Elli Investments Limited

Annual report and consolidated financial statements

Registered number 55185

31 December 2017

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Chairman's review

The past year has been a very busy and productive one for the group with continuing improvement in care quality, occupancy and employee engagement. In addition, significant progress has been made on the key priority of working with the group's key stakeholders to deliver a sustainable capital structure so that the group is well positioned to fulfil its potential for its residents, staff and providers of capital.

2017 performance

The highlights of the group's 2017 operating performance were:

- Across our three businesses, regulators currently rate approximately 72% of our facilities as Good or Outstanding or the approximate equivalents under the different regulatory regimes, an improvement of more than 4% in comparison to 2016. Providing the highest quality care to our residents and patients remains our top priority;
- brighterkind was named as winner of HealthInvestor's 'Residential Care Provider of the Year Award 2017' and has been shortlisted for the same award this year;
- There has been a pleasing year on year improvement in both our care home and The Huntercombe Group ("THG") occupancy of 1.4 and 1.2 percentage points respectively, despite continued pressures on Local Authority and NHS funding and a difficult winter season, during which the national death rate among older people was very high;
- Continued improvements in resident mix, towards higher acuity in Four Seasons Health Care and private residents in brighterkind, bolstered lower underlying settlements, resulting in average weekly fee increases of 6.3% and 8.9% respectively – a welcome improvement, although the historical underfunding that characterises the sector persists;
- The on-going pressures on nurse recruitment as a result of national nurse shortages resulted in a 2.1 percentage point increase in agency usage as a percentage of payroll during the year;
- EBITDA declined by £1.8m to £53.7m for 2017;
- The group finished the year with cash of £26.0m, consistent with the £25m at the end of Q3 2017;
- After a £62.0m non-cash interest charge, payable to a related undertaking, and a net impairment charge of £23.6m, the result for the year was a loss of £143.7m, approximately £11m more than the prior year excluding the impact of non-cash interest and impairments (*2016: loss of £82.3m after a £53.9m non-cash interest charge and a net impairment reversal of £26.4m*);
- The group, as a whole, continued to invest in its estate, spending over £38m on capital expenditure in the year. This included maintenance capex of £29m, which brings the maintenance capex spend per bed during 2017 to over £1,700, an increase of £330 per bed compared to 2016, although the maintenance capex in 2017 includes some major life cycle works such as lift and boiler replacements;
- In January 2017 The Huntercombe Group opened the new Acquired Brain Injury hospital at Frenchay in Bristol, which quickly reached capacity. In addition, we successfully reopened both the PICU ward at our Child and Adolescent Mental Health hospital at Stafford, at the beginning of April, and Meadow Lodge in Devon, in August;
- The successful opening of two Intermediate Care services by Four Seasons Health Care, delivering a bespoke environment and dedicated care teams under a long-term funding contract designed to tackle Delayed Transfers of Care. There is great potential for the care home sector to help older people to be discharged from hospital and we look forward to continuing to work with the NHS to provide more of these vital services;

Chairman's review (continued)

2017 performance (continued)

- The repositioning of the estate continued, leading to the closure of a number of care homes and hospitals during the year. This process is now largely complete, although we continue to monitor the operating performance and viability of our homes in light of the current sector backdrop; and

- Looking at the long-term health of the sectors in which we operate, the challenges of funding and nurse shortages remain as familiar as ever and have, disappointingly, remained largely unaddressed by Government during the year.

These operational achievements have been driven by creating a strong underlying foundation from which each of the businesses is now operating, and at an individual business level the key points are as follows:

Four Seasons Health Care

In Four Seasons Health Care, the largest of the three businesses with around 260 homes providing residential, nursing and dementia care, significant fee rate growth during the year was assisted by an increasing average acuity level, and it has continued to deliver stable occupancy levels despite the high level of winter deaths in Q1 2017. However, the level of agency usage within the business, and indeed the sector as a whole, remains a significant area of focus and concern.

Occupancy during the year averaged 90.3%, 1.7 percentage points ahead of 2016, and most significantly 5.0 percentage points ahead of where the business was only two years ago. This compares to the sector average of 89.2% per Knight Frank's 2017 Care Homes Trading Performance Review.

The growth in occupancy was achieved despite a high level of winter deaths nationally and continued deficits in Local Authority social care funding, and has been underpinned by improved quality of care and resident experience. Our Quality of Life programme has previously been named winner of the Overall Best Customer Experience award in the 2016 Customer Experience Awards and has won a further accolade during 2017, winning the 'IT to Improve Patient Safety' category at the 2017 Patient Safety Awards.

During 2017 the business launched a new approach to providing personalised care, called *Me and My Care*. It is the foundation of the culture at Four Seasons Health Care, and puts the resident journey at the heart of everything the business does from first contact at pre-admission, using information technology to capture and track each resident's care requirements, preferences, wishes and wants. This provides an understanding of the resident as an individual, and means that the care that is offered meets the individual's every need, making it possible to deliver the business's vision and values every day. Currently 185 homes have launched *Me and My Care*, with a further 71 homes planning to launch over the next two months.

Additionally, the business continued to roll out its new dementia care practices, called the *Dementia Care Framework*, and as of today 137 homes are accredited with a further 27 working towards accreditation in the coming months. The framework advances best practice by using bespoke information technology to support care teams to monitor a resident's physical condition, clinical needs, dietary requirements and mobility together with their psychological and emotional needs and to give appropriate support. Care teams and everyone working in the homes who will come into contact with residents are being given a simulated dementia experience to improve understanding and empathy and make dementia care training more meaningful and impactful for the resident.

I am also pleased to report that Four Seasons Health Care has successfully opened two new Intermediate Care services in the year, with a bespoke environment and dedicated care teams under a long-term funding contract. These two centres are now taking patients and providing rehabilitation in order to allow people to move out of acute hospital care when ready to do so. Such provision helps alleviate Delayed Transfers of Care, a widely publicised issue for the NHS and this demonstrates how the private sector can play an important role in assisting the NHS.

Chairman's review (continued)

2017 performance (continued)

brighterkind

Turning to brighterkind, which, since 2014, has been transformed from a disparate group of care homes into a cohesive business. Today the business operates under the brighterkind brand with its own values, culture, risk assurance and governance structures, and leadership team. The brighterkind proposition is designed to attract self-funding residents. The signature elements of this proposition are high quality care, an inspiring food and dining experience with excellent service and a programme of leisure and recreational activities to promote physical and mental wellbeing. These signature elements are supported by a programme of refurbishments and improvements in our homes.

The brighterkind strategy has had considerable success to date. Self-funded residents have increased as a percentage of all residents to 50.9% by the end of 2017, an improvement of over 10% in three years. This percentage has continued to rise in the early part of 2018. Fee rates, supported by this increased proportion of self-funded residents, increased by 8.9% year on year and payroll costs, both own staff and agency, declined as a percentage of revenue during the year. Agency payroll averaged 4.2% during 2017 and EBITDA in the year increased by nearly 40% on the 2016 performance. Team engagement and customer satisfaction scores (measured using net promoter scores) both showed strong year on year improvement whilst team turnover declined to 28.8% at the year end, its lowest level since the business was formed.

One of the highlights of the year was brighterkind being named winner of HealthInvestor's 'Residential Care Provider of the Year Award 2017'. This was a very proud moment for every one of our brighterkind colleagues and is well deserved recognition of their hard work delivering the vision which was first envisaged in 2014.

The refurbishment of a further five homes was completed during 2017, bringing the total number of homes refurbished to 16.

The Huntercombe Group

Turning finally to The Huntercombe Group, which provides specialist services in adult, child and adolescent mental health and acquired brain injury on behalf of the NHS. The business has now completed its planned estate rationalisation and comprises 23 hospitals providing high acuity care.

In January we opened the new Acquired Brain Injury hospital at Frenchay in Bristol, which quickly reached capacity. We also successfully reopened both the PICU ward at our Child and Adolescent Mental Health hospital at Stafford, at the beginning of April, and Meadow Lodge in Devon, in August. Regrettably, two hospitals, Norwich and Watcombe, were closed during the year.

The business has made significant progress in occupancy percentage and, despite limited underlying fee rate increases, average weekly fee rate growth has benefited from completion of the business' strategic move towards providing higher acuity services. However agency usage remains a key area of focus against a national shortage of mental health nurses that has seen a 12 per cent drop in the number of mental health nursing posts between 2009 and 2016.

Market and sector

Moving on to sector issues, these results have been achieved in the face of the continuing challenges impacting the sector, the foremost of which are the continuing severe funding pressures facing Government funded services and the on-going shortage of nurses, which has been further exacerbated by the continuing uncertainty around Brexit.

Chairman’s review (continued)

Market and sector (continued)

In its annual assessment of the quality of health and adult social care in England, the Care Quality Commission (“CQC”) has stated that social care was approaching a ‘tipping point’ and that ‘the future of care for older people and the adult care system is one of the greatest unresolved public policy issues of our time’. The Competition and Markets Authority has made clear, following a review of the sector, that there is insufficient incentive to invest in new capacity and to maintain all existing capacity in the publicly funded market. Investment in new capacity tends to be for the self-funded market, while closures tend to be mostly in the publicly funded market. In the past three years 21,000 care beds have closed in the UK, which equates to around one in 20 beds, according to research conducted by the property consultancy JLL.

Whilst the sector has so far proved incredibly resilient in the face of these challenges, the need for a long term, cross party plan to reform the social care system to make it fit for current and future needs is widely acknowledged.

Funding

Whilst there have been some pleasing developments in the public funding of the sector, it is still felt that this issue remains fundamentally unaddressed. The CQC has reported examples of providers starting to hand back contracts as being undeliverable, with the expectation that this will become increasingly common, due to a combination of the pressures on fees that commissioners of care are able to pay, and cost pressures on providers that include the impact of the national living wage.

Within this context, I am pleased that the Social Care Precept remains in place, with most councils expected to apply the maximum 3.0% increase in council tax for the year 2018/2019. Separately, the Government announced in March 2017 that an extra £2bn would be made available to fund the integration of health and adult social care over the following three years as a step to reduce the funding shortfall in adult social care. However, there is little evidence that this additional funding is reaching the front line.

The Government has promised to deliver a much needed Green Paper considering how to create a long term sustainable funding structure for social care and we would welcome the opportunity to contribute to the debate. The main changes we would like to see implemented to deliver a sustainable social care system are:

- A further extension of the Social Care Precept in order to fund the cost of the National Living Wage and to ensure all areas of the country receive the level of funding required;
- A standard process for assessing the fair cost of care, agreed by all relevant stakeholders;
- Rigorous regulatory oversight of commissioning practice in much the same way that there is regulatory oversight of the quality of care provision. Councils should avoid a “cost first, quality second” approach and no longer use their market position to impose “take it, or leave it” fee settlements that are not sustainable;
- Regulatory oversight on the deployment of the £2bn of additional funding for the integration of Health and Social Care, with Intermediate Care provision as a priority; and
- Development and proper funding of mental health services to meet demand as mental health problems affect one in four adults and one in ten children.

Nurse shortages

A second underlying driver for the sector is the on-going acute shortage of nurses. Whilst this has been a characteristic of social care for many years, the evidence is that the shortage has been further exacerbated by uncertainties around immigration following Brexit.

Research by Christie & Co indicated a shortfall of c17,000 nurses in the adult social care sector. Similarly, figures released by the Nursing and Midwifery Council show a greater than 90% fall in the number of EU Nurse registrations in the UK between June 2016 and April 2017, and a 68% increase in the number of EU nurse resignations in 2016 compared to 2014, both of which are further increasing the shortfall.

Chairman's review (continued)

Market and sector (continued)

Nurse shortages (continued)

As a group, we continue to address this key operational challenge in a number of ways. These include:

- A dedicated team to focus exclusively on nurse recruitment from the UK and further afield;
- A Nurse Academy set up to support the development and progress of nurses throughout the group;
- A preceptorship scheme to provide trainee nurses with an effective training programme; and
- The on-going training of Care Home Assistant Practitioners who can support nurses.

However, the critical issue does not appear to be subsiding.

Looking forward/restructuring

Turning to the group's long-term capital structure, I am glad to report that good progress has been made towards delivering a solution to the long-term capital structure of the group. The group has been actively working with its majority creditor, H/2 Capital Partners, on behalf of its affiliated investment funds ("H/2"), and its advisors. H/2 has made a significant commitment to the stability of the group including agreeing a Standstill and Deferral Agreement ("SDA") and the provision of a £70m term loan, which refinanced the group's existing £40m term loan on 20 March 2018 and provided additional liquidity which was intended to stabilise operations and provide continuity of care for residents.

The group continues to work towards facilitating an orderly transition and seeking agreement on implementation terms for a restructuring on behalf of creditors. The primary objective of a restructuring plan is to create a sustainable long-term capital structure that best serves residents, patients and employees.

As at the date of approval of the financial statements, the terms of the original SDA have been amended, inter alia, to include a long stop date for agreement on a restructuring plan of 15 May 2018 and the forbearance period's long stop date of 31 July 2018 (this accordingly being the target date for implementation of the restructuring).

