Four Seasons Health Care

2016 Investor Presentation

27 April 2017

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2016 Overview

Group financial highlights

- 2016 saw the group make significant progress, with a marked improvement in care quality, employee engagement and financial performance
- Full year 2016 turnover for Elli Investments Limited is £50.2m, or 8.4%, higher than 2015 after adjusting for the impact of disposals and closures (an average reduction of c2,100 effective beds)
- 2016 EBITDA of £55.4m is £16.7m or 43% higher than 2015
- Group occupancy % in Q4 2016 saw a 4.3 percentage point increase over Q4 2015 (Four Seasons Health Care: 5.1 percentage point increase; brighterkind: 2.0 percentage point increase; The Huntercombe Group (THG): 2.4 percentage point decrease)
- Q4 2016 average weekly fee in the group's care homes was £681, with the increase over Q4 2015 driven by fee rate settlements from a majority of LAs that partly offset National Living Wage (NLW) cost pressures, an increase in the NHS Funded Nursing Care (FNC) fee rate and the benefits of the quality dividend
- Continued and significant progress on quality:
  - Just three embargoes in the group's care homes at the end of December 2016, reducing to one embargo at the end of March 2017
  - Approximately 65% of the group's care homes are rated as Good or Outstanding – an increase from around 50% in March 2016 and 5% above the relevant sector comparator
- Q4 2016 payroll as a percentage of turnover in the group's care homes improved by 4.2 percentage points on the comparative quarter in 2015 and by 2.9 percentage points year on year. Within THG, payroll as a percentage of turnover declined by 1.1 percentage points on the previous quarter and by 2.8 percentage points on Q4 2015
- Agency as a percentage of payroll of 8.5% in Q4 2016 in the group's care homes represented a 0.3 percentage point improvement compared to Q4 2015, with the 2016 year on year improvement being 1.3 percentage points. Within THG, agency as a percentage of payroll of 11.2% in Q4 2016 represented a 1.3 percentage point improvement compared to Q4 2015
- In 2016 the group generated £32.2m of cash from operations before interest payments of £55.3m
- Closing 2016 cash balance of £33.0m; net debt of £532.0m at December 2016 (excluding amounts owed to related undertakings and debt issue costs)

Results – KPIs

	2015					2016				
	Q1	Q2	Q3	Q4	Year [2]	Q1	Q2	Q3	Q4	Year [2]
Turnover (£m)	172.3	172.9	172.5	170.4	688.1	170.7	177.0	171.7	166.8	686.2
EBITDAR (£m)	22.2	23.9	25.0	17.4	88.5	21.8	25.8	32.1	20.1	99.8
EBITDA (£m) [5]	9.7	11.1	12.2	5.7	38.7	9.2	13.6	19.7	13.0	55.4
Effective beds - group	22,293	22,148	21,974	21,647	22,015	21,045	20,438	19,338	18,532	19,838
Occupied beds - group	19,020	18,741	18,680	18,430	18,717	18,183	17,822	17,205	16,573	17,446
Occupancy % - FSHC and brighterkind	85.7%	85.0%	85.3%	85.3%	85.3%	86.7%	87.5%	89.6%	90.0%	88.4%
Occupancy % - THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%	79.2%	80.6%
Average weekly fee (£) - FSHC and brighterkind	609	620	620	619	617	629	669	675	681	663
Average weekly fee (£) - THG	2,254	2,252	2,301	2,380	2,297	2,390	2,425	2,386	2,395	2,399
Payroll (% of turnover)[1] - FSHC and brighterkind	66.9%	66.4%	65.4%	68.2%	66.7%	65.3%	63.6%	62.1%	64.0%	63.8%
Payroll (% of turnover)[1] - THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%	74.0%	71.8%
EBITDARM (% of turnover) - FSHC and brighterkind	17.9%	19.5%	19.7%	15.6%	18.2%	18.9%	22.2%	24.4%	21.0%	21.6%
EBITDARM (% of turnover) - THG[6]	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%	14.5%	17.4%
Agency (% of payroll)[1]	8.5%	8.9%	9.4%	9.4%	9.1%	7.9%	6.9%	8.2%	9.0%	8.0%
Expenses (% of turnover)	14.7%	13.6%	14.2%	15.4%	14.5%	14.9%	13.7%	13.1%	14.5%	14.1%
Central costs (% of turnover)	5.3%	5.8%	5.5%	6.3%	5.7%	6.1%	5.9%	6.0%	6.1%	6.0%
Maintenance capex (£m)[3]	6.0	6.0	7.3	9.6	28.9	6.5	6.8	6.1	7.9	27.3

Notes

1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. Four Seasons Health Care, brighterkind and THG operational capex
4. From 1 January 2016, ten care homes previously operated by brighterkind and five sites previously operated by THG are operated by Four Seasons Health Care. These changes are reflected in the comparative numbers
5. FRS 102 operating lease charge of £0.8m included within Q4 2015. Q1 – Q3 2015 quarterly EBITDA figures have not been adjusted for FRS 102
6. Q1 – Q4 2016 include £0.2m rental income per quarter
7. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period
8. EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)

