of Terra Firma's renewable energy businesses (Everpower Wind and Infinis) as well as Phoenix Natural Gas and is now focused entirely on Four Seasons Health Care. He joined Unilever as a graduate trainee and has worked in a variety of finance roles for 21 years in foods and personal care, for example as Vice President M & A and as Financial Director of Unilever de Mexico.

Peter Dixon  
*Non-Executive Director*

Peter joined the Board as a Non-Executive Director in early 2014. He is currently Chief Executive of Phoenix Natural Gas and has a wealth of expertise in service organisations, a strong commitment to corporate social responsibility and has particular expertise in governance and audit matters.

## Directors' report (continued)

### Directors (continued)

The Chief Executive Officers of the brighterkind and The Huntercombe Group businesses are Jeremy Richardson and Valerie Michie respectively:

Jeremy Richardson  
*Chief Executive Officer – brighterkind*

Jeremy was previously Executive Chairman of Menzies Hotels, and a main board director of Bourne Leisure, owner of Haven Holidays, Butlins and Warner Hotels. Prior to that, he set up Kew Green Hotels, a company which owned and operated branded hotels which grew to become one of the largest multi franchisee hotel operators in the UK.

Valerie Michie  
*Chief Executive Officer – The Huntercombe Group*

Valerie was previously Managing Director of Serco Health, and prior to that held senior positions at Alfred McAlpine Business Services and KPMG Consulting.

### Registered office

The registered office is: Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.

### Walker Report

On 20 November 2008, David Walker published his 'Guidelines for disclosure and transparency in private equity' (the Walker Report). This report has been prepared in the context of those recommendations.

### 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 information of which the group'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 group's auditor is aware of that information.

### Auditor

In accordance with The Companies (Guernsey) Law 2008, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



**Rupert Mackay**  
*Director*

27 April 2015

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

The directors are responsible for preparing the Directors' report, Strategic 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.

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

In preparing each of the group and parent company 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent 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 (Guernsey) Law, 2008. 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 Elli Investments Limited**

We have audited the Group and Company financial statements (the "financial statements") of Elli Investments Limited (the "Company") for the year ended 31 December 2014 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. 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 Statement of directors' responsibilities set out on page 28, 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Independent auditor's report to the members of Elli Investments Limited**

*(continued)*

### **Opinion on financial statements**

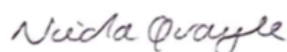
In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2014 and of its loss for the year ended 31 December 2014;
- are in accordance with United Kingdom Accounting Standards; and
- comply with The Companies (Guernsey) Law, 2008.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records, or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.



**Nicola Quayle for and on behalf of  
KPMG LLP**

*Chartered Accountants and Recognised Auditor*  
1 St Peter's Square  
Manchester  
M2 3AE  
United Kingdom

27 April 2015



## Consolidated profit and loss account

for the year ended 31 December 2014

	Note	2014 £000	2013 £000
<b>Turnover</b>	1, 2	<b>712,876</b>	709,793
Cost of sales		<b>(637,640)</b>	(606,591)
<b>Gross profit</b>		<b>75,236</b>	103,202
Administrative expenses - ordinary	3	<b>(45,585)</b>	(41,389)
Administrative expenses - exceptional	4	<b>(98,762)</b>	(9,516)
		<b>(144,347)</b>	(50,905)
<b>Operating (loss)/profit</b>	2 - 6	<b>(69,111)</b>	52,297
Ordinary activities		<b>29,651</b>	61,813
Exceptional activities		<b>(98,762)</b>	(9,516)
Interest payable and similar charges		<b>(101,969)</b>	(96,449)
Interest receivable and other income		<b>168</b>	52
Net interest payable and similar charges	7	<b>(101,801)</b>	(96,397)
<b>Loss on ordinary activities before taxation</b>	3	<b>(170,912)</b>	(44,100)
Tax on loss on ordinary activities	8	<b>(434)</b>	(694)
<b>Retained loss for the financial year</b>	18	<b>(171,346)</b>	(44,794)

### Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

*Analysed as:*

Operating profit before exceptional items as analysed above	<b>29,651</b>	61,813
Add back: depreciation of tangible fixed assets and amortisation of capital grants	<b>36,659</b>	33,286
Deduct: amortisation of negative goodwill	<b>(2,197)</b>	(1,225)
<b>EBITDA before exceptional items</b>	<b>64,113</b>	93,874

All amounts relate to continuing operations.