With the additional funding already made available or committed pursuant to the £70m term loan following the year end and on the basis of the group's current forecasts, the group has sufficient liquidity until the end of 2018, assuming 2018 interest payments on the senior secured notes and senior notes are not made. The directors have a reasonable expectation that a restructuring can be implemented in this time period, and therefore the financial statements have been prepared on a going concern basis. However, there are material uncertainties in the timing, form and execution of the restructuring, as well as the forecasts of the business, which have been highlighted in note 1 of the accounts and to which I would like to draw the attention of all stakeholders.

So, to sum up, although 2017 was a year with significant financial and sector challenge, we enter 2018 better positioned to complete a balance sheet restructuring which will provide a stable financial footing for our strong management teams to leverage operational performance.

Finally, I would once again like to take this opportunity to thank our colleagues across the whole business for all their hard work and effort during the year. It is their support and commitment, together with the determination of the three leadership teams, which has helped to position the group for a successful future.

Robbie Barr
Chairman – Elli Finance (UK) Plc

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.

Principal activities

During the year the group had one principal activity being the operation of care homes for the elderly and specialised healthcare facilities.

Health and social care sector review

Market overview

We operate within the health and social care markets, with a focus on providing elderly care, dementia care and specialised mental health 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, a rapidly growing rate of people living with dementia and a population that lives longer, on average, but suffers from complex co-morbidities for more years.

Social care commissioning in the United Kingdom is the responsibility of Local Authorities and Health Care Trusts, although the Department of Health has an overarching guidance role. 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.

Continuing healthcare is managed by the NHS Clinical Commissioning Groups on behalf of the Department of Health. In the UK, provision of healthcare is not means-tested and is free at the point of care. In elderly care the independent sector provides the majority of services whilst in specialist mental healthcare the independent sector plays an important, but lesser, role, with the NHS providing the majority of services.

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 nursing care;
- Dementia care: care for residents with dementia is an important aspect within each of these categories of care;
- Step-down and intermediate care: includes the provision of nursing care and other allied health professionals, 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 seen as complementary to, or as a substitute to, NHS hospital care provision; and
- Palliative care: which includes the provision of care to relieve the symptoms and stress of a serious illness, thereby improving quality of life.

Strategic report (continued)

Health and social care sector review (continued)

Mental health services

Mental health services provided by The Huntercombe Group include the following three patient groups:

- Child and Adolescent Mental Health, encompassing acute general psychiatry, adolescent psychiatric treatment and eating disorders;
- Acquired Brain Injury and neuro-rehabilitation, covering a wide range of services, from post hospital discharge to longer term care; and
- Adult Mental Health, encompassing low secure treatment, open and recovery services and specialist services for adults with a learning disability.

Independent mental health hospitals account for approximately 8% 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 in part due to the reduction in NHS in-house supply following 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.

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 one of the largest operators in the for-profit sector, with a market share of around 5%. The other three major operators in the for-profit elderly care market are HC-One, Barchester Healthcare and BUPA Care Homes.

Within the not-for-profit sector, which represented approximately 14% of the total care home market in 2017, the major providers include Anchor Trust, Sanctuary Care, The Orders of St John Care Trust, Methodist Homes and The Abbeyfield Society.

Our major competitors in the provision of mental health services through specialist hospitals are the NHS, Priory Group, Elysium Healthcare, St Andrew's Healthcare and Cygnet Health Care.

Strategic report (continued)

Four Seasons Health Care group

We are one of the largest independent providers 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 2017, we operated approximately 16,400 (*2016: 18,500*) beds in c330 facilities, including care homes, specialised hospitals and other centres. During 2017 we employed approximately 23,200 people across the United Kingdom and the Channel Islands and we provided care for approximately 15,000 residents.

We operate as three businesses:

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

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 2046 the number of people aged 85 and over is projected to be more than 2.8 times larger than in 2015, reaching 4.5 million and accounting for 6% of the total population, and the population aged 65 and over is expected to account for 25% of the total population, compared to 17% in 2015.

  The industry has seen a significant shift to private-sector providers, which represented only 5% of the market in 1993, but c76% by March 2016. 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 one of the largest independent elderly care operators in the United Kingdom we are well positioned to benefit from these dynamics.

- *Market leading position*

  In the United Kingdom, we are one of the largest independent providers of elderly care with a c5% share of the private supply. 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 330 facilities, approximately 52% 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.

  The leasehold portfolio is mainly made up of long leases. At current levels of rent and capex the leasehold estate does not make a material contribution to central costs. As such, the group is currently considering a restructuring of its leasehold estate. During 2017 a number of homes and hospitals were sold and/or closed in order to focus on a smaller portfolio of higher quality homes which are more likely to be viable in the long term given sector challenges.

Strategic report (continued)

Four Seasons Health Care group (continued)

Competitive strengths (continued)

- *Segmented business*

  We believe that our segmented structure, comprising three operationally independent businesses, will deliver further improvements in operational performance. The segment specific management teams provide targeted skill sets which are not possible in a more generalist operating environment.

- *Stable and diversified client base*

  We have a diversified public payer base of more than 250 purchasers. We are contracted by a large number of public sector commissioners across the UK, including around 100 Local Authorities and Health Care Trusts 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 and we are looking to expand our provision of intermediate care.

- *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. In FSHC, our Quality of Life programme uses unique technology to enable residents and relatives, visiting care professionals and the teams in our homes to provide instant feedback and allows us to find and fix issues quickly. At the end of 2017, customer satisfaction ratings, amongst residents, their relatives and health professionals, were above 97%. We have made, and continue to make, substantial investments in training our colleagues 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

The group is operated as three distinct businesses, each with its own senior leadership team.

This segmentation has given increased focus and management oversight so that each business develops by best meeting the requirements of its respective customer and patient groups. The strategies of the three businesses underpin the group's overall objective to be the highest quality provider of elderly care and specialised mental healthcare services in the UK. The key elements of the individual business strategies are as follows:

Four Seasons Health Care

- *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 quality and implementing best practices across our facilities, including a continued focus on higher dependency residents. We believe that this approach supports the long-term stability of our revenues and will allow us to increase our occupancy rates whilst better meeting the needs of our residents and customers.

Strategic report (continued)

Four Seasons Health Care group (continued)

Strategy (continued)

- *Leverage our reputation, expertise and diverse asset base to deliver new and enhanced services*

  We intend to continue to leverage our broad and deep expertise and to take advantage of our diverse asset base in order to build on existing service offerings and develop new tailored offerings in our markets to improve business performance.

  Our Dementia Care Framework builds on accepted best practice and advances it by using information technology to support care teams to monitor a resident's physical condition, clinical needs, dietary requirements and mobility together with their psychological and emotional needs and to give appropriate support.

  Four Seasons is investing in, and developing, its Intermediate Care service offerings and the structures required to ensure that we can deliver them safely and effectively. We have opened two new intermediate care centres during 2017. We are working with local authorities to design and implement services that can offer social care packages to relieve pressure on the NHS and support a reduction in delayed transfers of care. As the provision of Health and Social Care becomes more joined up we see Intermediate Care as being a source of long term growth.

- *Drive further synergies from within our business*

  Where appropriate, we intend to continue to implement procurement and operational efficiencies in order to improve consistency and quality of service to our customers and to achieve cost savings driven by improved staff attraction, retention and skill levels.

brighterkind

The brighterkind brand operates nursing and residential homes from Jersey to Inverness, and is one of the top ten care home brands in the UK with the ambition to become the UK's leading upper mid-market self-funder focused care home brand.

- *Continue to develop the brighterkind brand proposition through our three core elements*

  The brighterkind proposition is built around three core elements – extraordinary care, an inspiring food and dining experience and a comprehensive recreation and activities programme that has been developed to address the physical, intellectual and emotional well-being of residents.

- *Estate enhancement through investment in bespoke refurbishment to attract self-funding residents*

  brighterkind homes are a mixture of new build and more traditional refurbished properties, but all have been designed to feel like homes, with charm and character, and our development strategy is focused on creating inspiring and uplifting spaces.

- *Drive cultural change through continual training programmes for the whole brighterkind team*

  brighterkind is investing heavily in industry leading cultural and leadership training programmes as it seeks to support a passionate and committed team to deliver a service that is aimed at helping everyone involved with the business, its residents, their families and team members to 'Love Every Day'.

Strategic report (continued)

Four Seasons Health Care group (continued)

Strategy (continued)

The Huntercombe Group

The Huntercombe Group (THG) is a specialist provider of care to young people with mental illnesses, adults with mental illnesses or learning difficulties and people who have suffered a brain injury. We care for approximately 600 patients and residents every day, across more than 23 hospitals and centres.

- *Focus on providing higher complexity, bespoke specialist services to high acuity patients, to become a truly specialist healthcare provider*

  Having completed the repositioning of the business through an exit from lower acuity, lower margin services, the business remains focused on strengthening its operations and care processes to support its services. These services, delivered from specialist hospital and care facilities, enable the business to effectively and efficiently deliver exceptional levels of care to high acuity patients with complex care needs.

  Service levels are underpinned by developing teams supported by the Huntercombe Academy, with a collective aspiration to 'nurture the world one person at a time'.

- *Develop and reposition the estate*

  THG is investing in its estate with the opening of a new, purpose built neuro-rehabilitation hospital at Frenchay in Bristol in January 2017, which quickly reached capacity, and a new hospital, Meadow Lodge, in Devon. In 2017 hospitals at Norwich and Watcombe were closed.

Strategic report (continued)

Financial review

These financial statements present the results of the company and its subsidiary undertakings ("the group") for 2017 with comparatives for 2016 and 2015.

Profit and loss account (unaudited, proforma)	**Year ended 31 December 2017 (53 weeks) £000**	Year ended 31 December 2016 (52 weeks) £000	Year ended 31 December 2015 (52 weeks) £000
Turnover	**660,391**	686,155	688,136
Cost of sales	**(591,000)**	(612,038)	(637,002)
Gross profit	**69,391**	74,117	51,134
Administrative expenses – ordinary	**(48,038)**	(51,669)	(47,996)
Administrative (expenses)/income – exceptional	**(41,286)**	11,392	(266,704)
	(89,324)	(40,277)	(314,700)
Operating (loss)/profit	**(19,933)**	33,840	(263,566)
Ordinary activities	**21,353**	22,448	3,138
Exceptional activities	**(41,286)**	11,392	(266,704)
(Loss)/profit before interest	**(19,933)**	33,840	(263,566)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
Analysed as:			
Operating profit before exceptional items as analysed above	21,353	22,448	3,138
Add back: depreciation of tangible fixed assets and amortisation of capital grants	33,900	35,195	37,747
Deduct: amortisation of negative goodwill	(1,580)	(2,197)	(2,197)
EBITDA	**53,673**	**55,446**	**38,688**

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, disposals or developments. Each of these factors is discussed in more detail below.

Effective beds: The group's results are impacted by the number of beds in its 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.

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. Similarly, homes which benefit from a major refurbishment may temporarily experience reduced occupancy levels, as a result of refurbishment planning or related disruption, before reverting to normalised occupancy levels.

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 January or 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 50% of its properties. The remainder are owned and operated as freehold assets or, until 2015, 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. The majority of flexing leases have been fixed from 2017 onwards.

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; average weekly fees; payroll costs; and direct expenses. In addition, the group monitors occupancy as its main operational KPI.