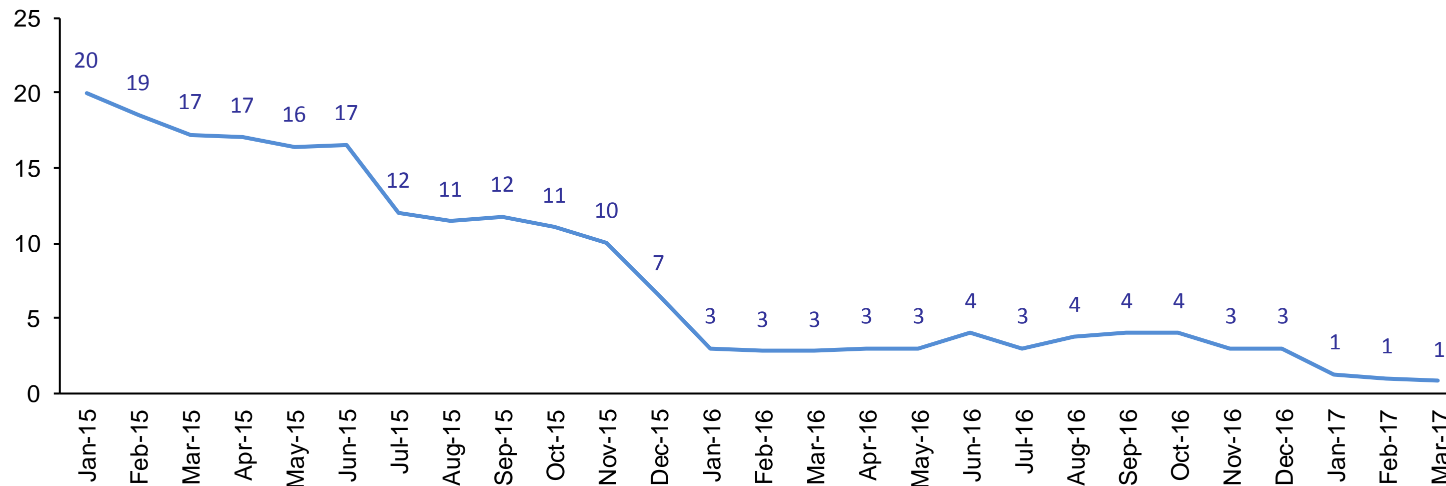
Results – KPIs by business

	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015 Year [2]	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2016 Year [2]
Turnover (£m)[5]										
- FSHC	123.0	123.1	122.5	120.4	489.1	119.9	124.6	120.8	116.5	481.9
- brighterkind	20.6	20.7	21.1	20.9	83.3	21.8	22.8	22.8	23.2	90.5
- THG [4]	27.7	28.0	27.8	28.2	111.7	29.0	29.5	28.0	27.2	113.7
Effective beds										
- FSHC	18,810	18,657	18,538	18,262	18,566	17,659	17,086	16,041	15,291	16,519
- brighterkind	2,298	2,298	2,298	2,298	2,298	2,298	2,264	2,209	2,209	2,245
- THG	1,185	1,193	1,138	1,087	1,151	1,088	1,088	1,088	1,032	1,074
Occupancy %										
- FSHC	85.6%	84.9%	85.2%	85.3%	85.3%	86.6%	87.7%	89.8%	90.4%	88.6%
- brighterkind	86.9%	85.4%	86.1%	85.4%	86.0%	86.9%	86.0%	87.5%	87.4%	86.9%
- THG	77.9%	78.3%	77.4%	81.6%	78.8%	81.7%	82.3%	79.1%	79.2%	80.6%
Average weekly fee (£)[5]										
- FSHC	588	597	597	594	594	603	640	645	648	634
- brighterkind	785	801	811	812	802	831	891	899	917	885
- THG	2,254	2,252	2,301	2,380	2,297	2,390	2,425	2,386	2,395	2,399
Payroll % (of turnover)[1][5]										
- FSHC	68.2%	67.8%	66.8%	69.7%	68.1%	66.3%	64.3%	63.0%	65.3%	64.7%
- brighterkind	58.9%	57.9%	57.2%	59.3%	58.3%	59.9%	60.1%	57.4%	57.7%	58.8%
- THG	73.2%	72.0%	70.8%	71.2%	71.8%	71.2%	68.9%	72.9%	74.0%	71.8%
Agency % (of payroll)[1]										
- FSHC	8.8%	9.0%	9.5%	9.5%	9.2%	6.9%	6.3%	8.2%	8.9%	7.6%
- brighterkind	4.2%	2.7%	3.5%	3.8%	3.6%	3.9%	5.7%	4.0%	6.0%	4.9%
- THG	9.7%	12.0%	12.6%	12.5%	11.7%	14.0%	10.2%	11.1%	11.2%	11.6%
EBITDARM % (of turnover)[5]										
- FSHC	16.2%	17.8%	17.9%	13.8%	16.4%	17.7%	21.3%	23.4%	19.4%	20.5%
- brighterkind	27.9%	29.7%	30.4%	26.6%	28.6%	25.5%	27.0%	29.8%	28.8%	27.8%
- THG [4]	17.4%	16.9%	18.4%	17.6%	17.6%	18.6%	20.1%	16.4%	14.5%	17.4%

Notes

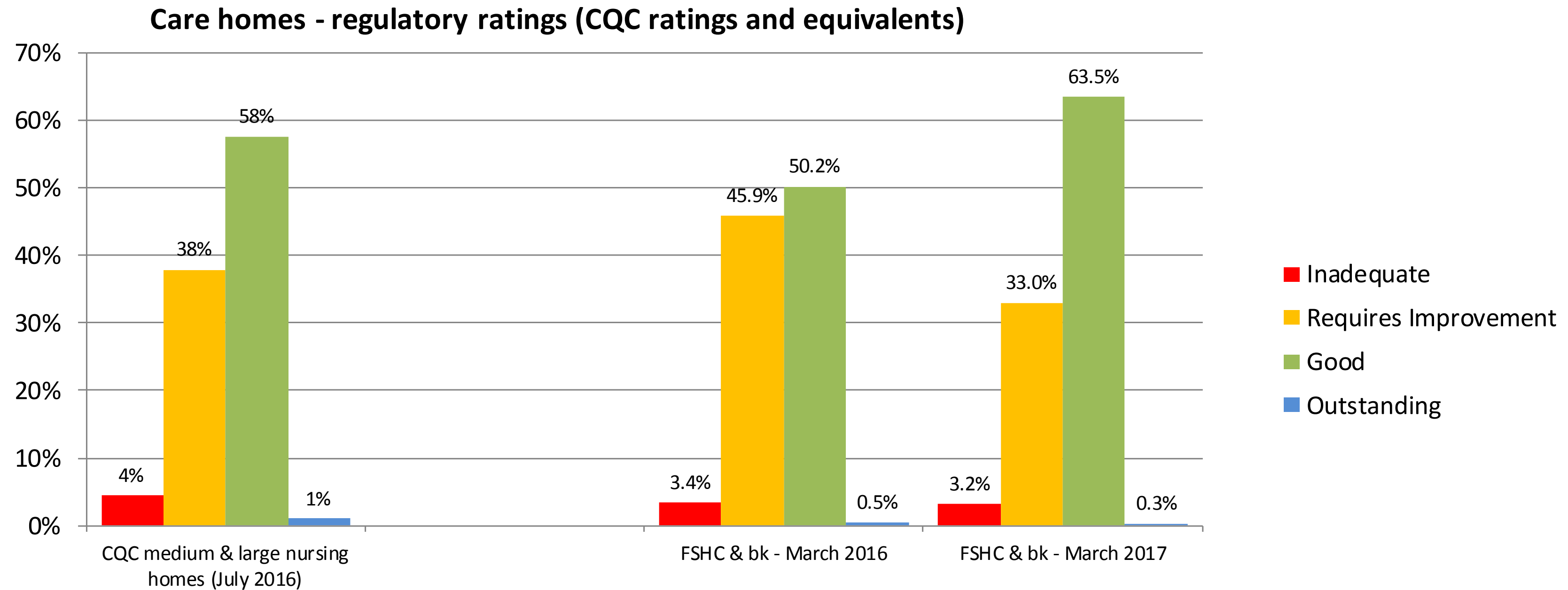
1. Payroll (% of turnover) excludes central payroll
2. Full year numbers may include minor rounding differences compared to the four quarter aggregate
3. From 1 January 2016, ten care homes previously operated by brighterkind and five sites previously operated by THG are operated by Four Seasons Health Care. These changes are reflected in the comparative numbers
4. Q1 - Q4 2016 include £0.2m rental income per quarter
5. Q2 and Q3 2016 KPIs, other than EBITDA and EBITDAR, include the FNC fee rate increase, announced in July 2016 and backdated to 1 April 2016, in the relevant period

Embargoes



- Group wide embargoes have decreased steadily since mid-2014
- During Q1 2017, the group's care homes (Four Seasons Health Care and brighterkind) averaged just one embargo
- In addition, THG's one embargo was lifted at the end of March 2017
- The embargo reduction is consistent with improvements in regulatory ratings, as shown on page 6
- Given the very low level of embargoes, the group will not report embargo levels going forward but will instead report on regulatory ratings