There were no recognised gains or losses in the current or prior year other than those reported above.

The notes on pages 36 to 51 form part of the financial statements.

## Consolidated balance sheet

at 31 December 2014

	<i>Note</i>	<b>2014</b> <b>£000</b>	2013 £000
<b>Fixed assets</b>			
Intangible assets	9	<b>(38,507)</b>	(40,704)
Tangible assets	10	<b>790,850</b>	881,692
Investment properties	11	<b>29,780</b>	29,780
		<b>782,123</b>	870,768
<b>Current assets</b>			
Debtors	13	<b>54,859</b>	63,241
Cash at bank and in hand		<b>85,369</b>	29,653
		<b>140,228</b>	92,894
<b>Creditors: amounts falling due within one year</b>	14	<b>(97,406)</b>	(92,865)
<b>Net current assets</b>		<b>42,822</b>	29
<b>Total assets less current liabilities</b>			
		<b>824,945</b>	870,797
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(851,545)</b>	(780,208)
<b>Provisions for liabilities and charges</b>	16	<b>(28,225)</b>	(24,068)
<b>Net (liabilities)/assets</b>		<b>(54,825)</b>	66,521
<b>Capital and reserves</b>			
Called up share capital	17	<b>174,368</b>	124,368
Profit and loss account	18	<b>(229,193)</b>	(57,847)
<b>Shareholder's (deficit)/funds</b>		<b>(54,825)</b>	66,521

The notes on pages 36 to 51 form part of the financial statements.

These financial statements were approved by the board of directors on 27 April 2015 and were signed on its behalf by:



**R Mackay**  
Director



**S Holden**  
Director

## Consolidated cash flow statement

for the year ended 31 December 2014

	<i>Note</i>	<b>2014</b>	2013
		<b>£000</b>	£000
<b>Net cash inflow from operating activities</b>	<i>19</i>	<b>60,572</b>	89,247
Returns on investments and servicing of finance	<i>20</i>	<b>(53,114)</b>	(53,149)
Capital expenditure and financial investment	<i>20</i>	<b>(25,540)</b>	(44,900)
Taxation		<b>262</b>	(3,222)
<b>Net cash outflow before financing</b>		<b>(17,820)</b>	(12,024)
Revolving credit facility amendment costs		<b>(1,464)</b>	-
Financing	<i>20</i>	<b>75,000</b>	15,000
<b>Increase in cash in the year</b>	<i>21</i>	<b>55,716</b>	2,976
<b>Cash brought forward</b>		<b>29,653</b>	26,677
<b>Cash carried forward</b>		<b>85,369</b>	29,653

## Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2014

	<i>Note</i>	<b>2014</b>	<b>2013</b>
		<b>£000</b>	<b>£000</b>
Increase in cash in the year	<i>21</i>	<b>55,716</b>	2,976
Utilisation of revolving credit facility	<i>21</i>	<b>(25,000)</b>	(15,000)
Revolving credit facility amendment costs	<i>21</i>	<b>1,464</b>	-
<b>Movement in net debt in the year</b>		<b>32,180</b>	(12,024)
Non cash movement	<i>21</i>	<b>(47,801)</b>	(42,885)
Net debt at beginning of year		<b>(750,555)</b>	(695,646)
<b>Net debt at end of year</b>	<i>21</i>	<b>(766,176)</b>	(750,555)

The notes on pages 36 to 51 form part of the financial statements.

## Reconciliation of movements in shareholder's (deficit)/funds

for the year ended 31 December 2014

	<b>Group</b> <b>Year ended</b> <b>31 December</b> <b>2014</b> <b>£000</b>	Group Year ended 31 December 2013 £000	<b>Company</b> <b>Year ended</b> <b>31 December</b> <b>2014</b> <b>£000</b>	Company Year ended 31 December 2013 £000
<b>Opening shareholder's funds</b>	<b>66,521</b>	111,315	<b>124,333</b>	124,429
New share capital issued	<b>50,000</b>	-	<b>50,000</b>	-
Loss for the financial year	<b>(171,346)</b>	(44,794)	<b>(41)</b>	(96)
<b>Closing shareholder's (deficit)/funds</b>	<b>(54,825)</b>	66,521	<b>174,292</b>	124,333

The notes on pages 36 to 51 form part of the financial statements.