Unaudited	2016					2017 (5)				
	Q1	Q2 (3)	Q3 (3)	Q4	Year (2)	Q1	Q2	Q3	Q4	Year (2)
Total group										
Turnover (£m)	170.7	177.0	171.7	166.8	**686.2**	163.9	164.5	162.1	169.9	**660.4**
EBITDAR (£m)(4)	21.8	25.8	32.1	20.1	**99.8**	23.2	24.5	25.7	22.9	**96.3**
EBITDA (£m)	9.2	13.6	19.7	13.0	**55.4**	11.8	13.5	13.9	14.5	**53.7**
Effective beds - group	21,045	20,438	19,338	18,532	**19,838**	17,831	17,214	16,753	16,378	**17,044**
Occupancy %	86.4%	87.2%	89.0%	89.4%	**88.0%**	89.2%	89.1%	89.6%	89.5%	**89.4%**
Expenses (% of turnover)	14.9%	13.7%	13.1%	14.5%	**14.1%**	14.5%	13.5%	13.1%	14.1%	**13.8%**
Central costs (% of turnover)	6.1%	5.9%	6.0%	6.1%	**6.0%**	6.3%	6.3%	5.9%	6.4%	**6.2%**
By business										
Turnover (£m)										
- FSHC	119.9	124.6	120.8	116.5	**481.9**	113.2	112.3	110.1	115.1	**450.6**
- brighterkind	21.8	22.8	22.8	23.2	**90.5**	23.3	24.0	24.5	26.6	**98.5**
- THG	29.0	29.5	28.0	27.2	**113.7**	27.3	28.1	27.5	28.2	**111.2**
Effective beds										
- FSHC	17,659	17,086	16,041	15,291	**16,519**	14,690	14,105	13,712	13,403	**13,977**
- brighterkind	2,298	2,264	2,209	2,209	**2,245**	2,208	2,208	2,208	2,208	**2,208**
- THG	1,088	1,088	1,088	1,032	**1,074**	934	901	833	766	**859**
Occupancy %										
- FSHC	86.6%	87.7%	89.8%	90.4%	**88.6%**	90.2%	90.0%	90.5%	90.3%	**90.3%**
- brighterkind	86.9%	86.0%	87.5%	87.4%	**86.9%**	85.8%	85.7%	86.8%	87.3%	**86.4%**
- THG	81.7%	82.3%	79.1%	79.2%	**80.6%**	81.4%	82.4%	82.3%	81.2%	**81.8%**
Average weekly fee (£)										
- FSHC	603	640	645	648	**634**	657	680	682	679	**674**
- brighterkind	831	891	899	917	**885**	937	968	973	976	**964**
- THG	2,390	2,425	2,386	2,395	**2,399**	2,607	2,721	2,876	3,016	**2,805**
Payroll % (of turnover)(1)										
- FSHC	66.3%	64.3%	63.0%	65.3%	**64.7%**	64.8%	64.9%	64.6%	66.3%	**65.2%**
- brighterkind	59.9%	60.1%	57.4%	57.7%	**58.8%**	58.2%	57.8%	55.9%	56.0%	**57.0%**
- THG	71.2%	68.9%	72.9%	74.0%	**71.8%**	72.9%	74.2%	76.3%	75.3%	**74.7%**
Agency % (of payroll)(1)										
- FSHC	6.9%	6.3%	8.2%	8.9%	**7.6%**	9.0%	9.6%	10.7%	9.9%	**9.8%**
- brighterkind	3.9%	5.7%	4.0%	6.0%	**4.9%**	5.3%	3.7%	4.3%	3.5%	**4.2%**
- THG	14.0%	10.2%	11.1%	11.2%	**11.6%**	12.3%	14.3%	17.1%	16.6%	**15.0%**
EBITDARM % (of turnover)										
- FSHC	17.7%	21.3%	23.4%	19.4%	**20.5%**	19.8%	20.7%	21.7%	18.6%	**20.2%**
- brighterkind	25.5%	27.0%	29.8%	28.8%	**27.8%**	28.3%	29.8%	32.3%	32.2%	**30.6%**
- THG	18.6%	20.1%	16.4%	14.5%	**17.4%**	16.3%	15.2%	12.6%	13.4%	**14.4%**

Notes
(1) Payroll excludes central payroll
(2) Full year numbers may include minor rounding differences compared to the four quarter aggregate
(3) Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the NHS Funded Nursing Care (FNC) increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period
(4) EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)
(5) 2017 is a 53 week period

Strategic report (continued)

Financial review (continued)

Turnover

Full year 2017 Elli Investments group turnover is £43.4m, or 7.4%, higher than 2016 after allowing for the c£69.2m of revenue from homes closed or sold during the year.

- *Average Weekly Fee*

  The 2017 Average Weekly Fee ("AWF") in the group's care home businesses were up year on year by 6.3% and 8.9% in Four Seasons Health Care and brighterkind respectively. This was driven by Local Authority fees in many regions of England benefitting from the full year impact of the Social Care Precept, initially introduced in response to the material step up in payroll costs following the introduction of the National Living Wage in April 2016 and the further increase effective from April 2017.

  Within The Huntercombe Group ("THG") the AWF in 2017 increased by 16.9% to £2,805 in 2017 from the average of £2,399 in 2016, driven by the strategic move into higher acuity services.

- *Occupancy*

  Average group occupancy in 2017 increased by 1.4% compared to 2016, to 89.4%, albeit with approximately 2,700 fewer beds as a result of closures and disposals. In 2017, THG average occupancy of 81.8% was 1.2 percentage points higher than 2016.

Payroll

Payroll in Four Seasons Health Care, as a percentage of turnover, saw a slight decline of 0.5 percentage points compared to 2016, whilst brighterkind saw an improvement of 1.8 percentage points over the same period. These movements reflect, in part, the changes in agency usage in the two businesses which saw a 2.2 percentage point increase in Four Seasons Health Care whilst brighterkind's agency as a percentage of payroll improved by 0.7 percentage points. The 4.2% increase in the National Living Wage in April 2017, for those aged 25 and over, was a significant driver of additional payroll costs in 2017. At the same time the national shortage of nurses continues to put significant pressure on the usage of agency staff.

In THG, payroll as a percentage of turnover has increased by 2.9 percentage points to an average of 74.7% for 2017, and agency as a percentage of payroll has increased by 3.4% to 15.0% over the same period. The increased staffing and agency levels reflected the higher acuity services now provided by the business, the higher acuity of patients in those services and were also necessary to address operational issues at certain sites.

Care expenses

In 2017, expenses (care and facility combined), as a percentage of turnover, at 13.8%, represented an improvement of 0.3 percentage points compared to 2016.

Central cost

Central costs, at 6.2% of turnover in 2017, were broadly consistent with 2016.

Strategic report (continued)

Financial review (continued)

Rent

Rent of £42.6m was charged in 2017 compared to the 2016 charge of £44.4m – underlying annual inflationary uplifts on the majority of the leasehold estate and the fixing of rent on leases with rent that used to flex based on operational performance were offset by a decrease in the rental charge following the surrender of 3 leases in 2017 and the non-cash credit resulting from the unwind of the group's onerous lease provision of £8.5m.

Exceptional items

The operating loss during the year includes exceptional costs of £41.3m. Within this total are a net loss on disposal of £3.4m in relation to properties sold during the year, a net revaluation decrease of £23.6m (being a £5.1m reversal of previous property impairments less £28.7m of current year impairments) on the revaluation of certain of the group's freehold properties, £10.9m credit relating to disposal of negative goodwill on closed or disposed sites and net credit of £2.3m related to the movement in onerous lease provisions. In addition, the costs incurred in relation to the balance sheet restructuring exercise totalled £14.4m, with a further £3.8m relating to the termination of the operations of certain care homes, £5.4m relating to closed homes and redundancy costs and £1.1m spent on other projects.

In the prior year there was exceptional income of £11.4m. Within this total was a net profit on disposal of £0.4m in relation to properties sold during the year, a net revaluation increase of £26.4m (being a £30.9m reversal of previous property impairments less £4.5m of current year impairments) on the revaluation of certain of the group's freehold properties, and net income of £4.6m related to the build-up and release of onerous lease provisions. Reducing this income were costs incurred in relation to the balance sheet restructuring exercise of £10.2m, £5.3m relating to the termination of the operations of certain care homes, and a further £4.4m relating to closed homes and redundancy costs.

EBITDA

As a result of the factors outlined above, the pre-exceptional EBITDA of £53.7m for 2017 was £1.8m lower than that achieved in 2016.

Interest

The interest charge in the statutory profit and loss account for the year includes 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 £52.9m. The balance, within the total net charge for the year of £126.2m, relates primarily to non-cash, accrued interest of £62.0m on balances owed to related parties, together with £7.9m in respect of the amortisation of debt issue costs and £2.6m interest payable on the group's £40m senior secured term loan.

Tax

The tax credit for the year was £2.4m, comprising a £0.5m tax charge offset by £2.9m of income relating to group relief.

Strategic report (continued)

Financial review (continued)

Balance sheet

The table below shows the consolidated balance sheet of Elli Investments Limited as at 31 December 2017, 31 December 2016 and 31 December 2015.

Balance sheet (unaudited, proforma)	**2017**	2016	2015
	£000	£000	£000
Fixed assets			
Intangible assets - goodwill	**(21,619)**	(34,113)	(36,310)
Tangible assets	**490,202**	547,351	553,067
	468,583	513,238	516,757
Current assets			
Debtors	**50,743**	61,570	61,194
Cash at bank and in hand	**25,995**	33,032	55,091
	76,738	94,602	116,285
Creditors: amounts falling due within one year	**(699,482)**	(155,431)	(107,298)
Net current (liabilities)/assets	**(622,744)**	(60,829)	8,987
Total assets less current liabilities	**(154,161)**	452,409	525,744
Creditors: amounts falling due after more than one year	**(475,640)**	(927,374)	(905,905)
Provisions for liabilities and charges	**(35,807)**	(46,896)	(59,352)
Net liabilities	**(665,608)**	(521,861)	(439,513)

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

A valuation of the group's properties was carried out by an external independent valuer in March 2016, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued, on an individual property basis for balance sheet purposes. A subsequent valuation of certain properties was carried out by an external independent valuer in March 2018. As at 31 December 2017 the directors reviewed the property portfolio in line with the requirements of FRS 102 Chapter 27 *Impairment of assets.* As a result of this review and the independent external valuation of certain properties, the value of the group's freehold property assets and fixtures and fittings in certain freehold and leasehold properties has been decreased by £23.6m, being the net of a £5.1m reversal of previous property impairments and £28.7m of current year impairments.

Debtors

Trade debtors at December 2017 were broadly in line with December 2016. Other debtors, prepayments and accrued income decreased by c£7.5m compared to the prior year principally due to the timing of the group's billing cycle around the year end.

Creditors

Trade creditors at December 2017 were £19.2m, a £3.2m decrease compared to 2016. Accruals, deferred income and other creditors increased by £1.2m year on year.

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 and the adjustment to recognise certain operating lease rental charges on a straight-line basis over their term in line with the accounting requirements of FRS 102.

Financing arrangements

At 31 December 2017 the group's financing arrangements 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*
  - Term loan: £40m at an interest rate of LIBOR + 6%, due to be repaid in March 2019

Notwithstanding the maturity dates of the group's financing arrangements, in light of the interest default on the senior secured and senior notes on 15 December 2017 (see note 1) and the current restructuring process, the senior secured notes, senior notes and the term loan have all been classified as due in less than one year.

Strategic report (continued)

Financial review (continued)

Financing arrangements (continued)

The term loan was refinanced in October 2017, with a further refinancing being undertaken on 20 March 2018. See note 27, Post balance sheet events, for further detail.

In addition, there was £475.6m owed to related undertakings within the group of companies owned by FSHC Group Holdings Limited, the company's shareholder, with effective interest accruing 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.

Share capital

There were no changes to the group's share capital during the year.

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 £26.0m of cash on its balance sheet.

On 14 December 2017 the group and H/2 announced that they had put in place the SDA in relation to the non-payment of interest on the senior secured notes and senior notes which were due for payment on 15 December 2017.

As at the date of approval of the financial statements, the terms of the original SDA have been amended such that the long-stop dates for agreement on a restructuring plan is 15 May 2018 and the forbearance period's long stop date is 31 July 2018 (this accordingly being the target date for implementation of the restructuring).

Strategic report (continued)

Financial review (continued)

Cash flow statement

Cash flow statement (unaudited, proforma)	Elli Investments Limited Year ended 31 December 2017 (53 weeks) £000	Elli Investments Limited Year ended 31 December 2016 (52 weeks) £000	Elli Investments Limited Year ended 31 December 2015 (52 weeks) £000
Net cash inflow from operating activities (before interest and tax received)	**23,147**	31,585	27,851
Returns on investments and servicing of finance	**(28,551)**	(55,170)	(55,111)
Capital expenditure and financial investment	**(38,445)**	(42,944)	(46,648)
Sale of fixed assets	**35,814**	44,046	43,796
Taxation	**2,761**	424	(166)
Net cash outflow before financing	**(5,274)**	(22,059)	(30,278)
Debt issue related costs	**(1,763)**	-	-
Financing – repayment of term loan	**(40,000)**	-	-
Financing – draw down of new term loan	**40,000**	-	-
Decrease in cash in the year	**(7,037)**	(22,059)	(30,278)

At 31 December 2017 the group's cash balance was £26.0m. Net cash generated from operating activities in the year ended 31 December 2017 was £23.1m before tax and interest received (*2016: £31.6m*).

Working capital

The cash inflow from movements in working capital was £7.3m for the year (*2016: £7.4m*).

Interest paid

£26.0m was paid on the group's senior secured notes and senior notes during 2017 (*2016: £52.1m*) and £2.3m (*2016: £2.7m*) was paid in respect of the senior secured term loan. In addition, £0.2m was paid in respect of debt related costs. Debt issue costs of £1.8m were incurred in relation to the refinancing of the senior secured term loan in October 2017. Interest payments on the group's senior secured notes and senior notes are payable in June and December each year, although the amounts due on 15 December 2017 were not paid and remained outstanding at the date of the financial statements.

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 specialist 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 2017 was £38.4m (*2016: £42.9m*). The decrease of £4.5m compared to 2016 was due to the reduction in the number of care homes in the group and a lower level of development expenditure. Notwithstanding the lower level of total capital expenditure compared to the prior year, the maintenance capex spend per bed during 2017 was over £1,700, an increase of over £330 per bed compared to 2016, though the maintenance capex in 2017 includes some major life cycle works such as lift and boiler replacements.