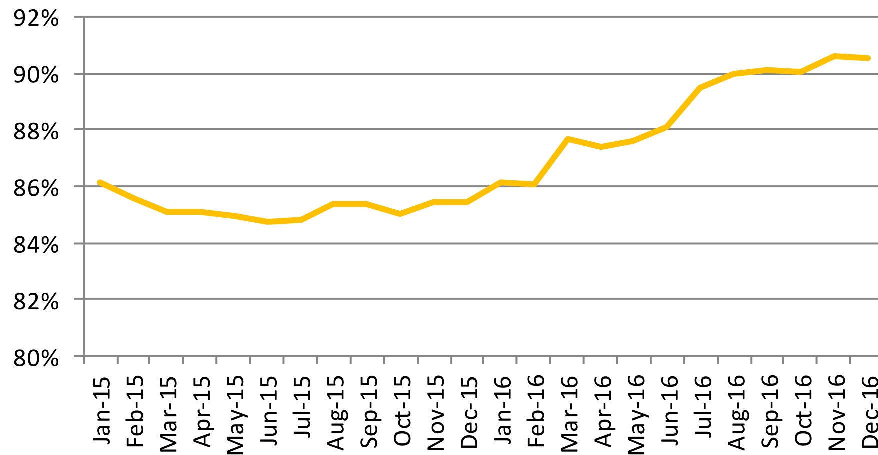
Regulatory Ratings

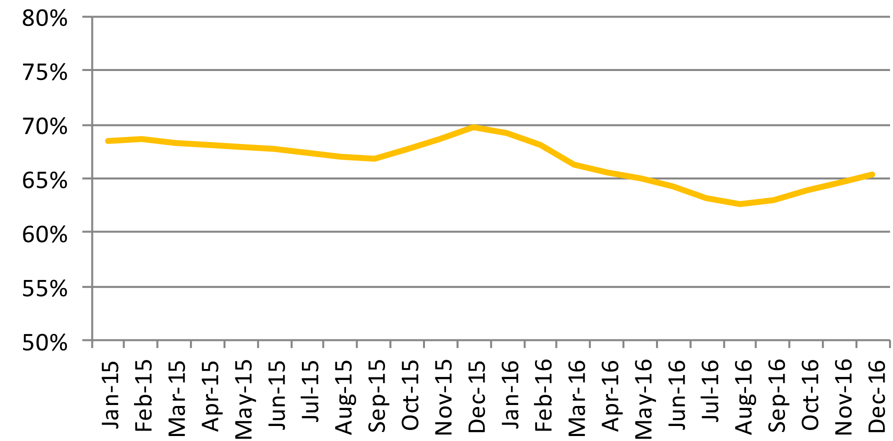


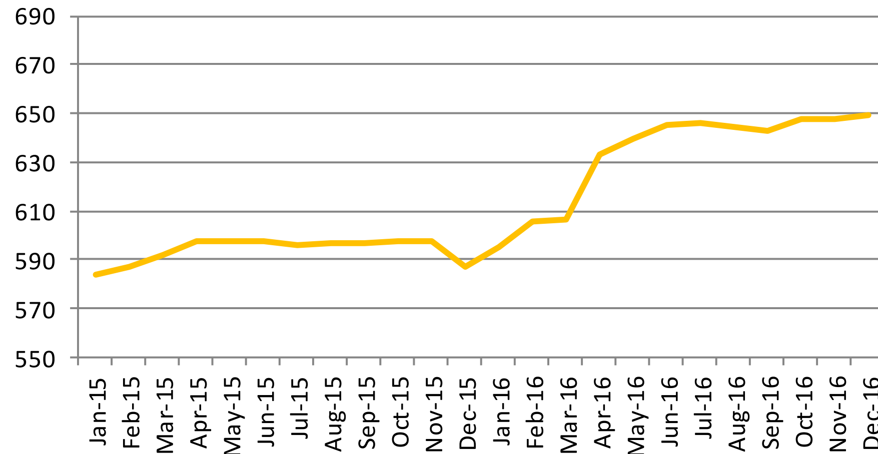
- The group's regulatory ratings have improved over time, as shown above, and are now ahead of the relevant market comparator
- The most appropriate comparators for the group's care homes are the CQC's classifications of 'medium' and 'large' nursing homes, which include all care homes with 11 beds or more
- Across all regions, the percentage of Four Seasons Health Care homes rated as 'Good' has increased over the past 12 months by more than 10 percentage points
- More than 60% of the brighterkind High Yield Bond homes are rated as 'Good'
- THG has 74% of facilities rated as 'Good' which is higher than the national average for 'Good' or 'Outstanding' for all hospital inspections

Note: Scottish and Northern Irish homes are rated using different scales, which have been translated to the CQC equivalents and included in this chart

Results – Four Seasons Health Care

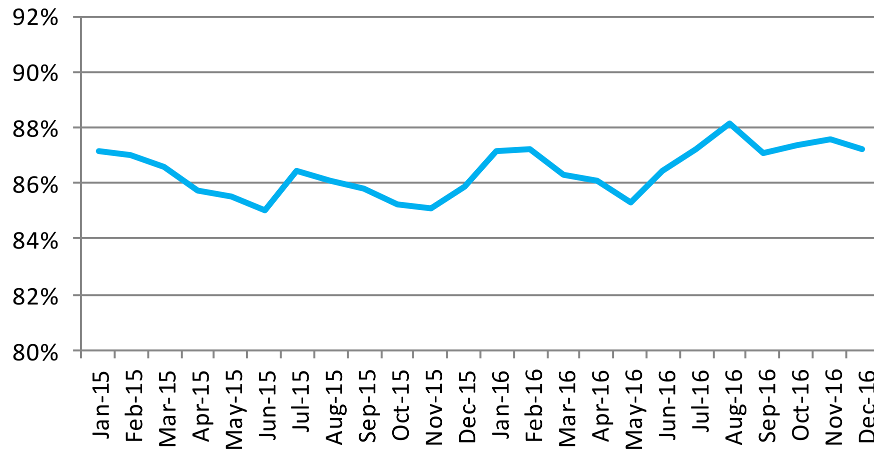


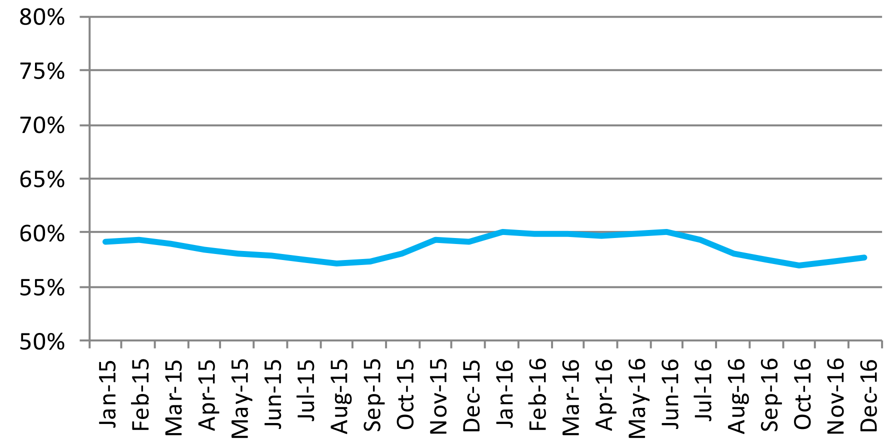


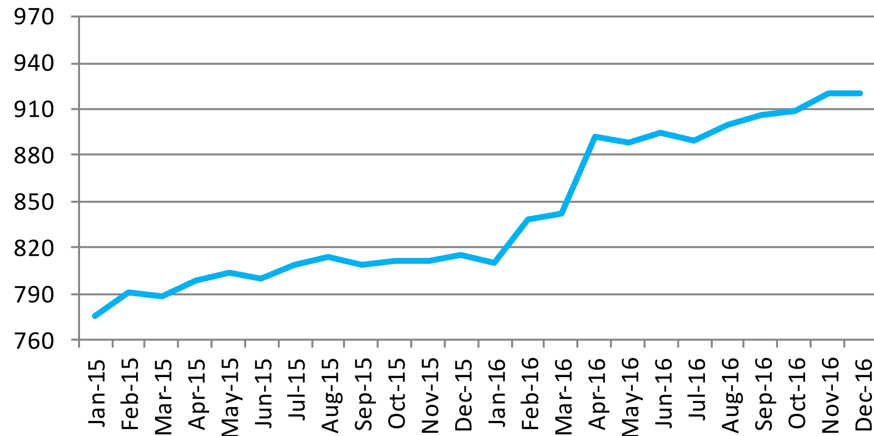


- Occupancy % has increased for the past six consecutive quarters
- 2016 average occupancy of 88.6% was 3.3 percentage points above the average for 2015, with Q4 2016 occupancy of 90.4% being 5.1 percentage points above the corresponding quarter in 2015
- Average weekly fee of £634 in 2016 was 6.7% higher than 2015, driven by the introduction of the Social Care Precept (in England) and the increase in FNC fee rate, both from April 2016 and the benefits of the quality dividend
- Q4 2016 average weekly fee of £648 was 0.5% higher than the prior quarter
- Payroll as a % of turnover improved by 3.4 percentage points in 2016 in comparison to the prior year
- Agency as a percentage of payroll also improved from 9.2% in 2015 to 7.6% in 2016, a 1.6 percentage point improvement despite the difficult nurse recruitment market