## Company balance sheet

at 31 December 2014

	<i>Note</i>	<b>2014</b> <b>£000</b>	2013 £000
<b>Fixed assets</b>			
Investments	12	<b>174,368</b>	124,368
<b>Current assets</b>			
Debtors: due after one year	13	<b>177,253</b>	177,068
<b>Creditors: amounts falling due within one year</b>	14	<b>(2,329)</b>	(2,103)
<b>Net current assets</b>		<b>174,924</b>	174,965
<b>Total assets less current liabilities</b>		<b>349,292</b>	299,333
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(175,000)</b>	(175,000)
<b>Net assets</b>		<b>174,292</b>	124,333
<b>Capital and reserves</b>			
Called up share capital	17	<b>174,368</b>	124,368
Profit and loss account	18	<b>(76)</b>	(35)
<b>Shareholder's funds</b>		<b>174,292</b>	124,333

The notes on pages 36 to 51 form part of the financial statements.

These financial statements were approved by the board of directors on 27 April 2015 and were signed on its behalf by:



**R Mackay**  
Director



**S Holden**  
Director

## 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 and under the historical cost accounting rules.

#### *Group going concern*

In July 2012, the group issued £350m of senior secured notes which pay interest at 8.75%, and which are due for repayment in 2019, and £175m of senior notes which pay interest at 12.25%, and which are due for repayment in 2020. During the year the terms of the group's revolving credit facility were amended such that it was converted to a £40m term loan from January 2015 with a repayment date in December 2017. In addition to its external debt, the group owes £311m to related undertakings which accrues interest at 15% on a compounding basis and which is due for repayment in 2022.

During the year Terra Firma Capital Partners III LP, the group's ultimate parent undertaking, provided an additional £50m of equity, which will be used by the group to fund both its capital expenditure programme and the increased costs associated with the group's strategic segmentation plan.

The directors of Elli Investments Limited have prepared trading and cash flow forecasts for Elli Investments Limited and its subsidiary undertakings to June 2016 which, after adjustment for sensitivity analysis to incorporate the impact of reasonably foreseeable changes in trading and cash flow performance, and taking into account the group's resources, show that it has sufficient funding and covenant headroom within its current financing arrangements.

On this basis the directors have a reasonable expectation that the company, together with its subsidiary undertakings, have adequate resources to continue in operational existence for the foreseeable future. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

Furthermore, the directors have prepared the group financial statements on a going concern basis notwithstanding the net liabilities of £54.8 million (*2013: net assets of £66.5 million*), on the basis that included within creditors falling due after more than one year is £311.3 million due to related undertakings controlled by the same ultimate controlling party which the directors have confirmed will continue to be available to the group allowing it to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2014. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 243 of the Companies (Guernsey) Law 2008 the company is exempt from the requirement to present its own profit and loss account. Of the loss for the financial period, a loss of £41,000 is dealt with in the stand alone accounts of Elli Investments Limited.

#### *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:

- Freehold buildings – straight line basis over 45 years
- Equipment and fixtures – straight line basis over 3 – 5 years
- Motor vehicles – straight line basis over 4 years

No depreciation is provided on freehold land or buildings under construction.

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.

## Notes (continued)

*(forming part of the financial statements)*

### 1 Accounting policies *(continued)*

#### *Investments*

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

#### *Investment properties*

Investment properties represent freehold properties which are leased outside the group. Investment properties are revalued annually to market value on an investment basis subject to the various leases. The aggregate valuation surplus or deficit is transferred to the revaluation reserve, whilst any permanent diminution in value is charged to the profit and loss account. Under the terms of the leases, properties are maintained to a high standard by tenants.

No depreciation is provided in respect of freehold investment properties. This treatment is a departure from the requirements of The Companies (Guernsey) Law 2008 concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view.

#### *Leases*

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

#### *Goodwill*

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

Negative goodwill is similarly included on the balance sheet and is credited to the profit and loss account in the periods in which the non-monetary assets are recovered, through depreciation or sale. Negative goodwill is being written back on a straight line basis over a period of 20 years.

#### *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.

#### *Turnover*

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax. All turnover arises from operations in the United Kingdom, Isle of Man and Jersey, and is attributable to fees for the provision of healthcare and property leasing. Rents are credited gross in the period to which they relate.

#### *Post-retirement benefits*

The group operates defined contribution pension schemes as set out in note 22. The assets of the scheme are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

## Notes (continued)

*(forming part of the financial statements)*

### 1 Accounting policies *(continued)*

#### *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.

#### *Share based payments*

The fair value of shares granted is recognised as an employee expense, after deducting the amount the employees paid for their shares, with a corresponding increase in equity. The difference between the fair value at the grant date and the amount paid for the shares is spread over the period during which the employees become unconditionally entitled to those shares.