Strategic report (continued)

Financial review (continued)

Disposals

During the year the group disposed of assets which were loss-making, underperforming or non-core. 32 freehold properties and 1 long leasehold property were sold. In total, proceeds of £35.8m were received in respect of these disposals (*2016 disposals: £44.0m*).

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 risk management processes in place which are 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

- *Failure to comply with debt service requirements*

  Potential impact: As detailed in the group's annual report for the year ended 31 December 2016, the directors recognise that the group's current funding structure is not appropriate for the long-term needs of the business.

  On 15 December 2017 the group did not pay the interest on its senior secured notes and senior notes which resulted in a default outstanding at the year end.

  Mitigation: On 14 December 2017 the group and H/2 announced that they had put in place an SDA in respect of the non-payment of interest on the SSNs and SNs which were due for payment on 15 December 2017. The SDA provides the majority creditor's forbearance on this default whilst the SDA remains in place, which requires the company to comply with a number of conditions set out in the SDA.

  As at the date of approval of the financial statements, the terms of the SDA have been amended, inter alia, to include a long stop date for agreement on a restructuring plan of 15 May 2018 and the forbearance period's long stop date of 31 July 2018 (this accordingly being the target date for implementation of the restructuring).

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risks (continued)

- *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 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 was intended to more closely align the service offering with the service users and commissioners of those services. The group actively lobbies government to ensure adequate funding is made available, for example through the Social Care Precept.

- *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. Within the specialist healthcare sector, NHS England has reviewed the geographical spread of Child and Adolescent Mental Health services, with a risk that large national commissioning is moved to smaller scale regional centres. Whilst the final outcome of this review is not yet clear, there is a potential impact on the occupancy in some of our THG units.

  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. We continue to monitor the impact of the potential changes to Child and Adolescent Mental Health geographical commissioning.

- *National Minimum Wage and National Living Wage increases are higher than inflation*

  Potential impact: A significant number of employees in the healthcare sector have salaries based on, or close to, the National Living Wage or National Minimum Wage. As such, increases in these statutory rates which are in excess of income inflation could significantly reduce the group's profitability. In recent years these payroll cost increases have not been matched by the inflationary increase in Local Authority fee rates. From 1 April 2018 the National Living Wage increased by a further 4.4% and the extent to which this additional imposed cost is funded by Local Authorities and other commissioners of our services could have a significant impact on the group's profitability and cash flows.

  Mitigation: The group budgets carefully for National Minimum Wage and National Living 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 2017, the group had £1,000.7m of fixed rate debt and £40.0m of variable rate debt, thereby minimising interest rate risk. The interest rate on the variable rate debt as at 31 December 2017 was LIBOR + 6%.

  Mitigation: As at 31 December 2017, only 4.0% of the total debt is at a variable rate and as such interest rate risk is minimal. The variable rate reduced to LIBOR+3.75% following the refinancing of the term loan in March 2018 (see note 27, Post balance sheet events).

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. In addition, a delay in the timing of property disposals or a reduction in disposal proceeds could reduce the level of available cash.

  Mitigation: Despite the impact of the above inflation statutory increase to payroll costs resulting from the National Living Wage and National Minimum Wage and the significant agency spend driven by the national shortage of nurses, the group has a good track record of generating cash from the disposal of properties which do not fit its strategic priorities. However, the group has materially reduced the number of disposals in 2018 and additional liquidity was raised in March 2018 through a £70m term loan (which was in part used to refinance the £40m term loan (see note 27, Post balance sheet events)).

- *Failure to comply with debt covenants*

  Potential impact: Withdrawal of funding prior to its 2019-2020 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. disposals). If a potential issue were to arise this would be addressed in a timely manner. Notwithstanding on-going compliance with our financial covenants, the non-payment of interest on 15 December 2017 has resulted in an Event of Default under the indentures governing the senior secured and senior notes which, together with the on-going restructuring process has meant the group's debt has been classified as being due within one year.

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 and risk assurance systems, carry out substantial employee training, employee inductions and employee reference procedures, including a criminal background check for all frontline staff. The group has a dedicated confidential line for whistleblowing and comprehensive processes for recording and reporting wider incidents and also for surveying service users' views as to the quality of the service offered.

  Any incidents that occur are appropriately investigated and resolved taking into account all stakeholders.

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational risks (continued)

- *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, together with the training and development of Care Home Assistant Practitioners to take on some of the tasks of nurses.

- *Seasonal death rate*

  Potential impact: The group's occupancy is frequently impacted by a seasonal increase in the number of deaths in the group's care homes. This seasonal increase varies in duration and intensity each year, but usually occurs between December and March and impacts the general population as well. In a year where the level of deaths during this winter period is particularly high, it is likely that the number of deaths will outstrip the number of new admissions, and as a result in severe years, it can take more than a year for occupancy levels to recover.

  Mitigation: The group's aim to deliver very good care everywhere should help to minimise the impact on occupancy during this annual period of higher winter deaths. In addition, wherever possible the group works with local NHS hospitals to provide care home beds for patients who are able to leave hospital at a time when the NHS is under seasonal pressure.

- *Regulatory risk*

  Potential impact: The group's regulators are one of its key stakeholders and their requirements cover the entire range of our operations from the establishment of new facilities, to the recruitment and appointment of staff, to occupational health and safety and duty of care to our residents and patients, to the group's financial strength. Registration, 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's 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.

  Mitigation: The group devotes a considerable amount of time to the management of regulatory matters. Compliance with the on-going requirements of registration 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 and assurance, particularly given the ongoing capital restructuring of the group.

Corporate social responsibility

Investing in our people

The group continues to invest in its most important asset – its 23,200 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 2017 additional training and development courses were provided at all levels of management from home level through to senior operational management.

Strategic report (continued)

Corporate social responsibility (continued)

Investing in our people (continued)

The group provides induction training to all new recruits, including those who are employed on a temporary basis. As well as face to face training, 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 which operate as internal agencies providing bank staff, 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, there are a number of award schemes such as the Recognition Of Care and Kindness (ROCK) scheme in Four Seasons Health Care, which has been designed 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 is key to the 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 through activities 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.

Health and safety

The group is committed to the highest standards of health and safety for our clients, staff and visitors. 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.

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.

Strategic report (continued)

Corporate social responsibility (continued)

Complaints, concerns and incidents (continued)

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 three 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 group 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 homes and specialist units;
- 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;
- Four Seasons Health Care has appointed a sustainability manager to further raise awareness of the business' environmental policies and to help implement them.

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 higher efficiency boilers
- The use of low energy LED light bulbs
- Increased employee awareness to promote energy efficient behaviours

Strategic report (continued)

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 and our diversity policy is designed to ensure that we recruit, develop and promote employees based on performance regardless of race, gender, religion or belief, age, culture, sexual orientation, disability or background, recognising that the continued success of the group depends upon its ability to attract, motivate and retain people of the highest calibre.

	Male	Female	Total
Company directors			
Based on directorships held as at 31 December 2017	**5**	**0**	**5**
Senior leadership teams			
Comprising the function heads of each business (excluding company directors)	**15**	**11**	**26**
Employees	**4,386**	**18,739**	**23,125**

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. Four Seasons Health Care also provides independent and confidential telephone counselling and legal information services to further support the wellbeing of staff when access to experienced and professional counsellors may be required.

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

A Hayward
Director

C Hill
Director

30 April 2018

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Results and dividends

The loss for the year was £143,747,000 (*2016: loss of £82,348,000*). The directors do not recommend the payment of a dividend with respect to ordinary shares (*2016: £nil*).

Fixed assets and investment properties

During the year the group disposed of 33 properties which were loss making, underperforming or not core to the strategic objectives for any of the group's businesses. These disposals resulted in a net loss on disposal of £3.4m. In addition, the directors have reviewed the carrying value of the group's land and buildings as at 31 December 2017 taking into account the views of qualified property valuers. This has resulted in a net decrease in the carrying value of the group's freehold properties by £23.6m.

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 plans. At the year end the group had £26.0m of cash.

The group's latest cash flow forecasts, taking into account the current operating environment and material risks and uncertainties to trading indicate that, in the absence of any additional funding, and excluding the payment of the June and December 2018 SSN and SN coupons (that would require further forbearance), the group has sufficient liquidity to continue trading until the end of 2018 and therefore sufficient liquidity for the group to continue operations prior to the implementation of a restructuring. If there is any material deterioration in cash generation compared to the group's latest cash flow forecasts, then an injection of further funding would be required which may or may not be available.

The directors have considered the requirements of FRS 102 which states that an entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

The directors have also considered ISA 570 and concluded that the form of the restructuring plan, its successful implementation, and the substantial achievement of forecasts, together with the other circumstances outlined above give rise to a material uncertainty which may cast significant doubt on the group's and the company's ability to continue as a going concern and therefore they may be unable to continue to realise their assets and discharge their liabilities in the normal course of business. Whilst the directors expect that approval for a restructuring will be obtained and that its implementation will be successful, in the event that a restructuring does not occur, it is likely that the company may be placed into administration. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company, together with its subsidiary undertakings, has adequate resources to continue to meet its trading liabilities (excluding SSN and SN interest payments) as and when they fall due in advance of a restructuring of the group. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis (see note 1).

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.

Directors' report (continued)

Corporate governance (continued)

Board constitution and procedures

The Elli Investments Limited board comprises directors whose biographies are shown on page 31.

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, 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.

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 31 to 32.

- *Audit committee*

  Lorcan Woods is the chairman of the Audit Committee. The committee includes three non-executive directors, including the chairman of the committee, and one executive director. The Chief Executive Officers of Four Seasons Health Care, brighterkind and The Huntercombe Group, the Chief Financial Officer and external auditors are normally invited to attend meetings. The committee meets at least 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 auditor's engagement letter; the overall work plan for the forthcoming year; the cost-effectiveness of the audit, as well as the auditor's 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.

Directors' report (continued)

Corporate governance (continued)

Board committees (continued)

- *Finance committee*

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

  The committee is responsible for making recommendations to the board based on proposals in areas such as 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 three further non-executive directors. 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

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

L Woods

R Macaskill (appointed 2 October 2017)

C Harris (appointed 15 March 2018)

A Hayward (appointed 15 March 2018)

C Hill (appointed 15 March 2018)

D Spiri (appointed 7 June 2017, resigned 2 October 2017)

J Stares (resigned 15 March 2018)

I Stokes (resigned 15 March 2018)

A Breure (resigned 15 March 2018)

Directors' report (continued)

Directors (continued)

Christopher Harris
Director

Christopher has previously practised in Jersey as an English Solicitor and had previous roles at Rathbone Trust Company (Jersey) Limited and Northern Trust Fiduciary Services (Jersey) Limited. He is currently a director of SPL Guernsey ICC Limited. He graduated with First Class Honours from Trinity College, Cambridge University.

Allan Hayward
Director

Allan has over thirty years of experience in global M&A especially in the United States. He presently serves as a non-executive director of DADCO Alumina and Exact Projects Limited. Throughout his career, he has worked closely at Board level with many major global accounting firms and leading law firms. Previous appointments have included Chairman of Renewable Energy Group and FAB Link Limited.

Christopher Hill
Director

Christopher has been a non-executive director of a number of financial institutions and investment funds over the last 12 years. Among other appointments, Christopher was Chairman of UK Commercial Property Trust Limited and a non-executive director of KKR Guernsey GP Limited.

Lorcan Woods
Director

Lorcan was Finance Director for Terra Firma Portfolio Businesses until April 2017. He joined Terra Firma in 2011 and had board positions at two of Terra Firma's renewable energy businesses (Everpower Wind and Infinis) as well as Phoenix Natural Gas before focussing entirely on Four Seasons Health Care. In April 2017 Lorcan left Terra Firma but continues to act as a non-executive director of Elli Investments Limited. Lorcan is also a director of Elli Finance (UK) Plc.

Ryan Macaskill
Director

Ryan joined the board in October 2017. Ryan joined Terra Firma's operations group in 2010, and currently serves as the firm's Head of Investor Services. He has worked with a number of Terra Firma's portfolio companies and is currently a Non-Executive Director of RTR, a leading Italian solar energy generator. Ryan has an MBA from Oxford University and is a Fellow of the Institute of Chartered Accountants in England and Wales.

The following are directors of the Elli Finance (UK) Plc board:

Robbie Barr
Chairman

Robbie joined the board in June 2014 and became Chairman in April 2016. He was a Managing Director of Terra Firma Capital Partners until March 2016. He joined Terra Firma in 2009 and his focus was on operational transformation and value enhancement in Terra Firma's portfolio businesses. In addition to his board position at Four Seasons Health Care, he was, until its sale to AMC Entertainment in 2016, the Chairman of Odeon & UCI Cinemas. Until 2015 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.

Directors' report (continued)

Directors (continued)

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 was a trustee of Age UK for eight years and is a Board member of Care England.

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. 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 Four Seasons Health Care and brighterkind 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.

Greg Newman
Non-Executive Investor Director

Greg joined the board in November 2017. He has been with Terra Firma since 2012 and currently serves as Portfolio Business Operations Manager. Greg also works with several of Terra Firma's assets in other sectors including agriculture, retail and real estate, and has previously worked on the investment team predominately focused on renewable energy.