Results – brighterkind

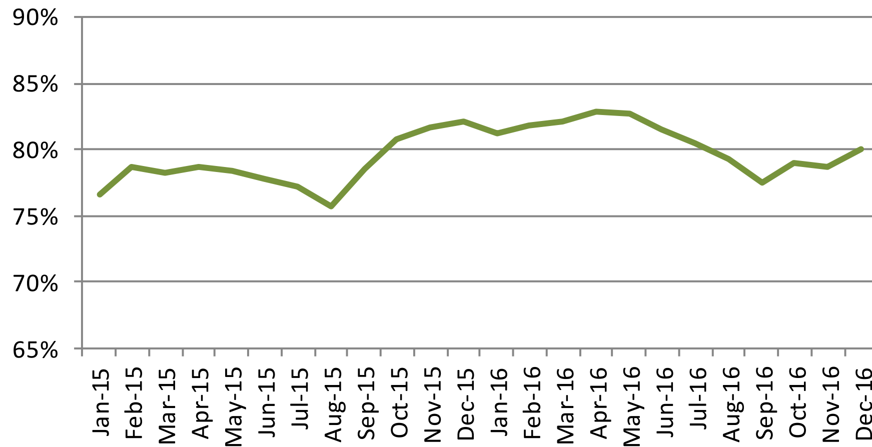


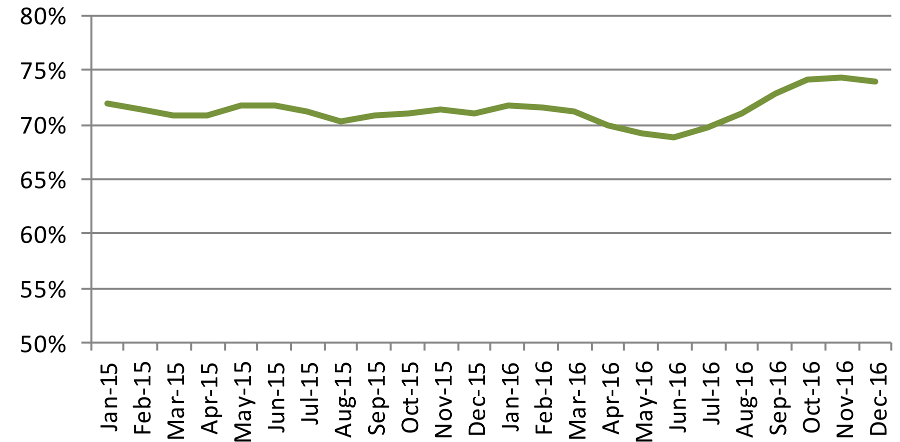


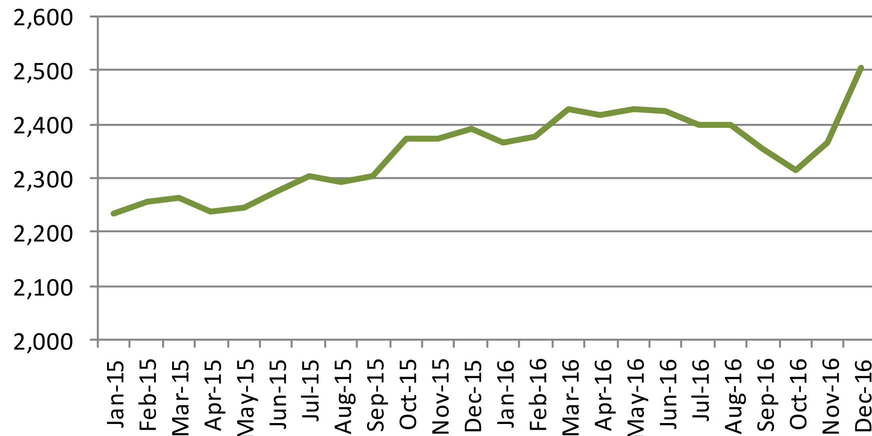


- Q4 2016 occupancy of 87.4% was 2.0 percentage points higher than Q4 2015, whilst overall 2016 average occupancy of 86.9% was 0.9 percentage points higher than 2015
- Q4 2016 occupancy has remained stable, following the significant growth in occupancy achieved in Q3 2016
- The rebranding of brighterkind homes has continued to have a positive impact on private mix and fee rates
- Average weekly fee in 2016 was 10.3% higher than 2015, with Q4 2016 being 2.0% higher than the prior quarter
- Payroll as a % of turnover in Q4 2016 improved by 1.6 percentage points in comparison to the comparative quarter in 2015
- Despite an increase in agency cost, usage in the business remains below the sector average

Results – THG

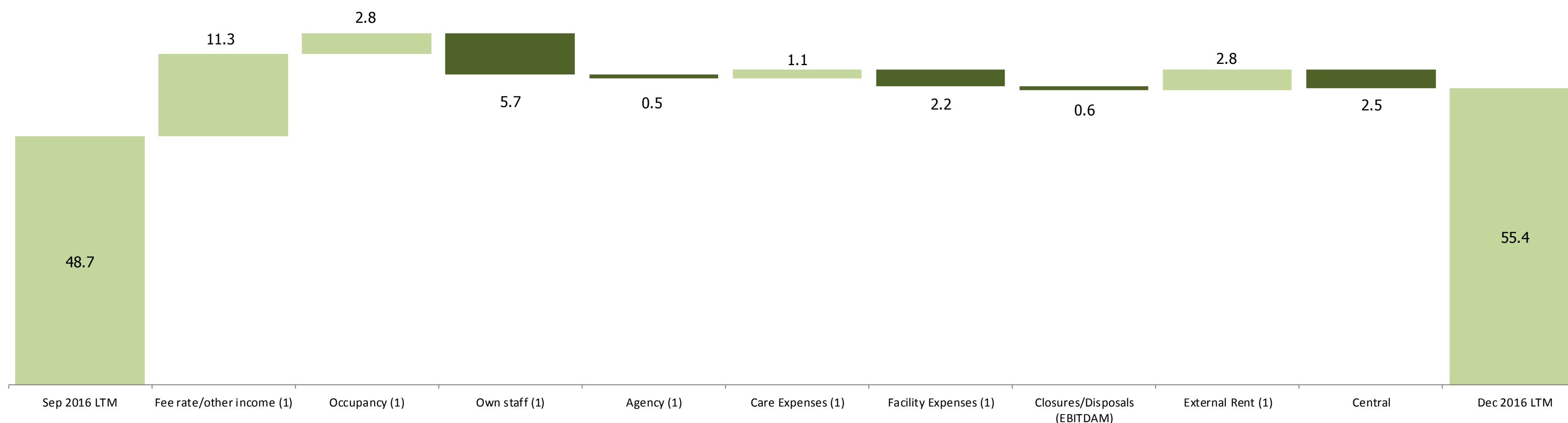






- Occupancy percentage of 79.2% in Q4 2016 was 0.1 percentage points above Q3 2016, although 2.4 percentage points lower than the comparative period in the prior year
- Average weekly fee in 2016 was 4.4% higher than in 2015, largely reflecting the higher acuity mix. The average weekly fee in December 2016 was £2,505 with the increase driven by the disposal of a number of lower acuity sites during the month
- Year on year payroll as a % of turnover was stable, although Q4 2016 was 2.8 percentage points higher than Q4 2015, which was driven primarily by the requirement to increase staffing to drive the turnaround in the unit that was previously embargoed
- Agency usage, at 11.2% of total payroll in Q4 2016 remained stable when compared to Q3 2016, and was a 1.3 percentage point improvement on the same quarter in 2015