#### *Provisions*

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and where it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflect risks specific to the group.

#### *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange effective at the balance sheet date. Transactions in foreign currencies are translated into sterling at the average rate for the period.

Monetary assets and liabilities of subsidiaries in foreign currencies are translated at the rate of exchange effective at the balance sheet date and non-monetary assets and liabilities at the historical rate. Exchange differences are taken to the profit and loss account as they arise.

#### *Financial liabilities and borrowings*

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Interest-bearing loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### *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.

#### *Related party transactions*

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities that form part of this group.



## Notes (continued)

(forming part of the financial statements)

### 2 Segmental information

	2014		2013	
	Turnover £000	Result £000	Turnover £000	Result £000
Operation of care homes and specialised services	709,061	(72,344)	706,760	49,913
Property leasing	3,815	3,233	3,033	2,384
Group turnover/operating (loss)/profit after exceptional activities	712,876	(69,111)	709,793	52,297
Net interest payable and similar charges		(101,801)		(96,397)
Loss before taxation		(170,912)		(44,100)

All activities arose in the United Kingdom, the Isle of Man and Jersey and relate to continuing operations.

The principal net operating assets utilised in the property leasing business are those properties identified as investment properties.

### 3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2014 £000	2013 £000
Depreciation of tangible fixed assets	36,965	33,601
Impairment of tangible fixed assets	80,799	-
Amortisation of capital grants	(306)	(315)
Amortisation of negative goodwill	(2,197)	(1,225)
Profit on disposal of fixed assets	(1,064)	-
Amounts receivable by the auditors and their associates in respect of:		
- audit of these financial statements	47	45
- audit of subsidiaries pursuant to legislation	289	260
- other services relating to taxation	109	190
- other services	15	73
Operating lease rentals		
- buildings	49,737	50,096
- motor vehicles	198	181
- equipment and fixtures	37	39

### 4 Exceptional items

The operating profit during the year includes exceptional costs of £98.8m (2013: £9.5m). Within this total are property impairments totalling £80.8m, segmentation-related strategy costs of £4.3m, £2.8m in relation to the exit fee for surrendering certain leases, a further £1.1m related to the termination of the operations of certain specialist units, onerous lease provisions of £2m, professional fees and specific project costs of £3.3m, £3.9m relating to closed homes and redundancy costs and a net profit on disposal of £1.1m in relation to the disposal of properties during the year.

In the prior year there were exceptional costs of £9.5m. Within this total were segmentation strategy costs of £2.2m, procurement efficiency and other project costs of £3.3m, onerous lease provisions of £2.6m and £1.7m relating to closed homes and redundancy costs.

## Notes (continued)

(forming part of the financial statements)

### 5 Staff numbers and costs

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

	<b>2014</b>	2013
	<b>No.</b>	No.
Healthcare facilities	<b>29,778</b>	29,907
Administration	<b>1,582</b>	1,609
	<b>31,360</b>	31,516

The aggregate payroll costs of these persons were as follows:

	<b>2014</b>	2013
	<b>£000</b>	£000
Wages and salaries	<b>418,800</b>	408,439
Social security costs	<b>30,085</b>	26,293
Pension costs	<b>2,589</b>	1,128
	<b>451,474</b>	435,860

The company had no employees during the year.

From the 12 July 2012, certain employees have owned shares in Elli Management Limited, a shareholder in a parent undertaking of the company. No share based payment charge arose on the issue of shares in Elli Management Limited as the acquisition price paid for the shares was deemed to be equivalent to, or more than, their unrestricted market value.

### 6 Remuneration of directors

	<b>2014</b>	2013
	<b>£000</b>	£000
Amounts paid to third parties in respect of directors' services	<b>66</b>	69

In addition, during the year fees of £26,000 were paid to Morgan Sharpe Administration Limited for administration and secretarial services (2013: £15,000 were paid to State Street Global Advisors for administration and secretarial services) and £0.3m was paid to Terra Firma Capital Management Limited for the advisory services of one of the directors.