Peter Dixon
Non-Executive Director

Peter is Chairman of Lionrai Investments and Phoenix Energy Holdings in the UK and Chairman of EverPower in the US. Peter is a senior advisor to the Utility Trust of Australia and Hastings Infrastructure UK and an Operating Partner at Terra Firna Capital Partners. He has worked in the utility infrastructure sector for the past 42 years. Until 2015, Peter was Group CEO of Phoenix Energy Holdings. He was also a Director of East Surrey Holdings plc., Sutton & East Surrey Water Ltd and South East Water. He 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: Estera Administration (Guernsey) Limited, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.

Private Equity Reporting Group

The Private Equity Reporting Group was established to monitor conformity of the UK private equity industry with the Guidelines for Disclosure and Transparency in Private Equity. 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

A Hayward
Director

C Hill
Director

30 April 2018

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and applicable law.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

1 Our opinion is unmodified

We have audited the group financial statements of Elli Investments Limited ("the Company") for the year ended 31 December 2017 which comprise the Consolidated profit and loss account and other comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated cash flow statement, Company balance sheet and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and parent Company's affairs as at 31 December 2017 and of the Group's loss for the year then ended;
- are in accordance with UK accounting standards; and
- comply with the Companies (Guernsey) Law 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2 Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that there is a material uncertainty relating to the Group's and the Company's ability to continue as a going concern.

The Group is in default of the Company's £175m senior notes (SNs) and a further £350m of senior secured notes (SSNs) held by other group companies, and is unlikely to have sufficient financial resources to be able to continue trading without a restructuring of the Group's and Company's obligations. At the date of signing the accounts the directors understand that a number of potential restructuring options exist and they are unable to determine the potential impacts of a restructuring on the Company and the Group given that a restructuring plan has yet to be agreed.

The form of a restructuring plan, its successful implementation, and the substantial achievement of forecasts, together with the other circumstances outlined in note 1, represent a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The risk

Accounting basis and disclosure quality

The Group's debt at the year end comprised a £40m term loan, £350m of SSNs and £175m of SNs.

On 14 December 2017 the Group and the majority creditor in both the SSNs and SNs announced that they had put in place a Standstill and Deferral Agreement (SDA) in relation to the non-payment of interest due on 15 December 2017 on the SSNs and SNs. Notwithstanding the SDA, the non-payment of the Group's interest on 15 December 2017 resulted in a default outstanding at the year end. However, the SDA provides the majority creditor's forbearance on this default whilst it remains in place, which requires the company to comply with a number of conditions set out in the SDA.

Independent auditor's report to the members of Elli Investments Limited *(continued)*

2 Material uncertainty related to going concern (continued)

On 15 March 2018 the Group entered into a new £70m credit facility agreement with the majority creditor, and repaid the £40m term loan.

The Directors have prepared cash flow forecasts to assess whether the Group is able to continue to trade and to make the interest payments on its debt as they fall due.

The financial statements explain how the Directors have formed a judgement that it is appropriate to prepare the financial statements of the Group and the Company on a going concern basis. However, the Directors have concluded that the form of a restructuring plan, its successful implementation and the substantial achievement of forecasts, together with the other circumstances outlined in note 1, represent a material uncertainty that may cast significant doubt regarding the Group's and parent Company's ability to continue as a going concern.

As this assessment involves a consideration of future events there is a risk that the judgement is inappropriate. Furthermore, clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a material uncertainty, is a key financial statement disclosure. Auditing standards require such matters to be reported as a key audit matter.

Our response

Our procedures included:

- **Funding assessment:** Assessing the Group's financing agreements including the terms of the SDA and understanding the different scenarios that may be proposed to restructure the Group.

- **Key dependency assessment:** Assessing the Group's cash flow model to identify key inputs for further enquiry. The key inputs included occupancy and level of agency costs assumptions.

- **Historical comparisons:** Evaluating the historical accuracy of forecasts including key inputs of occupancy and agency costs.

- **Sensitivity analysis:** Performing a sensitivity analysis over the cash flow forecasts to a number of variable factors including changes to occupancy levels and timing of working capital payments.

- **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of going concern.

3 Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is the most significant key audit matter and is described in section 2 above. We summarise below the other key audit matters. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows (unchanged from 2016):

Independent auditor's report to the members of Elli Investments Limited *(continued)*

3 Other key audit matters: our assessment of risks of material misstatement (continued)

(i) Group: Recoverability of fixed assets *(Fixed assets: £490.2m, 2016: £547.4m) (Net Impairment: £23.6m, 2016: net reversal of impairment of £26.4m)*

Refer to pages 51 and 54 (accounting policy) and pages 64, 72 and 73 (financial disclosures)

The risk

Subjective valuation

The Group operates across over 300 care homes and specialised healthcare facilities of which a significant proportion (circa 180) are freehold or long leasehold. The financial performance of the Group in recent years has shown a declining trading performance in certain homes, with increasing agency costs, challenges in occupancy levels and pressure over fee rates, due to local authority funding cuts, being key factors.

There is therefore a risk as to whether the carrying value of fixed assets are supported by the recoverable amount. Certain homes have been subject to impairment charges in the past which also gives rise to the risk that these impairments have reversed if the performance of those homes has improved.

The calculation of recoverable amount is subjective, with the need to calculate a valuation of the estimated fair value less cost to sell where it is anticipated that the carrying value of assets may not be supported by the value in use of the asset. An external valuer performed a full valuation in respect of certain sites in March 2018, where the trading performance had deteriorated or changed significantly.

The Group's directors utilised external valuations performed in 2016 to perform an internal valuation in respect of other properties where it was considered that there was an impairment trigger or potential reversal of impairment.

Our response

Our procedures included:

- **Methodology choice:** Assessing the methodology applied to identify property assets which may be impaired or where a reversal of a prior period impairment may be appropriate to ensure this was in line with relevant accounting standards. Assessing the methodology applied to the determination of recoverable amount for those properties identified as in scope for the impairment review.

- **Assessing valuer's credentials**: Assessing the competence, capability, objectivity and independence of the external property valuer.

- **Historical comparison:** Assessing the historical accuracy of the valuation of freehold and long leasehold properties with reference to in year disposals and negotiations on other properties identified for disposal.

- **Our sector experience and sensitivity analysis:** For properties subject to a recent external valuation, we assessed the appropriateness of the valuation basis and assumptions used by the valuer with reference to historical trading performance of the relevant property and recent property specific factors that impacted on the valuation.

  In respect of properties where an internal valuation was utilised to estimate recoverable amount, we challenged the assumptions utilised, with reference to historical external valuations on each property and anticipated movements as a result of market changes or changes in individual home performance. This was assisted by discussions with an external valuation specialist who has previously performed care home valuations for the Group. This included performing sensitivity analysis in respect of key assumptions for properties with increased risk of movement in valuation due to volatility in trading performance.

Independent auditor's report to the members of Elli Investments Limited *(continued)*

3 Other key audit matters: our assessment of risks of material misstatement (continued)

Our procedures included:

- **Test of detail:** Assessing whether there were impairment indicators in respect of other (non freehold and long leasehold) assets using guidance in the relevant accounting standards. For assets with indicators of impairment, assessing whether the carrying value of assets was supported by the recoverable amount.

- **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in determining the amount of impairment and the sensitivity to key assumptions involved which will be more detailed than last year in line with the FRC's review over significant accounting policies and estimates disclosures.

(ii) Parent: Recoverability of intercompany receivables *(£92.5m, 2016: £177.9m)*

Refer to page 53 (accounting policy) and pages 66 and 73 (financial disclosures)

The risk

Subjective valuation

Due to the complex Group structure and the significant losses generated by the Group in recent years, there is a risk in respect of the recoverability of the intercompany receivable.

Our response

Our procedures included:

- **Test of details:** Testing the Directors' assessment of the order and the manner in which intragroup balances will be settled, including assessing assets available to the Group with reference to our work over the recoverability of fixed assets and going concern above.

- **Assessing transparency:** Assessing the adequacy of the entity's disclosures in respect of the recoverability of intercompany receivables.

4 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.4m (*2016: £0.6m*), determined with reference to a benchmark of Group loss before tax, normalised to exclude related party interest costs and exceptional items, as disclosed in note 5 and note 8, for the year ended 31 December 2017, of which it represents 3.3%.

Materiality for the parent company financial statements as a whole was set at £1.3m (*2016: £0.6m*), determined with reference to a benchmark of Company total assets, of which it represents 0.69% (*2016: 0.34%*).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £70k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The group team performed the audit of the Group as if it was a single aggregated set of financial information. The group team performed procedures on the items excluded from normalised Group profit before tax. The audit was performed using the materiality level set out above.

Independent auditor's report to the members of Elli Investments Limited *(continued)*

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies (Guernsey) Law 2008 we are required 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; 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Elli Investments Limited *(continued)*

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Nicola Quayle

Nicola Quayle
for and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor
1 St Peters Square, Manchester, M2 3AE

30 April 2018

Consolidated profit and loss account and other comprehensive income

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	*1, 2*	**660,391**	686,155
Cost of sales		**(591,000)**	(612,038)
Gross profit		**69,391**	74,117
Administrative expenses - ordinary	*4*	**(48,038)**	(51,669)
Administrative (expenses)/income - exceptional	*4, 5*	**(41,286)**	10,962
Other operating income - exceptional	*3*	**-**	430
		(89,324)	(40,277)
Operating (loss)/profit	*2 – 7*	**(19,933)**	33,840
Ordinary activities		**21,353**	22,448
Exceptional activities		**(41,286)**	11,392
Interest payable and similar charges		**(126,309)**	(117,514)
Interest receivable and other income		**102**	150
Net interest payable and similar charges	*8*	**(126,207)**	(117,364)
Loss on ordinary activities before taxation		**(146,140)**	(83,524)
Tax on loss on ordinary activities	*9*	**2,393**	1,176
Retained loss for the financial year		**(143,747)**	(82,348)
Other comprehensive income	*19*	**-**	-
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the financial year		**(143,747)**	(82,348)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)		
Analysed as:		
Operating profit before exceptional items as analysed above	**21,353**	22,448
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**33,900**	35,195
Deduct: amortisation of negative goodwill	**(1,580)**	(2,197)
EBITDA before exceptional items	**53,673**	55,446

The notes on pages 47 to 74 form part of the financial statements.

All amounts relate to continuing operations.

Consolidated balance sheet
at 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Negative goodwill	*10*	**(21,619)**	(34,113)
Tangible assets	*11*	**490,202**	547,351
		468,583	513,238
Current assets			
Debtors	*13*	**50,743**	61,570
Cash at bank and in hand	*14*	**25,995**	33,032
		76,738	94,602
Creditors: amounts falling due within one year	*15*	**(699,482)**	(155,431)
Net current liabilities		**(622,744)**	(60,829)
Total assets less current liabilities		**(154,161)**	452,409
Creditors: amounts falling due after more than one year	*16*	**(475,640)**	(927,374)
Provisions for liabilities			
Deferred tax liability	*17*	**(5,076)**	(5,082)
Other provisions	*18*	**(30,731)**	(41,814)
		(511,447)	(974,270)
Net liabilities		**(665,608)**	(521,861)
Capital and reserves			
Called up share capital	*19*	**174,368**	174,368
Profit and loss account		**(839,976)**	(696,229)
Shareholder's deficit		**(665,608)**	(521,861)

The notes on pages 47 to 74 form part of the financial statements.