Results – LTM September 2016 v LTM December 2016



- December 2016 LTM EBITDA was £55.4m, £7.3m up on September 2016 LTM after adjusting for the £0.6m impact of disposals and closures
- The LTM movement, excluding closures and disposals, was largely a result of the following drivers:
  - Income was £14.1m higher in December 2016 LTM than September 2016 LTM:
    - Group fee rates were higher leading to an overall favourable fee rate variance of £11.3m
    - Increased occupancy resulting in a favourable occupancy variance of £2.8m
  - Own staff payroll costs increased by £5.7m, driven largely by the introduction of the NLW from April 2016, the increase in the National Minimum Wage in October 2016 and the impact of higher occupancy
  - Agency spend in December 2016 LTM was £0.5m higher than the spend in September 2016 LTM, reflecting the continuing difficulties in the nurse recruitment market

Notes
1. Excludes closures/disposals

Results – Cash flow and net debt

External Debt			
£m	Debt Principal	Coupon/ Interest	Maturity
High yield bonds			
Senior secured notes	350.0	8.75%	Jun 2019
Senior notes	175.0	12.25%	Jun 2020
Total HYB	**525.0**		
Term loan	40.0	L. + 6% margin	Dec 2017
Total amount outstanding on external debt	**565.0**		
Cash at 31 December 2016	33.0		
Net debt (before debt issue costs)	**532.0**		

- At 31 December 2016 the group's cash balance was £33.0m
- The resulting net debt balance was £532.0m

Cash flow		
£m	Year ended Dec 2016	Year ended Dec 2015
Net cash inflow from operating activities	**32.2**	**27.8**
Returns on investment and servicing of finance	(55.3)	(55.3)
Acquisition of tangible fixed assets	(42.9)	(46.6)
Proceeds from sale of tangible fixed assets	44.0	43.8
Net cash outflow before financing	**(22.1)**	**(30.3)**
Financing	-	-
Decrease in cash in the period	**(22.1)**	**(30.3)**
Opening cash balance	55.1	85.4
Closing cash balance	**33.0**	**55.1**

- Capital expenditure in 2016 was £43.0m, whilst proceeds from the disposal of 33 homes totalled £44.0m
- The increase in net cash inflow from operating activities in comparison to 2015 was a function of the increased EBITDA, working capital timing and additional cash exceptional items
- Acquisition of tangible fixed assets includes £7.2m of development capital expenditure in the brighterkind business

Developments and disposals

- Developments
  - Following the completion of the 8 bed extension at La Haule Care Home in Jersey and the 28 bed new wing at Frenchay prior to the end of 2016, a number of refurbishments are on-going across the group
  - We expect the development and refurbishment capital spend programme to continue to be offset by disposals in 2017
- Disposals
  - The group has taken the opportunity to dispose of, or close, certain care homes which are uneconomic or do not fit with the group's segmentation strategy
  - In the first three quarters of 2016 the group disposed of 18 freehold properties, realising £33.9m in cash proceeds
  - In Q4 2016 the group disposed of a further 15 freehold properties which, realised £10.1m in cash proceeds, with total proceeds in 2016 of £44.0m
  - We have reached agreement with one of our largest landlords to hand back some of our closed homes, and are continuing discussions with certain landlords with a view to handing back further unprofitable or closed homes
  - The group continues to evaluate offers that have been received on other loss-making, underperforming or non-core sites with expected disposal dates through 2017

Q&A

- Further questions can be addressed to:
  - Email: investorinfo@fshc.co.uk
  - Telephone: Ben Taberner +44 1625 417800
- An investor relations page is available on the FSHC website: www.fshc.co.uk

Elli Investments Limited

Annual report and consolidated financial statements

Registered number 55185
31 December 2016

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Chairman's review

In last year's Chairman's review I set out my three priorities. Firstly, and most importantly, I made it clear that we would only succeed by delivering high quality care and experience for the people in our care homes and hospitals and by supporting our 28,000 engaged and committed colleagues who care for them.

Secondly, I wanted to build on the momentum that had resulted from segmenting the group into three separate operational businesses by working with their respective CEOs, Tim Hammond, Valerie Michie and Jeremy Richardson and their leadership teams to develop and grow the businesses and continue to drive the operational initiatives.

Thirdly, my aim was to ensure that we worked with the group's stakeholders to reach a sustainable capital structure which meant that the group would be well positioned to fulfil its potential for its residents, staff and providers of capital.

2016 performance

Looking back, I am pleased to report that the group has made significant progress during 2016 focused on turnaround with a marked improvement in care quality, employee engagement and financial performance. In summary:

- Both our care home businesses, FSHC and brighterkind, have been shortlisted as finalists for the award of HealthInvestor Residential Care Provider of the Year;
- Across our three businesses, regulators rate approximately 65% of our facilities as Good or Outstanding[1];
- There has been a significant improvement in occupancy and fees throughout the year. We call this the quality dividend;
- The group produced a strong operational and financial performance with EBITDA[2] of £55.4m, which was £16.7m, or 43%, higher than 2015. In Q4 2016, EBITDA increased by 128% over the comparative period in 2015, continuing the trend of growth;
- The business has emerged in good shape from a difficult winter season, during which the national death rate among older people was very high, with financial performance in line with expectations;
- Improved resident mix towards higher acuity and private residents helped FSHC and brighterkind increase their average weekly fee rates by 6.7% and 10.3% respectively in 2016 compared to 2015. These increases included the 40% increase in NHS Funded Nursing Care fee rates from April 2016 which, following years of limited growth, was welcomed by the sector, and contributed £5.6m to EBITDA;
- After a £53.9m non-cash interest charge payable to a related undertaking, the result for the year was a loss of £82.3m (*2015: loss of £373.5m after £46.9m of non-cash interest*);
- The group, as a whole, continued to invest in its estate, spending over £40m on capital expenditure in the year. This included maintenance capex of £27.3m, which brings the maintenance capex spend per bed during 2016 to over £1,370, an increase of £60 per bed compared to 2015;
- Looking at the long-term health of the sectors in which we operate, the funding challenges facing care providers have begun to be recognised by a Government that seeks to give Social Care a key role in supporting the health sector and also seeks parity of esteem for mental health with physical health.

[1] Scottish and Northern Irish home ratings are converted to CQC equivalent ratings

[2] Page 12 provides a reconciliation of operating profit from ordinary activities to EBITDA

Chairman's review (continued)

2016 performance (continued)

These headline performance achievements have been driven by creating a strong underlying foundation from which each of the businesses is now operating. Most importantly, each of the businesses has a strong management team which has been in place for a number of years, bringing operational stability. These teams are now delivering both care quality and financial performance improvements and a resilience that is now embedded in the business, as evidenced by the response to this winter's very high death rate.

As I have mentioned, quality of care is fundamental to our business performance. The group's turnaround in quality from a peak of around 30 embargoes to an average of two in Q1 2017 has been well documented given the significantly detrimental impact this had on our historical operations and financial results. In fact, as of today, there is only a single embargo in our businesses. As embargoes no longer have a material impact on our results we intend to report on different metrics going forward, focussing on the regulators' quality ratings, particularly the number of care homes rated as Good and Outstanding, which we believe is more appropriate for driving further quality improvements across the businesses. This level has increased from around 50% to approximately 65% of our estate over the last 12 months.

At an individual business level the key points are as follows:

Four Seasons Health Care

Four Seasons Health Care, the largest of the three businesses with around 300 homes providing residential, nursing and dementia care, has delivered a strong turnaround in performance. It has reported EBITDA of £32.7m for 2016, which is a 112% increase on 2015.