**Notes (continued)**  
*(forming part of the financial statements)*

**7 Net interest payable and similar charges**

	<b>2014</b>	2013
	<b>£000</b>	£000
<b>Interest payable:</b>		
On debt repayable after more than one year	<b>52,773</b>	52,645
On balances due to related undertakings	<b>40,845</b>	35,548
On balances due to parent undertakings	<b>185</b>	161
Amortisation of debt issue costs	<b>7,009</b>	6,974
Other finance costs	<b>229</b>	184
Unwinding of discounts on provisions	<b>928</b>	937
<b>Total interest payable and finance charges</b>	<b>101,969</b>	96,449
Bank interest receivable	<b>(168)</b>	(52)
<b>Total interest receivable</b>	<b>(168)</b>	(52)
<b>Net interest payable and similar charges</b>	<b>101,801</b>	96,397

**8 Taxation**

	<b>2014</b>	2013
	<b>£000</b>	£000
<b>Analysis of tax charge in the period:</b>		
<i>UK corporation tax</i>		
Current tax on loss for the period	-	-
<i>UK income tax</i>		
Current tax on loss for the period	<b>342</b>	667
<i>Foreign tax</i>		
Current tax on income for the period	<b>40</b>	63
<b>Total current tax</b>	<b>382</b>	730
<i>Deferred tax</i>		
Origination of timing differences (note 16)	<b>52</b>	(36)
Tax on loss on ordinary activities	<b>434</b>	694

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 year by £996,000 (2013: £667,000).

## Notes (continued)

(forming part of the financial statements)

### 8 Taxation (continued)

#### Factors affecting the tax charge:

The current tax charge for the period is higher (2013: higher) than the average standard rate of corporation tax in the UK at 21.5% (2013: 23.25%). The differences are explained below.

	2014	2013
	£000	£000
<b>Current tax reconciliation:</b>		
Loss on ordinary activities before taxation	<b>(170,912)</b>	(44,100)
Tax on loss at current rate of 21.5% (2013: 23.25%)	<b>(36,746)</b>	(10,253)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	<b>22,338</b>	4,248
Intercompany expenses not deductible for tax purposes	<b>9,521</b>	3,708
Depreciation in excess of capital allowances	<b>5,828</b>	5,350
Other timing differences	<b>784</b>	586
Tax losses created/(utilised)	<b>403</b>	(814)
Difference in overseas tax rate	<b>(1,714)</b>	(1,760)
Overseas tax liability	<b>40</b>	63
Provisions release	<b>(72)</b>	(398)
Tax on loss on ordinary activities	<b>382</b>	730

#### Factors that may affect future current and total tax charge:

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and to 20% (effective 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 2014 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

**Notes (continued)**  
*(forming part of the financial statements)*

**9 Intangible fixed assets**

	<b>Negative goodwill £000</b>
<b>Cost</b>	
At beginning and end of year	<b>(43,943)</b>
<b>Amortisation</b>	
At beginning of year	3,239
Amortisation for the year	2,197
At end of year	<b>5,436</b>
<b>Net book value</b>	
<b>At 31 December 2014</b>	<b>(38,507)</b>
At 31 December 2013	(40,704)

On 12 July 2012 Elli Investments Limited, via a direct subsidiary, acquired FSHC (Jersey) Holdings Limited and its subsidiary undertakings. Negative goodwill of £43.9 million arose on this transaction and is being amortised over 20 years.

**Notes (continued)**  
*(forming part of the financial statements)*

**10 Tangible fixed assets**

	<b>Land and buildings £000</b>	<b>Buildings under construction £000</b>	<b>Equipment and fixtures £000</b>	<b>Motor vehicles £000</b>	<b>Total £000</b>
<b>Cost</b>					
At beginning of year	812,957	847	108,999	4,639	927,442
Additions	123	4,415	32,110	1,828	38,476
Transfers	-	(2,239)	2,239	-	-
Disposals	(11,257)	-	(1,798)	(270)	(13,325)
<b>At end of year</b>	<b>801,823</b>	<b>3,023</b>	<b>141,550</b>	<b>6,197</b>	<b>952,593</b>
<b>Depreciation</b>					
At beginning of year	6,910	-	37,053	1,787	45,750
Charge for the year	6,619	-	28,837	1,509	36,965
Impairment	78,742	-	2,057	-	80,799
Disposals	(272)	-	(1,249)	(250)	(1,771)
<b>At end of year</b>	<b>91,999</b>	<b>-</b>	<b>66,698</b>	<b>3,046</b>	<b>161,743</b>
<b>Net book value</b>					
<b>At 31 December 2014</b>	<b>709,824</b>	<b>3,023</b>	<b>74,852</b>	<b>3,151</b>	<b>790,850</b>
At 31 December 2013	808,105	847	69,888	2,852	881,692

The valuation of the group's properties (including investment properties below) was carried out by an external valuer on an individual property basis for balance sheet purposes in February 2012. At the year end, the directors who have delegated authority to manage the day to day operations of the group reviewed the property portfolio in line with the requirements of FRS 11: "Impairment of fixed assets and goodwill". As a result of this review, an impairment of £80.8 million, based on a 3 year budgeted cash flow model with a 2.4% growth rate used to extrapolate these cash flow projections over a 35 year period, applying a 10.5% discount rate, has been recognised on some of the group's properties and related assets.