These financial statements were approved by the board of directors on 30 April 2018 and were signed on its behalf by:

Allen Hayward

A Hayward
Director

C Hill
Director

Consolidated statement of changes in equity

	Note	Called up share capital £000	Profit and loss account £000	**Total £000**
Balance at 1 January 2016		174,368	(613,881)	**(439,513)**
Total comprehensive income for the year				
Loss for the year		-	(82,348)	**(82,348)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(82,348)	**(82,348)**
Balance at 31 December 2016	*19*	174,368	(696,229)	**(521,861)**
Balance at 1 January 2017		174,368	(696,229)	**(521,861)**
Total comprehensive income for the year				
Loss for the year		-	(143,747)	**(143,747)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(143,747)	**(143,747)**
Balance at 31 December 2017	*19*	174,368	(839,976)	**(665,608)**

Company statement of changes in equity

	Note	Called up share capital £000	Profit and loss account £000	**Total £000**
Balance at 1 January 2016		174,368	(175,808)	**(1,440)**
Total comprehensive income for the year				
Loss for the year		-	(369)	**(369)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(369)	**(369)**
Balance at 31 December 2016	*19*	174,368	(176,177)	**(1,809)**
Balance at 1 January 2017		174,368	(176,177)	**(1,809)**
Total comprehensive income for the year				
Loss for the year		-	(96,912)	**(96,912)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(96,912)	**(96,912)**
Balance at 31 December 2017	*19*	174,368	(273,089)	**(98,721)**

Consolidated cash flow statement
for the year ended 31 December 2017

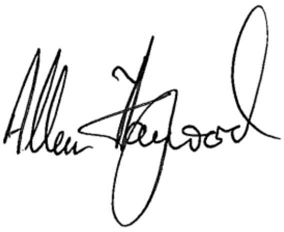
	Note	2017 £000	2016 £000
Cash flows from operating activities			
Loss for the year		**(143,747)**	(82,348)
Adjustments for:			
Depreciation, amortisation, (reversal of)/impairment and disposal of negative goodwill		**45,006**	6,584
Net interest payable and similar charges		**126,207**	117,364
Loss/(gain) on sale of tangible fixed assets		**2,188**	(2,886)
Taxation		**(2,393)**	(1,176)
		27,261	37,538
Decrease/(increase) in trade and other debtors		**10,105**	(351)
(Decrease)/increase in trade and other creditors		**(2,800)**	7,799
Decrease in provisions		**(11,419)**	(13,401)
		23,147	31,585
Interest received		**102**	150
Tax received		**2,761**	424
Net cash from operating activities		**26,010**	32,159
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**35,814**	44,046
Acquisition of tangible fixed assets		**(38,445)**	(42,944)
Net cash from investing activities		**(2,631)**	1,102
Cash flows from financing activities			
Interest paid		**(28,653)**	(55,320)
Repayment of term loan		**(40,000)**	-
Drawdown of new term loan		**40,000**	-
Debt issue related costs		**(1,763)**	-
Net cash from financing activities		**(30,416)**	(55,320)
Net decrease in cash and cash equivalents		**(7,037)**	(22,059)
Cash and cash equivalents at 1 January		**33,032**	55,091
Cash and cash equivalents at 31 December	*14*	**25,995**	33,032

Company balance sheet
at 31 December 2017

	Note	**2017** **£000**	2016 £000
Fixed assets			
Investments	*12*	**-**	-
Current assets			
Debtors	*13*	**92,538**	177,937
Cash at bank and in hand	*14*	**16**	16
		92,554	177,953
Creditors: amounts falling due within one year	*15*	**(189,116)**	(2,885)
Net current (liabilities)/assets		**(96,562)**	175,068
Total assets less current liabilities		**(96,562)**	175,068
Creditors: amounts falling due after more than one year	*16*	**(2,159)**	(176,877)
Net liabilities		**(98,721)**	(1,809)
Capital and reserves			
Called up share capital	*19*	**174,368**	174,368
Profit and loss account		**(273,089)**	(176,177)
Shareholder's deficit		**(98,721)**	(1,809)

The notes on pages 47 to 74 form part of the financial statements.

These financial statements were approved by the board of directors on 30 April 2018 and were signed on its behalf by:



A Hayward
Director

C Hill
Director

Notes
(forming part of the financial statements)

1 Accounting policies

Elli Investments Limited (the "company") is a company limited by shares and incorporated and domiciled in Guernsey.

These group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company cash flow statement with related notes is included;
- Key management personnel compensation has not been included a second time;
- Certain disclosures required by FRS 102.26 Share Based Payments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

Measurement convention

The financial statements are prepared on the historical cost basis.

The accounting reference date for the group is 31 December 2017 (*2016: 31 December 2016*). The company has opted to adopt the "seven day rule". The seven-day rule provides that a particular financial year need not end on the accounting reference date itself but on a date within not more than seven days of the date as the directors may determine. On this basis, the accounting period is for the 53 weeks ended 31 December 2017, with the comparative period being the 52 weeks ended 25 December 2016.

Going concern

Capital structure

At 31 December 2017 the company's debt was £175m of senior notes ("SNs") which pay interest at 12.25% and are due for repayment in June 2020, whilst the debt in other group companies comprised a £40m term loan which paid interest at LIBOR plus 6% with a maturity date in March 2019 and £350m of senior secured notes ("SSNs") which pay interest at 8.75% and are due for repayment in June 2019. The company and certain other group companies guarantee the debt of all companies in the group. Following the year end, on 15 March 2018, the group entered into a new £70m credit facility agreement, which pays interest at LIBOR plus 3.75% and is due for repayment in March 2019, and repaid the £40m term loan (see note 27, Post balance sheet events, for further details).

Standstill and deferral agreement

As detailed in the group's annual report for the year ended 31 December 2016, the directors recognise that the group's current funding structure is not appropriate for the long-term needs of the business and that there are leases in the estate where rent is above market. Advisors were appointed in October 2015 to conduct a review of the group's financing arrangements and leasehold estate.

Notes
(forming part of the financial statements)

1 Accounting policies (continued)

Going concern (continued)

Standstill and deferral agreement (continued)

On 14 December 2017 the group and H/2 Capital Partners, on behalf of its affiliated investment funds, ("H/2"), as the majority creditor in both the SSNs and SNs, announced that they had put in place a Standstill and Deferral Agreement ("SDA") in respect of the non-payment of interest on the SSNs and SNs which were due for payment on 15 December 2017. Notwithstanding the SDA, the non-payment of the group's interest on 15 December 2017 resulted in a default outstanding at the year end. However, the SDA provides the majority creditor's forbearance on this default whilst it remains in place, which requires the company to comply with a number of conditions set out in the SDA.

Current status

As at the date of approval of the financial statements, the terms of the SDA have been amended, inter alia, to include long-stop dates for agreement on a restructuring plan of 15 May 2018 and the forbearance period's long stop date of 31 July 2018 (this accordingly being the target date for implementation of the restructuring).

Material risks and uncertainties – form of the restructuring plan

At the date of signing the accounts the directors understand that a number of potential restructuring options exist and no decision has been made as to the continuance of the parent company. Whilst a potential scenario is that most or all of the existing companies and operations will continue under a new parent company, the directors believe that there are realistic restructuring options that would result in the company and group continuing as a going concern.

However, as at the date of the signing of the accounts, the directors are unable to determine the potential impacts of a restructuring on the company and the group given that a restructuring plan has yet to be agreed.

Although a restructuring may not require third party consents, it is likely that the consent of different stakeholders may be required. However as a restructuring plan has not yet been finalised, and given the range of possible restructuring options, the directors believe that the going concern basis of preparation is appropriate for the company and the group.

Material risks and uncertainties – restructuring

Whilst the directors expect that a successful restructuring will be implemented, to the extent it is not, the directors believe that the most likely alternative will be to place one or more of the group companies into administration. The principal uncertainties around a successful implementation of a restructuring include the following:

- Execution risk – it is likely that the implementation of a successful restructuring will require the support of various stakeholders of the group. This support cannot be guaranteed.

- Liquidity – under the SDA, the forbearance period's long-stop date, and accordingly the target date for implementation of the restructuring, is 31 July 2018. The group's latest cash flow forecasts, taking into account the current operating environment and material risks and uncertainties to trading (outlined below), indicate that, in the absence of any additional funding, and excluding the payment of the June and December 2018 SSN and SN coupons (that would require further forbearance), the group has sufficient liquidity to continue trading until the end of 2018 and therefore sufficient liquidity for the group to continue operations prior to the implementation of a restructuring. In the absence of a restructuring before the end of 2018, if there is a material deterioration in cash generation compared to the group's latest cash flow forecasts, then without the injection of further funding it is currently considered that the group may not be able to continue to trade.

Notes
(forming part of the financial statements)

1 Accounting policies (continued)

Going concern (continued)

Material risks and uncertainties – restructuring (continued)

- SDA – the SDA contains a number of provisions and milestones. Should any of these provisions be breached, or milestones missed, without an appropriate amendment to the terms of the SDA it may terminate and the defaults may be acted upon.

Material risks and uncertainties – trading

Whilst the group's liquidity forecast has been prepared using current trading assumptions, as outlined in the Strategic Report, the operating environment presents a number of challenges which could contribute to the group failing to achieve its operational and cash flow forecasts. These risks and uncertainties include, but are not limited to, the following:

- Occupancy – there is a risk that the group does not achieve the levels of occupancy assumed in its forecasts as a result of, for example, a possible negative reaction to the on-going restructuring process by commissioners of the group's services or a number of embargoes across the group. To illustrate the sensitivity of the forecasts to this key financial driver, the earnings before interest, tax, depreciation and amortisation (EBITDA) impact from a one percentage point reduction in care home occupancy across the group in the 12 months to 31 December 2018 is approximately £3.5m, based on the fee and cost structures assumed in the forecasts;

- Agency costs – appropriate staffing levels are required to ensure that the correct level of care is provided. With a shortage of qualified nursing staff across the sector, the group may be required to use higher than forecast levels of agency staff. In general, agency staff are considerably more expensive than the group's own employees. By way of illustration, a 0.5 percentage point increase in the group's agency usage as a percentage of payroll has a negative EBITDA impact of £1.1m in the period to 31 December 2018,

- Exceptional costs and working capital – exceptional costs associated with the group's restructuring are material costs for the group. These costs will increase should the restructuring process either increase in complexity requiring additional advisers or extend beyond the timeframe forecast by the business. In addition, the increased publicity surrounding the restructuring process may lead to adverse trading and working capital movements.

Conclusion

The directors have considered the requirements of FRS 102 which states that an entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

The directors have also considered ISA 570 and concluded that the form of the restructuring plan, its successful implementation, and the substantial achievement of forecasts, together with the other circumstances outlined above give rise to a material uncertainty which may cast significant doubt on the group's and the company's ability to continue as a going concern and therefore they may be unable to continue to realise their assets and discharge their liabilities in the normal course of business. Whilst the directors expect that approval for a restructuring will be obtained and that its implementation will be successful, in the event that a restructuring does not occur, it is likely that the company may be placed into administration. Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the company, together with its subsidiary undertakings, has adequate resources to continue to meet its trading liabilities (excluding SSN and SN interest payments) as and when they fall due in advance of a restructuring of the group. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

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

1 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that are currently exercisable.

Under section 243 of the Companies (Guernsey) Law 2008, the company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

Foreign currency

Transactions in foreign currencies are translated to the group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Classification of financial instruments issued by the group

In accordance with FRS 102.22, financial instruments issued by the group are treated as equity only to the extent that they meet the following two conditions:

(a) They include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and

(b) Where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of the instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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

1 Accounting policies (continued)

Basic financial instruments (continued)

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition, investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- Investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment.

Tangible fixed assets

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

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

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

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

The company assesses at each reporting date whether tangible fixed assets are impaired.

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

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

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

1 Accounting policies (continued)

Tangible fixed assets (continued)

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

Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the group recognises goodwill as:

- The fair value of the consideration (excluding contingent consideration) transferred; plus
- Estimated amount of contingent consideration (see below); plus
- The fair value of the equity instruments issued; plus
- Directly attributable transaction costs; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

When the excess is negative, this is recognised and separately disclosed on the face of the balance sheet as negative goodwill.

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

Intangible assets, goodwill and negative goodwill

FRS 102.35 grants certain exemptions from the full requirements of FRS 102 in the transition period. The group elected not to restate business combinations that took place prior to 1 January 2014. In respect of acquisitions prior to 1 January 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

Goodwill

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

Negative goodwill

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

Other intangible assets

The cost of intangible asset acquired in a business combination are capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

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

1 Accounting policies (continued)

Intangible assets, goodwill and negative goodwill (continued)

Amortisation

Goodwill is amortised on a straight-line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with section 27 *Impairment of assets* when there is an indication that goodwill or an intangible asset may be impaired.

Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

Impairment excluding investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

1 Accounting policies (continued)

Impairment excluding investment properties and deferred tax assets (continued)

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a *pro rata* basis.

An impairment loss is reversed if, and only if, the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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.

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

1 Accounting policies (continued)

Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the parent company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Provisions for onerous leases are recognised when the group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

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.

Expenses

Operating leases

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

Interest receivable and interest payable

Interest payable and similar charges include interest payable and finance charges on shares classified as liabilities, and unwinding of the discount on provisions. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

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

1 Accounting policies (continued)

Taxation

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

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

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

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

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

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

Exceptional items

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

Alternative performance measures

The financial statements include certain financial data that are non-GAAP financial measures.

This information includes EBITDA (pre-exceptional earnings before Interest, Tax, Depreciation and Amortisation) and EBITDAR (pre-exceptional earnings before interest, tax, depreciation, amortisation and rent). The Directors believes that EBITDA is a better measure of underlying performance because it is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

A reconciliation of operating profit to EBITDA and EBITDAR is presented in note 2, Segmental information.

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

2 Segmental information

Group			**2017**		
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Unallocated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	**450,816**	**98,471**	**111,104**	**-**	**660,391**
EBITDARM before exceptional items	**91,109**	**30,238**	**16,001**	**-**	**137,348**
Rent				**(42,584)**	**(42,584)**
Central costs				**(41,091)**	**(41,091)**
EBITDA before exceptional items					**53,673**

Group			2016		
	Four Seasons Health Care	brighterkind	The Huntercombe Group	Unallocated	Total
	£000	£000	£000	£000	£000
Turnover	482,090	90,450	113,615	-	686,155
EBITDARM before exceptional items	98,712	25,166	19,777	-	143,655
Rent				(44,365)	(44,365)
Central costs				(43,844)	(43,844)
EBITDA before exceptional items					55,446

In accordance with FRS 102 section 1.5, where an entity provides segmental information, it shall do so in accordance with the requirements of IFRS 8 – *"Operating Segments"*. IFRS 8 – *"Operating Segments"* requires operating segments to be identified on the basis of discrete financial information about components of the group that are regularly reviewed by the group's Chief Operating Decision Maker ("CODM") in order to allocate resources and assess segment performance. The group's CODM is regarded as being the board of directors.