Occupancy during Q4 averaged 90.4%, which is a further 0.6 percentage point increase compared to the previous quarter. This compares to an average of approximately 85% for the whole of 2015 and a sector average of 88.4% from a recent Knight Frank study of leading operators.

Improved quality of care and a better all-round experience for people living in Four Seasons Health Care homes has been a key driver of its positive results. As well as being a Residential Care Provider of the Year finalist, in Q3 we were delighted that Four Seasons Health Care was named winner of Overall Best Customer Experience award in this year's UK Customer Experience Awards, chosen by judges ahead of more than 750 companies across all sectors of industry for its Quality of Life programme. Our Quality of Life programme is a game changer in driving quality, contributing to a 97% customer satisfaction rating amongst residents and health professionals. As Chairman it gives me confidence in our risk assurance processes and systems that we know where issues exist and are taking the required actions to put these right more quickly than ever.

Delays in discharging people from hospital after treatment are at their highest level since records began. The Government has recently announced £2 billion of funding to commission more social care packages to relieve pressures on the NHS. An important part of this will be the funding of intermediate care over the next three years and Four Seasons Health Care is very well positioned to take advantage of this opportunity to provide intermediate care services for patients whose medical condition has been stabilised and who need to be cared for while they recuperate.

The business rolled out the first phase of its new dementia care practices in 2016, called "The Dementia Care Framework", which 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. 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 best practice dementia care training more meaningful.

One area which remains a key area of focus for improvement in the business, and the sector as a whole, is the level of agency usage in the business. Q4 saw a further increase in agency spend following the increase in Q3. Despite the continued roll out of the Care Home Assistant Practitioner role and enhanced overseas recruitment programmes, the shortage of nurses in the UK remains acute. That said, we believe our agency usage, at around 8% in 2016, is at least in line with the sector.

Chairman's review (continued)

2016 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 as an almost entirely standalone business under the brighterkind brand with its own values, culture and leadership, with its proposition designed to attract self-funding residents. The signature elements of this proposition are high quality care, a good dining experience with excellent service and a programme of leisure and recreational activities to promote physical and mental wellbeing. This proposition is supported by a programme of refurbishment and improvement of its homes.

The strategy of focusing on self-funding residents is working. The brighterkind business in the High Yield Bond group increased its proportion of self-funded residents to 46.6% by the end of 2016 which is the highest level since the business was formed. Moreover, self-funders accounted for c49% of Q4 2016 new admissions to these homes. Occupancy in Q4 2016 at 87.4% was 2.0 percentage points above Q4 2015 and was broadly in line with the prior period. This followed a slight reduction earlier in the year, which was necessary while the refurbishment of a number of homes was underway. Payroll costs, both own staff and agency, were well controlled throughout the year.

The investment in people is not only paying financial dividends but also reaping reputational and care benefits. In the last 12 months the wider brighterkind business has seen its inspection results improve in both England and Scotland. If we map Scottish scores across to the CQC scoring system, 67% of brighterkind's homes are now good or outstanding.

During 2016 the business completed the transfer or disposal of 13 properties that it was felt would not fit the brighterkind brand, even with capex investment. All the homes in the business have been rebranded and 13 have been fully refurbished or extended, with three more refurbishments underway. Of these 16 home refurbishments, 14 are freehold and two leaseholds and in both of the leasehold cases we were able to reach agreement with the landlords who gave substantial capital contributions towards the refurbishments.

The Huntercombe Group

Turning finally to The Huntercombe Group, which provides specialist services in adult and child and adolescent mental health and acquired brain injury on behalf of the NHS. The business has now completed the majority of its estate rationalisation, albeit with one of the transactions due to complete in 2017. One of the highlights of the year was the opening of the new £5m Frenchay 28 bed unit in Bristol which cements THG's position as a leading national provider of neuro-rehabilitation.

76% of Huntercombe's services inspected under the new CQC regime were rated as Good, which is higher than the national average for Good or Outstanding of all independent hospital inspections. Unfortunately, during 2016 the business faced quality issues at one particular site, which impacted its KPIs during the second half of 2016 and into 2017. However, the issues at this site are now resolved and occupancy levels are beginning to build up again. The impact of these issues is clear on the KPIs in the business towards the end of 2016 with THG occupancy flat quarter on quarter and payroll costs up 1.1 percentage points compared to the previous quarter.

Chairman's review (continued)

Market and sector

Moving on to the wider sector, whilst there have been some pleasing developments in the public funding of the sector, many of the underlying drivers for the sector remain challenging.

National Living Wage and funding

Turning to the National Living Wage. An increase of about 5% in council funding was required in 2016 if providers were to be compensated for the extra cost. Its impact was mitigated in part by the government's introduction of the social care precept, which allowed councils to raise up to an additional 2% on council taxes, specifically to be spent on social care. We understand that over 90% of councils raised a precept. However, in 2016 only around half of the 80 councils in England who commission our services recognised the National Living Wage cost pressures in full and passed on appropriate fee rises - around half did not.

We were pleased that, following the Autumn Spending Review, the Social Care Precept remains in place and has in fact, at the option of individual Local Authorities, been brought forward slightly, with the increase for 2017/2018 now capped at 3% rather than the original 2%. Our research shows that, on average, Local Authorities are proposing to increase the Social Care Precept by 2.6% and overall Council Tax by 4.4% from the 1st of April, which is very encouraging. However, once again, it will be key that Local Authorities pass it on to offset the effect of the 4.2% increase in the National Living Wage that came into effect in April 2017.

However, whilst the Social Care Precept provided some mitigation of the additional cost of the National Living Wage increase, it did not begin to deal with the historical underfunding as according to the health think tank the King's Fund, spending by local authorities on social care has fallen by 9 per cent in real terms between 2009-10 and 2014-15.

In the Spring Budget in March of this year the government took a step towards reducing the funding shortfall in adult social care with the announcement of an extra £2bn to fund adult social care over the next three years. £1bn of the funds will be released in 2017-18 to allow councils to commission more social care packages to relieve pressures on the NHS, such as the Delayed Transfers of Care which I mentioned earlier, with the remaining funding provided between 2018 and 2020. However, it is not yet clear to what extent and in what format these funds will reach front line providers of care. The full benefit of the additional funding will only be felt if the Government's proposals for future social care funding makes the changes necessary to bring some stability to the sector. We will continue to actively contribute and lobby in conjunction with, and on behalf of, the wider Social Care sector.

Nurse shortages

A second underlying driver for the sector is the on-going acute shortage of nurses. In their 2015 report, Health Education England estimated that the national shortfall in all nurses was approximately 30,500. For adult nursing care it was over 23,000. In fact, in a report in 2016, the CQC attributed a reduction in the number of nursing homes in 2015-2016, the first reduction for 5 years, to the difficulties in recruiting and retaining nurses, a view supported by reports stating that 9% of nursing jobs in adult social care are vacant. This critical issue does not appear to be subsiding and the additional uncertainty around immigration being caused by Brexit will only exacerbate the problem. As a group we are continuing 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, recently 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;
- The ongoing training of Care Home Assistant Practitioners who can support nurses.

Chairman's review (continued)

Looking forward

Turning to the group's long-term capital structure, there have been active and constructive discussions with key stakeholders with a view to finding a solution to the long-term capital structure of the group. Liquidity and financial flexibility continue to be supported by the level of cash in the business, day-to-day cash receipts and by the funding of capital expenditure through property disposals which comprise a mixture of closed, loss making, non-core or underperforming homes. Based on the group's current cash resources and forecast liquidity position these financial statements have been prepared on the going concern basis as has been the case in previous years, indicating that the group has sufficient funds for the medium term. The directors have highlighted in the financial statements that uncertainties remain when considering the group's future funding and the auditors have made reference to this as well in their audit opinion.