**11 Investment properties**

	<b>2014 £000</b>
<b>At beginning and end of year</b>	<b>29,780</b>

**Notes (continued)**  
*(forming part of the financial statements)*

**12 Fixed asset investments**

	<b>2014</b>
	<b>£000</b>
The company's investment in its direct subsidiary is as follows:	
At the beginning of year	124,368
Additional investment in subsidiary	50,000
<b>At the end of year</b>	<b>174,368</b>

A list of the company's principal subsidiary undertakings at 31 December 2014 is provided below. All of the companies are wholly owned and are indirect subsidiaries of the company. The following companies are incorporated in, and operate in, the United Kingdom:

<b>Company</b>	<b>Nature of business</b>
Four Seasons Health Care Limited	Holding company
Tamaris Healthcare (England) Limited	Operator of care homes
Four Seasons Health Care (England) Limited	Operator of care homes
Tamulst Care Limited	Operator of care homes
Four Seasons Homes No.4 Limited	Operator of care homes
Four Seasons Health Care (Northern Ireland) Limited	Operator of care homes
Four Seasons (No.10) Limited	Operator of care homes
Four Seasons (No.12) Limited	Operator of care homes
Four Seasons Health Care Properties (Frenchay) Limited	Operator of care homes
Four Seasons Health Care (Scotland) Limited	Operator of care homes
FSHC Properties (BIR) Limited	Property holding company
FSHC (SP) Limited	Property holding company
FSHC Properties (CH2) Limited	Property holding company
Mericourt Limited*	Holding company

The following companies are incorporated in Jersey, Channel Islands:

<b>Company</b>	<b>Nature of business</b>
PHF Securities No.1 Limited	Long leasehold holding company
PHF Securities No.2 Limited	Long leasehold holding company
PHF (CHP) Limited	Property holding company
Rhyme (Jersey) Limited*	Holding company
Principal Healthcare Finance Limited	Holding company

The following company is incorporated in the Cayman Islands:

<b>Company</b>	<b>Nature of business</b>
Fino Seniorco Limited	Holding company

\*Holdings in these companies consist of ordinary and preference shares. Holdings in all other companies consist of ordinary shares only.

**Notes (continued)**  
*(forming part of the financial statements)*

**13 Debtors**

	<b>Group</b>	<b>Company</b>	Group	Company
	<b>2014</b>	<b>2014</b>	2013	2013
	<b>£000</b>	<b>£000</b>	£000	£000
Trade debtors	<b>32,184</b>	-	37,608	-
Amounts owed by related undertakings	<b>211</b>	<b>175,953</b>	-	175,953
Amounts owed by subsidiary undertakings	-	<b>1,300</b>	-	1,115
Corporation tax	<b>134</b>	-	778	-
Prepayments, other debtors and accrued income	<b>22,330</b>	-	24,855	-
	<b>54,859</b>	<b>177,253</b>	63,241	177,068

All of the group's debtors are due within one year. The company's debtor balances are due in more than one year.

**14 Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Company</b>	Group	Company
	<b>2014</b>	<b>2014</b>	2013	2013
	<b>£000</b>	<b>£000</b>	£000	£000
Trade creditors	<b>7,237</b>	-	13,407	-
Other taxation and social security	<b>8,427</b>	-	6,925	-
Other creditors	<b>41,847</b>	-	43,773	-
Amounts owed to related undertakings	<b>11</b>	<b>1,419</b>	11	1,233
Amounts owed to subsidiary undertakings	-	<b>136</b>	-	1
Accruals and deferred income	<b>37,780</b>	<b>10</b>	26,603	47
Accrued interest and finance costs	<b>2,104</b>	<b>764</b>	2,146	822
	<b>97,406</b>	<b>2,329</b>	92,865	2,103



## Notes (continued)

(forming part of the financial statements)