The board reviews group performance based on its three businesses:

- *Four Seasons Health Care* – a national network of homes offering high quality nursing and dementia care together with other specialist capabilities to meet the anticipated growing demand of people requiring elderly care;
- *brighterkind* – a group of homes offering high quality elderly care together with higher standard services and activity programmes focussed on self-funded residents;
- *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.

The above disclosure of financial information for the years ended 31 December 2017 and 2016 correlates with the information presented to the board.

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

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

2 Segmental information (continued)

Reconciliation of non-GAAP pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (and rent) (EBITDA(R)) to statutory operating profit:

	2017	2016
	£000	£000
Operating profit before exceptional items per consolidated profit and loss account	**21,353**	22,448
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**33,900**	35,195
Deduct: amortisation of negative goodwill	**(1,580)**	(2,197)
EBITDA before exceptional items	**53,673**	55,446
Add back: rent	**42,584**	44,365
EBITDAR before exceptional items	**96,257**	99,811

3 Other operating income

	2017	2016
	£000	£000
Net gain on disposal of tangible fixed assets	**-**	430

4 Expenses and auditor's remuneration

Included in the operating (loss)/profit are the following:

	2017	2016
	£000	£000
Net loss/(gain) on disposal of tangible fixed assets (post legal fees)	**3,379**	(430)
Impairment loss on tangible fixed assets - exceptional	**28,740**	4,489
Reversal of previously impaired tangible fixed assets - exceptional	**(5,140)**	(30,903)
Depreciation of tangible fixed assets	**33,992**	35,342
Release of capital grants	**(92)**	(147)
Amortisation of negative goodwill	**(1,580)**	(2,197)
Disposal of negative goodwill - exceptional	**(10,914)**	-
Auditor's remuneration		
Amounts receivable by the company's auditor and its associates in respect of:		
- Audit of these financial statements	**55**	50
- Audit of financial statements of subsidiaries of the company	**280**	242
- Other services relating to taxation	**450**	69
- Other non-audit services	**47**	322

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

5 Exceptional items

The operating loss during the year includes exceptional costs of £41.3m. Within this total are a net loss on disposal of £3.4m in relation to properties sold during the year, a net revaluation decrease of £23.6m (being a £5.1m reversal of previous property impairments less £28.7m of current year impairments) on the revaluation of certain of the group's freehold properties, £10.9m credit relating to disposal of negative goodwill on closed or disposed sites and net credit of £2.3m related to the movement in onerous lease provisions. In addition, the costs incurred in relation to the balance sheet restructuring exercise totalled £14.4m, with a further £3.8m relating to the termination of the operations of certain care homes, £5.4m relating to closed homes and redundancy costs and £1.1m spent on other projects.

In the prior year there was exceptional income of £11.4m. Within this total was a net profit on disposal of £0.4m in relation to properties sold during the year, a net revaluation increase of £26.4m (being a £30.9m reversal of previous property impairments less £4.5m of 2016 impairments) on the revaluation of certain of the group's freehold properties, and net income of £4.6m related to the build-up and release of onerous lease provisions. Reducing this income were costs incurred in relation to the balance sheet restructuring exercise of £10.2m, £5.3m relating to the termination of the operations of certain care homes, and a further £4.4m relating to closed homes and redundancy costs.

6 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:

	2017	2016
	No.	No.
Healthcare facilities	**21,833**	26,640
Administration	**1,318**	1,534
	23,151	28,174

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**378,683**	395,741
Social security costs	**28,029**	29,823
Pension costs	**2,355**	2,555
	409,067	428,119

The company had no employees during the year.

From 12 July 2012, certain employees 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.

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

7 Directors' remuneration

	2017	2016
	£000	£000
Amounts paid to third parties in respect of directors' services	**85**	36

The table above does not include payments totalling £496,000 (*2016: 94,000*) paid to directors in respect of services associated with the capital restructuring of the group. Other directors within the group are remunerated by subsidiary companies and the related cost is disclosed in the accounts of those companies.

In addition, during the year, fees of £26,000 were paid to Estera Administration (Guernsey) Limited for administration and secretarial services (*2016: £29,000*).

8 Net interest payable and similar charges

	2017	2016
	£000	£000
Interest payable and similar charges:		
On debt repayable within one year	**55,537**	2,680
On debt repayable after more than one year	**-**	51,920
On balances due to related undertakings	**61,996**	53,941
On balances due to parent undertakings	**282**	245
Amortisation of debt issue costs	**7,927**	7,521
Other finance costs	**231**	305
Unwinding of discounts on provisions	**336**	902
Total interest payable and similar charges	**126,309**	117,514
Bank interest receivable	**(102)**	(150)
Total interest receivable and similar income	**(102)**	(150)
Net interest payable and similar charges	**126,207**	117,364

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

9 Taxation

	2017	2016
	£000	£000
Total tax expense recognised in the profit and loss account and other comprehensive income and equity		
UK corporation tax		
Current tax on loss for the year	**(2,954)**	(2,214)
Adjustments in respect of prior periods	**62**	41
UK income tax		
Current tax on loss for the year	**491**	1,095
Adjustments in respect of prior periods	**(26)**	(180)
Foreign tax		
Current tax on income for the year	**40**	39
Adjustments in respect of prior periods	**-**	-
Total current tax	**(2,387)**	(1,219)
Deferred tax (see note 17)		
Origination and reversal of timing differences	**47**	46
Adjustments in respect of prior periods	**(53)**	(3)
Total deferred tax	**(6)**	43
Total tax	**(2,393)**	(1,176)

	2017			2016		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
	£000	**£000**	**£000**	£000	£000	£000
Recognised in profit and loss account	**(2,387)**	**(6)**	**(2,393)**	(1,219)	43	(1,176)
Recognised in other comprehensive income	**-**	**-**	**-**	-	-	-
Recognised directly in equity	**-**	**-**	**-**	-	-	-
Total tax	**(2,387)**	**(6)**	**(2,393)**	(1,219)	43	(1,176)

	2017	2016
	£000	£000
Analysis of current tax recognised in profit and loss		
UK corporation tax	**(2,892)**	(2,173)
UK income tax	**465**	915
Foreign tax	**40**	39
Total current tax recognised in profit and loss	**(2,387)**	(1,219)

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

9 Taxation (continued)

	2017	2016
	£000	£000
Reconciliation of effective tax rate		
Loss for the year	**(143,747)**	(82,348)
Total tax income	**2,393**	1,176
Loss excluding taxation	**(146,140)**	(83,524)
Tax using the UK corporation tax rate of 19.25% (*2016: 20%*)	**(28,132)**	(16,705)
Expenses not deductible for tax purposes	**14,286**	10,522
Intercompany expenses not deductible for tax purposes	**4,630**	4,568
Difference in overseas tax rate	**(1,103)**	(1,657)
Overseas tax liability	**40**	39
Tax exempt revenues	**-**	(5)
Reduction in tax rate on deferred tax balances	**-**	(1)
Current year movement in recognised deferred tax	**47**	46
Current year movement in unrecognised deferred tax assets	**7,856**	2,159
Prior year adjustment	**(17)**	(142)
Total tax credit included in profit and loss	**(2,393)**	(1,176)

Factors that may affect future current and total tax charge:

From 1 April 2017 the main rate of corporation tax was reduced to 19%. A Further reduction to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. Any deferred tax at 31 December 2017 has been calculated based on the rate of 17% being the rate substantively enacted at the balance sheet date.

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

10 Negative goodwill

	Negative goodwill £000
Cost	
Balance at beginning and end of year	**(43,943)**
Disposals	14,177
Balance at end of year	**(29,766)**
Amortisation	
Balance at beginning of year	**9,830**
Amortisation for the year	1,580
Disposals	(3,263)
Balance at end of year	**8,147**
Net book value	
At 1 January 2017	(34,113)
At 31 December 2017	**(21,619)**

On 12 July 2012, Elli Investments Limited, via a direct subsidiary, acquired FSHC (Jersey) Holdings Limited and its subsidiary undertakings.

Negative goodwill arising on the acquisition of £43.9m was in excess of the fair value of the non-monetary assets acquired. The resulting negative goodwill was recognised in the group's balance sheet at 12 July 2012 and is being released to the profit and loss account over 20 years.

Amortisation and impairment charge

The amortisation charge is recognised in the ordinary administrative expenses line in the profit and loss account.

The net disposals charge is recognised in the exceptional administrative expenses line in the profit and loss account.

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

11 Tangible fixed assets

	Land and buildings £000	Buildings under construction £000	Equipment and fixtures £000	Motor vehicles £000	Total £000
Cost					
Balance at beginning of year	**716,127**	**3,867**	**187,818**	**8,515**	**916,327**
Additions	-	7,280	29,880	1,285	38,445
Transfers	-	(10,746)	10,746	-	-
Disposals	(69,786)	(94)	(6,219)	(197)	(76,296)
Balance at end of year	**646,341**	**307**	**222,225**	**9,603**	**878,476**
Depreciation and impairment					
Balance at beginning of year	**253,638**	**-**	**109,306**	**6,032**	**368,976**
Depreciation charge for the year	5,208	-	27,470	1,314	33,992
Reversal of previous impairments	(5,140)	-	-	-	(5,140)
Impairment losses	19,492	-	9,248	-	28,740
Disposals	(34,033)	-	(4,151)	(110)	(38,294)
Balance at end of year	**239,165**	**-**	**141,873**	**7,236**	**388,274**
Net book value					
At 1 January 2017	462,489	3,867	78,512	2,483	547,351
At 31 December 2017	**407,176**	**307**	**80,352**	**2,367**	**490,202**

Impairment loss and subsequent reversal

As at 31 December 2017 the directors reviewed the property portfolio in line with the requirements of FRS 102 Chapter 27 *Impairment of assets* guided by a valuation carried out by an independent valuer in March 2016 and having regard to the current and expected trading in individual care homes and specialist units with particular focus on occupancy levels, fee rates and payroll costs, or, where applicable, based on actual or expected disposal proceeds following the year end (see note 24, Accounting estimates and judgements). Certain of the group's properties were valued by an external independent valuer in March 2018, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued. As a result of this review and the independent external valuation of certain properties, the value of the group’s tangible fixed assets has been decreased by £23.7m, being the net of a £5.1m reversal of previous property impairments and £28.8m of current year impairments.

Security

The term loan facility and senior secured notes (see note 15) are secured on the trade and assets of certain subsidiary undertakings.

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

11 Tangible fixed assets (continued)

Land and buildings

The net book value of land and buildings comprises:

	2017	2016
	£000	£000
Freehold	**404,373**	457,853
Long leasehold	**2,803**	4,636
	407,176	462,489

12 Fixed asset investments

	£000
Cost	
Balance at beginning and end of year	174,368
Provisions	
Balance at beginning and end of year	(174,368)
Net book value	
At 1 January 2017	-
At 31 December 2017	**-**

A list of the company's principal subsidiary undertakings at 31 December 2017 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:

Company	**Nature of business**
Four Seasons (Bamford) Limited	Operator of care homes
Tamaris Healthcare (England) Limited	Operator of care homes
Tamulst Care Limited	Operator of care homes
Alliance Care (Dales Homes) Limited	Operator of care homes
Four Seasons 2000 Limited	Operator of care homes
Four Seasons Homes No.4 Limited	Operator of care homes
brighterkind Health Care Limited	Operator of care homes
brighterkind Leaseco Limited	Holding company
Four Seasons Group Holdings Limited	Holding company
Elli Finance (UK) Plc	Holding company
The Huntercombe Group Leaseco Limited	Holding company
Huntercombe (No.12) Limited	Operator of specialist units

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

12 Fixed asset investments (continued)

The following companies are incorporated in, and operate in, the United Kingdom: *(continued)*

Company	**Nature of business**
Four Seasons Health Care Group Limited	Central cost company and holding company
brighterkind Group Limited	Central cost company
THG Healthcare Limited	Central cost company
Huntercombe (SP) Limited	Property holding company
Sistine Properties (Westbury) Limited	Property holding company
Huntercombe (BIR) Limited	Property holding company
FSHC Properties (CH2) Limited	Property holding company

The following companies are incorporated in the Isle of Man:

Company	**Nature of business**
Four Seasons Health Care (England) Limited	Operator of care homes
Four Seasons Health Care (Northern Ireland) Limited	Operator of care homes

The following company is incorporated in Jersey, Channel Islands:

Company	**Nature of business**
PHF Securities No.1 Limited	Property holding company

13 Debtors

	Group 2017 £000	**Company 2017 £000**	Group 2016 £000	Company 2016 £000
Trade debtors	**29,508**	**-**	31,323	-
Amounts owed by related undertakings	**1,651**	**90,272**	3,169	175,953
Amounts owed by subsidiary undertakings	**-**	**2,266**	-	1,984
Prepayments, other debtors and accrued income	**19,584**	**-**	27,078	-
	50,743	**92,538**	61,570	177,937

All of the group's debtors are due within one year and the amounts owed by related undertakings are unsecured and repayable on demand.