So, to sum up, 2016 was a successful year driven by strong management teams which have brought stability to the group. Looking forward to 2017, we will be working hard to leverage and optimise the platform that has been established in each of our three businesses. We enter 2017 with positive momentum and I am confident that building on this together with the continued execution of the group's strategic initiatives and recent announcements of additional Government funding for the sector, if it is delivered, as intended, to front line care, will result in further improvement in the group's financial performance.

Finally, I would once again like to take this opportunity to thank our colleagues across the whole business for all of their hard work and effort during the year. 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 2017.

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. The ultimate controlling party is Guy Hands.

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, 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.

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;
- 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 used as a substitute to NHS hospital care provision;
- Dementia care: care for residents with dementia is an important aspect of each of these categories of care;
- 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 are segmented across three patient groups:

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

Independent mental health hospitals account for approximately 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 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 the largest operator 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 BUPA Care Homes, HC-One and Barchester Healthcare.

Within the not-for-profit sector, which represented approximately 14% of the total care home market in 2015, the major providers include Anchor Trust, Sanctuary Care, The Orders of St John Care Trust, Methodist Homes and The Abbeyfield Society.

The four largest providers of the mental health services market account for c50% of the total independent market by bed capacity. Our major competitors in the provision of mental health services through specialist hospitals are the NHS, Priory Group, Partnerships in Care Limited, St Andrew’s Healthcare and Cygnet Health Care.

Strategic report (continued)

Four Seasons Health Care group

We are the largest independent provider of elderly care services in the United Kingdom, measured by both the number of facilities and number of beds, and we are a leading provider of specialised services, including brain injury rehabilitation and mental healthcare services. As at December 2016, we operated approximately 18,500 (*2015: 21,500*) beds in c375 facilities, including care homes, specialised hospitals and other centres. We employ approximately 28,000 people across the United Kingdom, the Channel Islands and the Isle of Man and we provide care for approximately 16,500 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 c80% by September 2014. This trend is expected to continue as Local Authorities seek to reduce their costs following recent central government cutbacks. We expect that these factors will underpin the long-term sustainability of overall demand in our core markets and we believe that as the largest independent elderly care operator in the United Kingdom we are well positioned to benefit from these dynamics.

- *Market leading position*

  In the United Kingdom, we are the largest independent provider of elderly care with a 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 375 facilities, approximately 55% of which are owned on a freehold basis. We continually invest in and maintain our facilities to high specifications, and we believe that the high level of maintenance of our properties helps us to maintain our quality of care standards, which are critical to attracting new residents and patients and maintaining and improving our occupancy rates. In addition, we believe that our strong portfolio of freehold, as opposed to leasehold, properties provides us with greater operating flexibility to reconfigure and reposition units as needed.

- *Segmented business*

  We believe that our 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.

Strategic report (continued)

Four Seasons Health Care group (continued)

Competitive strengths (continued)

- *Stable and diversified client base*

  We have a diversified public payer base of more than 250 purchasers. We are contracted by a large number of public sector commissioners across the UK, including around 100 Local Authorities and more than 150 NHS commissioners.

- *Diversified service offering, with a focus on higher dependency services*

  We believe that we have the largest breadth of diversified services among elderly care operators in the United Kingdom. Within the elderly care division, we have been increasingly focusing on higher dependency services, such as dementia and other specialist care.

- *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. 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 2016, customer satisfaction ratings, amongst residents 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 stability of our revenues, 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 safe, effective and positive intermediate care services. We are working with local authorities to design and implement the services that can offer social care packages that will relieve pressures on the NHS and support the reduction in delayed transfers of care through the commissioning of care pathways to help older people, and people with dementia, move out of hospital quicker.

- *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

Operating 70 nursing and residential homes from Jersey to Inverness, and with almost 4,000 beds, brighterkind is the sixth largest care home operator in the UK. The company's ambition is to become the UK's leading upper mid-market self-funder focused care home provider.

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

  The brighterkind proposition is built around three core elements – extraordinary care, a quality food & 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 up to 800 patients and residents every day, across more than 25 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 the strengthening of 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 recent opening of a new, purpose built neuro-rehabilitation hospital at Frenchay in Bristol and the refurbishment and repositioning of a number of other existing units into higher-value markets providing high complexity services.

Strategic report (continued)

Financial review

These financial statements present the results of the company and its subsidiary undertakings ("the group") for 2016 with comparatives for 2015 and 2014.

Profit and loss account (unaudited, proforma)	**Year ended 31 December 2016 (52 weeks) £000**	Year ended 31 December 2015 (52 weeks) £000	Year ended 31 December 2014 (52 weeks) £000
Turnover	**686,155**	688,136	712,876
Cost of sales	**(612,038)**	(637,002)	(638,642)
Gross profit	**74,117**	51,134	74,234
Administrative expenses – ordinary	**(51,669)**	(47,996)	(45,585)
Administrative income/(expenses) – exceptional	**11,392**	(266,704)	(98,762)
	(40,277)	(314,700)	(144,347)
Operating profit/(loss)	**33,840**	(263,566)	(70,113)
Ordinary activities	**22,448**	3,138	28,649
Exceptional activities	**11,392**	(266,704)	(98,762)
Profit/(loss) before interest	**33,840**	(263,566)	(70,113)

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
Analysed as:			
Operating profit before exceptional items as analysed above	22,448	3,138	28,649
Add back: depreciation of tangible fixed assets and amortisation of capital grants	35,195	37,747	36,659
Deduct: amortisation of negative goodwill	(2,197)	(2,197)	(2,197)
EBITDA	**55,446**	**38,688**	**63,111**

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 the care homes and specialised units, measured as effective beds, as the bed capacity determines the maximum number of residents and patients that the group can care for.

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, although differences in funding tend to reflect the differences in the costs of providing care. In the Four Seasons Health Care and brighterkind businesses an increase in the proportion of privately funded residents will positively affect the group's results. Similarly, the changing mix of residents between those classified as "residential" and those classified as "nursing" together with the related levels of dependency can impact the group's results. Resident mix is particularly important in The Huntercombe Group where the average weekly fee varies widely across the diverse range of services provided.

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

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

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

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

Rent: The group pays rental charges under operating leases in respect of approximately 45% 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.