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

	<b>Group</b>	<b>Company</b>	Group	Company
	<b>2014</b>	<b>2014</b>	2013	2013
	<b>£000</b>	<b>£000</b>	£000	£000
High yield bonds	<b>525,000</b>	<b>175,000</b>	525,000	175,000
Debt issue costs	<b>(24,731)</b>	-	(31,740)	-
High yield bonds net of debt issue costs	<b>500,269</b>	<b>175,000</b>	493,260	175,000
Revolving credit facility	<b>40,000</b>	-	15,000	-
Revolving credit facility – amendment cost	<b>(1,464)</b>	-	-	-
Amounts owed to related undertakings	<b>311,321</b>	-	270,714	-
Amounts owed to parent undertakings	<b>1,419</b>	-	1,234	-
	<b>851,545</b>	<b>175,000</b>	780,208	175,000

#### *Credit facilities*

The high yield bonds consist of:

- £350,000,000 of senior secured notes accruing interest at a fixed rate of 8.75%. At the year end, the interest accrued was £1,090,000 (2013: £1,175,000) all of which was due within one year. The notes are due to be repaid in 2019.
- £175,000,000 of senior notes accruing interest at a fixed rate of 12.25%. At the year end, the interest accrued was £764,000 (2013: £822,000) all of which was due within one year. The notes are due to be repaid in 2020.

The senior secured notes are secured on the trade and assets of certain subsidiary undertakings.

The amount due to group undertakings accrues interest at 15% on a compounding basis and is due for repayment in 2022.

#### Revolving credit facility

In December 2014, the group amended the terms of its revolving credit facility under which it was converted to a term loan in early 2015. The facility bears interest at LIBOR + 6% and is due for repayment in December 2017. At the year end £40 million was drawn under this facility and the accrued interest was £250,000 (2013: £149,000).

#### *Maturity of credit facilities*

The maturity profile of the group's gross credit facilities was as follows:

	<b>Group</b>	Group
	<b>2014</b>	2013
	<b>£000</b>	£000
In 2 to 5 years	<b>390,000</b>	15,000
In more than 5 years	<b>487,740</b>	796,948
	<b>877,740</b>	811,948

## Notes (continued)

(forming part of the financial statements)

### 15 Creditors: amounts falling due after more than one year (continued)

*Fair values of financial assets and financial liabilities*

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities, excluding balances with related undertakings, as at 31 December 2014:

	Book value	Fair value	Book value	Fair value
	2014	2014	2013	2013
	£000	£000	£000	£000
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Financial assets: cash	85,369	85,369	29,653	29,653
Financial liabilities:				
8.75% senior secured notes	350,000	354,095	350,000	388,934
12.25% senior notes	175,000	188,562	175,000	195,078

The fair values have been calculated by reference to the prices available as at 31 December 2014 for the senior secured notes and the senior notes. Please refer to page 18 for details of the principal financial risks facing the group.

### 16 Provisions for liabilities and charges

Group	Deferred taxation £000	Provision for onerous contracts £000	Total £000
At beginning of year	4,885	19,183	24,068
Charged to the profit and loss account	52	3,177	3,229
Unwinding of discount	-	928	928
<b>At end of year</b>	<b>4,937</b>	<b>23,288</b>	<b>28,225</b>

	2014	2013
	£000	£000

**The elements of deferred taxation are as follows:**

Difference between accumulated depreciation, amortisation and capital allowances	4,937	4,885
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The group has unrecognised deferred tax assets of £77m (2013: £68m) arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

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

**Notes (continued)**  
*(forming part of the financial statements)*

**17 Called up share capital**

	2014		2013	
	No.	£000	No.	£000
<b>Ordinary shares of £1 each</b> - allotted, called up and fully paid	<b>174,367,500</b>	<b>174,368</b>	124,367,500	124,368

The new shares allotted during 2014 were as follows:

	Quantity No.	Aggregate nominal value £000	Consideration received £000	Date of issue
Ordinary shares of £1 each	50,000,000	50,000	50,000	19 December 2014

**18 Reserves**

	Profit and loss account £000	Total £000
<b>Group</b>		
At beginning of year	(57,847)	(57,847)
Retained loss for the financial year	(171,346)	(171,346)
<b>At end of year</b>	<b>(229,193)</b>	<b>(229,193)</b>
<b>Company</b>		
At beginning of year	(35)	(35)
Retained loss for the financial year	(41)	(41)
<b>At end of year</b>	<b>(76)</b>	<b>(76)</b>

Included in the group profit and loss account reserve is amortised negative goodwill of £5,436,000 which arose on the acquisition of subsidiary undertakings.