Amounts owed to the company by related undertakings have a maturity date in 2020 and accrue interest at 15%. Notwithstanding the maturity date, given the classification of the external debt as due within one year, the amounts due from related undertakings has also been reclassified as due in less than one year. In addition, given the number of restructuring options which exist, a provision of c£96m has been made against the recoverability of this balance.

Of the amounts due to the company by subsidiary undertakings, £2,159,000 (*2016: £1,877,000*) is due to be repaid in 2022 and accrues interest at 15% on a compounding basis.

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

14 Cash and cash equivalents

	Group 2017 £000	**Company 2017 £000**	Group 2016 £000	Company 2016 £000
Cash at bank and in hand	**25,995**	**16**	33,032	16
Cash and cash equivalents	**25,995**	**16**	33,032	16

15 Creditors: amounts falling due within one year

	Group 2017 £000	**Company 2017 £000**	Group 2016 £000	Company 2016 £000
Term loan	**40,000**	**-**	40,000	-
High yield bonds	**525,000**	**175,000**	-	-
Debt issue costs	**(5,062)**	**-**	-	-
Trade creditors	**19,164**	**-**	22,419	303
Amounts owed to related undertakings	**130**	**-**	11	-
Amounts owed to subsidiary undertakings	**-**	**2,393**	-	1,874
Amounts owed to parent undertakings	**173**	**1**	215	1
Taxation and social security	**6,957**	**-**	7,721	-
Other creditors	**45,645**	**-**	38,089	-
Accruals and deferred income	**38,168**	**5**	44,555	61
Corporation tax creditor	**310**	**-**	658	-
Accrued interest and finance costs	**28,997**	**11,717**	1,763	646
	699,482	**189,116**	155,431	2,885

The term loan facility is secured on the trade and assets of certain subsidiary undertakings.

On 16 October 2017 the group refinanced its £40m term loan facility. The new term loan paid interest at LIBOR+6% and had a maturity date of March 2019. As set out in note 27, the new £40m term loan was subsequently refinanced on 20 March 2018.

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 £16,739,000 (*2016: £923,000*) 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 £11,717,000 (*2016: £646,000*) 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. Notwithstanding the maturity date, in light of the interest default on the senior secured and senior notes on 15 December 2017 (see note 1) and the current debt restructuring process, the senior secured notes, senior notes and the term loan have all been classified as due in less than one year.

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

16 Creditors: amounts falling due after more than one year

	Group 2017 £000	**Company 2017 £000**	Group 2016 £000	Company 2016 £000
High yield bonds	**-**	**-**	525,000	175,000
Term loan	**-**	**-**	-	-
Debt issue costs	**-**	**-**	(11,226)	-
External debt net of debt issue costs	**-**	**-**	513,774	175,000
Amounts owed to related undertakings	**473,481**	**-**	411,723	-
Amounts owed to parent undertakings	**2,159**	**2,159**	1,877	1,877
	475,640	**2,159**	927,374	176,877

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

Maturity of credit facilities

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

	Group 2017 £000	Group 2016 £000
In less than one year	**565,000**	40,000
In 1 to 2 years	**-**	-
In 2 to 5 years	**475,640**	525,000
In more than 5 years	**-**	413,600
	1,040,640	978,600

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

16 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 the book values and fair values of the group's financial assets and liabilities, excluding accrued interest and excluding balances with related undertakings:

	Book value 2017 £000	**Fair value 2017 £000**	Book value 2016 £000	Fair value 2016 £000
Primary financial instruments held or issued to finance the group's operations:				
Financial assets: cash	**25,995**	**25,995**	33,032	33,032
Financial liabilities:				
8.75% senior secured notes	**350,000**	**350,438**	350,000	339,560
12.25% senior notes	**175,000**	**117,250**	175,000	78,969
Term loan	**40,000**	**40,000**	40,000	40,000

The fair values have been calculated by reference to the prices available as at 31 December 2017 for the senior secured notes and the senior notes. Please refer to page 21 for details of the principal financial risks facing the group.

17 Deferred tax liabilities

	Group 2017 £000	Group 2016 £000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,076**	5,082

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

18 Other provisions

Group	Provision for operating leases £000	Provision for onerous leases £000	Total £000
Balance at beginning of year	**12,430**	**29,384**	**41,814**
Provisions made during the year	669	8,960	9,629
Provisions used during the year	(437)	(9,349)	(9,786)
Provisions released to exceptional items during the year	-	(11,262)	(11,262)
Unwinding of discounted amounts	-	336	336
Balance at end of year	**12,662**	**18,069**	**30,731**

£5.0m (*2016: £14.7m)* of the provision for onerous leases will unwind over the period of the relevant contracts, with the balance expected to unwind in the 12 month period (*2016: 18 months)* following the balance sheet date.

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

19 Share capital and other comprehensive income

	2017		2016	
	No.	**£000**	No.	£000
Ordinary shares of £1 each - allotted, called up and fully paid	**174,367,500**	**174,368**	174,367,500	174,368

Other comprehensive income

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

20 Employee benefits

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 £2,355,000 (*2016: £2,555,000)*. At the year end £335,000 (*2016: £345,000*) of pension contributions were outstanding.

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

21 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group 2017 £000	Group 2016 £000
Assets measured at amortised cost	**55,503**	64,355
Liabilities measured at amortised cost	**(1,035,578)**	(967,374)
	(980,075)	(903,019)

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group 2017 £000	Group 2016 £000
Land and buildings – in less than one year	**52,011**	52,544
Land and buildings – in two to five years	**196,584**	203,303
Land and buildings – more than five years	**531,587**	584,425
Equipment, fixtures and motor vehicles – expiring in less than one year	**-**	-
	780,182	840,272

During the year £42,584,000 was recognised as an expense in the profit and loss account in respect of operating leases (*2016: £44,365,000*).

23 Commitments

Capital commitments

Contractual commitments to purchase tangible fixed assets at the year end were as follows:

	Group 2017 £000	Group 2016 £000
Contracted	**2,544**	1,755

The company had no capital commitments at 31 December 2017 (*31 December 2016: £nil*).

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

24 Accounting estimates and judgements

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Recoverability of trade debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors, the value of security held over the debtor, the reason for the ageing and historical experience.

Onerous lease provisions

The company makes an estimate of onerous lease provisions. These provisions represent the best estimate of the amount an entity would rationally pay to settle the obligation at the balance sheet date. The onerous lease provision includes a provision for costs associated with both closed leasehold homes and a number of open homes where the unavoidable costs of the lease exceed the economic benefits expected to be received under it.

For closed homes the provision requires an estimate of the time required to exit the lease, the expected cost to exit, including any surrender premia, and dilapidation costs. When assessing the quantum of the provision for open homes the factors for consideration include the minimum operating loss under the lease and the time required to address that loss, either operationally or via exiting the lease.

In arriving at this estimate at 31 December 2017, management have taken account of the group restructuring and the expectation that a restructure of the leasehold estate will take place to address its over-rented position. On this basis, management determined that the most likely cost of exiting the onerous leases, including the costs in the period until a leasehold estate restructure is completed, was equivalent to 12 month's rent. This estimate is subjective as the format and outcome of any leasehold estate restructure is not currently certain.

Estimates will be revised each period until the actual liability arises, with any differences accounted for in the period in which the revision is made.

Impairment of tangible fixed assets

The directors have reviewed the carrying value of the group's tangible fixed assets and assessed whether there is any indication that assets may be impaired. There are a number of key judgements in determining the appropriate method to identify assets to be considered for impairment and to estimate the value of the impairment.

The assessment is based on those assets with significant negative movements in actual or expected performance. The directors have also considered whether for any previously impaired assets there is an indication that the reason for the impairment has ceased to apply. For assets with an indication of impairment, or an indication of a reversal of a previous impairment, the carrying value of assets is compared to the estimated recoverable amount.

The fair value less cost to sell is based on the profits method which multiplies a "fair maintainable trade", being an estimate of the cash flows/profits that could be achieved by a reasonably efficient operator from the asset, by an appropriate multiple which takes account of an individual asset's circumstances including its quality, location and market factors. The directors based their assessment of fair maintainable trade and multiples on those in a valuation previously provided by a third party valuer in accordance with RICS valuation. Whilst the multiples utilised in the directors' valuation were not adjusted from the original third party valuation, sensitivity analysis was performed for properties identified for impairment, and for properties where a potential reversal of impairment was identified. This sensitivity analysis indicated that the director's review of the carrying value of the group's tangible fixed assets was not significantly sensitive to any reasonable change in multiples.

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

24 Accounting estimates and judgements (continued)

Impairment of tangible fixed assets (continued)

The above sensitivity excludes certain of the group's properties, which had experienced larger variances in recent performance, and which were therefore valued by an external valuer in March 2018.

The directors believe that the inherent difficulties in reliably calculating a value in use for each property asset given the level of volatility that can occur in individual home performance, mean that the fair value less cost to sell is a more appropriate approach. They have therefore assumed, in accordance with paragraph 27.13 of FRS 102, that for freehold and long leasehold properties that there is no reason to believe that an asset's value in use materially exceeds its fair value less cost to sell and have therefore used the latter as its recoverable amount.

In respect of tangible fixed assets utilised by leasehold sites, the estimate of impairment has assumed that assets continue to be utilised in the business over their remaining useful economic life, however this is subjective as the format and outcome of any leasehold estate restructuring is not currently certain.

For properties which were held for disposal, the carrying value was compared to recoverable amount. This was estimated by reference to discussions with agents, offers received or prices agreed for the relevant properties.

The details of the impairment charge and reversal of previous impairments is detailed in note 11. In respect of the methodology, the directors consider the approach taken to be appropriate with multiple impairment triggers being considered and a significant hurdle, before a reversal of impairment is considered.

Recoverability of amounts owed by related undertakings

For the parent company, an estimate is made in respect of the recoverability of amounts owed by related undertakings. In making this assessment, management have considered the ability of the relevant related undertakings to pay the amount owed. Due to the complex group structure this requires consideration of the way in which all intercompany balances would be settled and the asset value available to settle those balances.

Treatment of items as exceptional

The group has presented items as exceptional within the consolidated profit and loss account and other comprehensive income. These are items of income and expense which the directors believe are material in size and non-recurring in nature, and this disclosure helps to provide clarity over the business' underlying performance. These items include the profit or loss on disposal of properties, fixed asset impairments and reversal of impairments, movements on onerous lease provisions, costs relating to the balance sheet restructuring exercise, termination of operations or closure of certain care homes, credits on disposal of negative goodwill and certain project costs. Judgement is required in ensuring that only items that meet the definition in the accounting policy are separately presented as exceptional items. See note 5 for details of the exceptional items.

Going concern basis of preparation

The directors have considered the basis of preparation of the financial statements as to whether it is appropriate to prepare them on a going concern basis. In making this assessment they took account of the current progress to address the group's capital structure, including the SDA that is currently in place, and considered possible restructuring mechanisms available to the group. They also considered the current cash flow forecasts for the group and the sensitivities of these to changes in trading performance, likely exceptional costs and working capital movements. Details of the assessment are included in note 1.

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

25 Related parties

As at 31 December 2017 Terra Firma Investments (GP) 3 Limited, acting as general partner of Terra Firma Capital Partners III LP, had the ability to exercise a controlling influence over the company through the holding of shares in a parent of the company. As at 31 December 2017 the directors therefore considered Terra Firma Investments (GP) 3 Limited to be a related party. As the company had the ability to exercise a controlling influence over its subsidiary undertakings, which are members of the group, the directors considered these subsidiary undertakings to be related parties at 31 December 2017.

As the company is a wholly owned subsidiary of FSHC Group Holdings Limited, the directors have taken advantage of the exemption in FRS 102 Chapter 33.1A and have therefore not disclosed related party transactions or balances with parent and fellow subsidiary undertakings.

During the year, entities within the Terra Firma group charged the group £nil (*2016: £184,000*) for the full time secondment of certain employees. At the year end £nil (*2016: £629,000*) remained outstanding.

Transactions with key management personnel

Total compensation of key management personnel (including the directors with authority and responsibility for planning, directing and controlling the group's activities) in the year amounted to £4,844,000 (*2016: £6,001,000*).

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

27 Post balance sheet events

Term loan

On 20 March 2018, the group refinanced its £40m term loan facility with a £70m term loan. The new term loan pays interest at LIBOR + 3.75% and has a maturity date of March 2019. The proceeds from this facility were used to repay the existing £40m term loan credit facility. To date, £58m of the £70m term loan has been utilised.

Restructuring

As at the date of approval of the financial statements, the terms of the SDA have been amended, inter alia, to include a long stop date for agreement on a restructuring plan of 15 May 2018 and the forbearance period's long stop date of 31 July 2018 (this accordingly being the target date for implementation of the restructuring).