**19 Reconciliation of operating profit to net cash inflow from operating activities**

	2014 £000	2013 £000
(Loss)/profit on ordinary activities before finance charges	<b>(69,111)</b>	52,297
Depreciation, amortisation and impairment	<b>115,261</b>	32,061
Decrease in debtors	<b>7,738</b>	2,500
Increase in creditors	<b>8,066</b>	2,389
Profit on disposal of fixed assets	<b>(1,382)</b>	-
<b>Net cash inflow from operating activities</b>	<b>60,572</b>	89,247

**Notes (continued)**  
*(forming part of the financial statements)*

**20 Analysis of cash flows**

	<b>2014</b>	2013
	<b>£000</b>	£000
<b>Returns on investment and servicing of finance</b>		
Interest received	168	52
Interest paid – external debt	(53,044)	(52,963)
Interest paid (net) – related undertakings	(238)	(238)
	<b>(53,114)</b>	<b>(53,149)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(38,476)	(46,743)
Sale of tangible fixed assets	12,936	1,843
	<b>(25,540)</b>	<b>(44,900)</b>
<b>Financing</b>		
Share capital issued	50,000	-
Utilisation of revolving credit facility	25,000	15,000
	<b>75,000</b>	<b>15,000</b>

**21 Analysis of net debt**

	At 31 December 2013 £000	Cash flow £000	Non- cash items £000	At 31 December 2014 £000
Cash at bank and in hand	29,653	55,716	-	<b>85,369</b>
Amounts owed to related undertakings due in more than one year	(270,714)	-	(40,607)	<b>(311,321)</b>
Amounts owed to parent undertakings due in more than one year	(1,234)	-	(185)	<b>(1,419)</b>
High yield bonds due in more than one year	(493,260)	-	(7,009)	<b>(500,269)</b>
Revolving credit facility	(15,000)	(23,536)	-	<b>(38,536)</b>
	<b>(750,555)</b>	<b>32,180</b>	<b>(47,801)</b>	<b>(766,176)</b>

Non-cash items relate to the amortisation of debt issue costs and accrued interest on amounts due to related group and parent undertakings.

**22 Pension schemes**

The group operates a number of pension schemes for its employees. All schemes are defined contribution schemes. The assets of all schemes are held in separate funds administered by the Trustees and are independent of the group's finances.

The total cost charged to the profit and loss account during the year was £2,589,000 (2013: £1,128,000). At the year end £381,000 (2013: £366,000) of pension contributions were outstanding.

**Notes (continued)**  
*(forming part of the financial statements)*

**23 Commitments**

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

<b>Group</b>	<b>2014</b> <b>£000</b>	2013 £000
Contracted	<b>5,724</b>	8,672

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

<b>Group</b>	<b>2014</b> <b>£000</b>	2013 £000
Land and buildings – expiring in more than five years	<b>53,625</b>	53,741
Equipment, fixtures and motor vehicles – expiring in less than one year	<b>33</b>	40
Equipment, fixtures and motor vehicles – expiring in between two and five years	-	3
	<b>53,658</b>	<b>53,784</b>

The company had no capital or operating lease commitments at 31 December 2014 (*2013: £nil*).

**24 Related parties and related party transactions**

Terra Firma Investments (GP) 3 Limited, acting as general partner of Terra Firma Capital Partners III LP, has the ability to exercise a controlling influence over the company through the holding of shares in a parent of the company. The directors therefore consider Terra Firma Investments (GP) 3 Limited to be a related party. As the company has the ability to exercise a controlling influence over its subsidiary undertakings, which are members of the group, the directors consider these subsidiary undertakings to be related parties.

As the company is a wholly owned subsidiary of FSHC Group Holdings Limited, it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of this group.

During the year, entities within the Terra Firma group charged the group £1,158,000 (*2013: £436,000*) for the full time secondment of certain employees. At the year end £800,000 (*2013: £254,000*) remained outstanding.

On 20 March 2014, a parent company of the group acquired, via an indirect subsidiary, seven homes from Majesticare, operating a total of 358 beds and employing approximately 400 staff.

**25 Ultimate parent undertaking**

The company's immediate parent undertaking is Elli Finance II Limited, a company incorporated in Guernsey. The directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity. The ultimate controlling party is Guy Hands.