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	2015					2016				
	Q1	Q2	Q3	Q4	**Year[2]**	Q1	Q2	Q3	Q4	**Year[2]**
Total group										
Turnover (£m)	172.3	172.9	172.5	170.4	**688.1**	170.7	177.0	171.7	166.8	**686.2**
EBITDAR (£m)[7]	22.2	23.9	25.0	17.4	**88.5**	21.8	25.8	32.1	20.1	**99.8**
EBITDA (£m)[5][6]	9.7	11.1	12.2	5.7	**38.7**	9.2	13.6	19.7	13.0	**55.4**
Effective beds - group	22,293	22,148	21,974	21,647	**22,015**	21,045	20,438	19,338	18,532	**19,838**
Occupancy %	85.3%	84.6%	85.0%	85.1%	**85.0%**	86.4%	87.2%	89.0%	89.4%	**88.0%**
Expenses (% of turnover)	14.7%	13.6%	14.2%	15.4%	**14.5%**	14.9%	13.7%	13.1%	14.5%	**14.1%**
Central costs (% of turnover)	5.3%	5.8%	5.5%	6.3%	**5.7%**	6.1%	5.9%	6.0%	6.1%	**6.0%**
By business										
Turnover (£m)[5]										
FSHC	123.0	123.1	122.5	120.4	**489.1**	119.9	124.6	120.8	116.5	**481.9**
brighterkind	20.6	20.7	21.1	20.9	**83.3**	21.8	22.8	22.8	23.2	**90.5**
THG[4]	27.7	28.0	27.8	28.2	**111.7**	29.0	29.5	28.0	27.2	**113.7**
Effective beds										
FSHC	18,810	18,657	18,538	18,262	**18,566**	17,659	17,086	16,041	15,291	**16,519**
brighterkind	2,298	2,298	2,298	2,298	**2,298**	2,298	2,264	2,209	2,209	**2,245**
THG	1,185	1,193	1,138	1,087	**1,151**	1,088	1,088	1,088	1,032	**1,074**
Occupancy %										
FSHC	85.6%	84.9%	85.2%	85.3%	**85.3%**	86.6%	87.7%	89.8%	90.4%	**88.6%**
brighterkind	86.9%	85.4%	86.1%	85.4%	**86.0%**	86.9%	86.0%	87.5%	87.4%	**86.9%**
THG	77.9%	78.3%	77.4%	81.6%	**78.8%**	81.7%	82.3%	79.1%	79.2%	**80.6%**
Average weekly fee (£)[5]										
FSHC	588	597	597	594	**594**	603	640	645	648	**634**
brighterkind	785	801	811	812	**802**	831	891	899	917	**885**
THG	2,254	2,252	2,301	2,380	**2,297**	2,390	2,425	2,386	2,395	**2,399**
Payroll % (of turnover)[1][5]										
FSHC	68.2%	67.8%	66.8%	69.7%	**68.1%**	66.3%	64.3%	63.0%	65.3%	**64.7%**
brighterkind	58.9%	57.9%	57.2%	59.3%	**58.3%**	59.9%	60.1%	57.4%	57.7%	**58.8%**
THG	73.2%	72.0%	70.8%	71.2%	**71.8%**	71.2%	68.9%	72.9%	74.0%	**71.8%**
Agency to total payroll (%)[1]										
FSHC	8.8%	9.0%	9.5%	9.5%	**9.2%**	6.9%	6.3%	8.2%	8.9%	**7.6%**
brighterkind	4.2%	2.7%	3.5%	3.8%	**3.6%**	3.9%	5.7%	4.0%	6.0%	**4.9%**
THG	9.7%	12.0%	12.6%	12.5%	**11.7%**	14.0%	10.2%	11.1%	11.2%	**11.6%**
EBITDARM % (of turnover)[5][7]										
FSHC	16.2%	17.8%	17.9%	13.8%	**16.4%**	17.7%	21.3%	23.4%	19.4%	**20.5%**
brighterkind	27.9%	29.7%	30.4%	26.6%	**28.6%**	25.5%	27.0%	29.8%	28.8%	**27.8%**
THG[4]	17.4%	16.9%	18.4%	17.6%	**17.6%**	18.6%	20.1%	16.4%	14.5%	**17.4%**

Notes
(1) Payroll excludes central payroll
(2) Full year numbers may include minor rounding differences compared to the four quarter aggregate
(3) From 1 January 2016, 10 care homes previously operated by brighterkind and five sites previously operated by THG are operated by Four Seasons Health Care. These changes are reflected in the comparative numbers
(4) Q1, Q2, Q3 and Q4 2016 include £0.2m rental income
(5) 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
(6) FRS 102 operating lease charge of £0.8m included within Q4 2015. Q1-Q3 2015 quarterly EBITDA figures have not been adjusted for FRS 102
(7) EBITDAR(M) = Pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation, Rent (and Central costs)

Strategic report (continued)

Financial review (continued)

Turnover

Full year 2016 Elli Investments Limited turnover is £50.2m, or 8.4%, higher than 2015 after allowing for the c£52m of revenue from homes closed or sold during the year.

- *Average Weekly Fee*

  The 2016 Average Weekly Fee ("AWF") in the group's care home businesses were up year on year by 6.7% and 10.3% in Four Seasons Health Care and brighterkind respectively. This was driven by Local Authority fees in many regions of England benefitting from the Social Care Precept, introduced in response to the material step up in payroll costs following the introduction of the National Living Wage in April 2016. The care home businesses also saw a significant benefit from the 40%, or c£44 per week, step up in NHS Funded Nursing Care which was announced in July, but back dated to 1 April 2016. This additional funding reflects the cost of nursing in the sector.

  Within The Huntercombe Group ("THG") the AWF in 2016 increased by 4.4% to £2,399 in 2016 from the average of £2,297 in 2015, driven by the strategic move into higher acuity services.

- *Occupancy*

  Average group occupancy in 2016 increased by 3% compared to 2015 to 88%, albeit with approximately 2,100 fewer beds as a result of closures and disposals during the year. In Q4 2016 the average occupancy increased further to over 89%. In 2016, THG average occupancy of 80.6% was 1.8 percentage points higher than 2015.

- *Investment property income*

  All of the group's investment properties, apart from two sublet facilities, were disposed of in December 2015. From 2016 the income from these properties is included in the financial results of THG.

Payroll

Payroll, as a percentage of turnover, in Four Seasons Health Care improved by 3.4% percentage points compared to 2015, whilst brighterkind saw a slight decline of 0.5 percentage points over the same period. These movements reflect, in part, the changes in agency usage in the two businesses which saw a 1.6 percentage point reduction in Four Seasons Health Care whilst brighterkind's agency as a percentage of payroll increased by 1.3 percentage points, albeit remaining well below the sector average. The introduction of the National Living Wage in April 2016, resulting in a c7% increase on the National Minimum Wage for those aged 25 and over, was a significant driver of additional payroll costs in 2016. 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, and the relative cost of agency staff, was broadly consistent year on year, albeit with higher costs in the second half of 2016 to address operational issues at one of its sites.

Care expenses

In 2016, expenses (care and facility combined), as a percentage of turnover, at 14.1%, represented a decrease of 0.4 percentage points compared to 2015.

Central cost

Central costs, at 6.0% of turnover in 2016, have increased by 0.3 percentage points compared to 2015. The increase predominantly reflects the additional resource deployed to drive and maintain service quality throughout the estate.

Strategic report (continued)

Financial review (continued)

Rent

Rent of £44.4m was charged in 2016 compared to the 2015 charge of £49.8m – underlying annual inflationary uplifts on the majority of the leasehold estate and additional rent on leases with rent that flexes based on operation performance were offset by a decrease in the rental charge following the surrender of 15 leases in 2016 and the non-cash credit resulting from the unwind of the group's onerous lease provision of £8.4m.

Exceptional items

The operating profit during the year includes exceptional income of £11.4m (*2015: £266.7m expense*). Within this total are 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 valuation 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.

In the prior year there were exceptional costs of £266.7m. Within this total were property impairments totalling £224m, onerous lease provisions of £21.9m, professional fees and specific project and business segmentation costs of £5.4m, £5.0m relating to closed homes and redundancy costs and a net loss on disposal of £9.8m in relation to the disposal of properties during the year.

EBITDA

As a result of the factors outlined above, the pre-exceptional EBITDA of £55.4m for 2016 was £16.7m higher than that achieved in 2015. This significant increase was driven by a combination of the increased stability and quality of operations across the group, resulting in higher occupancy and average weekly fees, the disposal of poorly performing care homes, and the additional income resulting from the increase in NHS Funded Nursing Care.

Interest

The interest charge in the statutory profit and loss account for the year primarily relates to interest on the group's £350m senior secured notes at an interest rate of 8.75% and the £175m senior notes at an interest rate of 12.25%. The interest charge relating to the notes in the year was £51.9m. The balance, within the total net charge for the year of £117.4m, relates primarily to non-cash, accrued interest of £53.9m on balances owed to related undertakings in the wider Four Seasons Health Care group, together with £7.5m in respect of the amortisation of debt issue costs and £2.7m interest payable on the £40m term loan.

Tax

The tax credit for the year was £1.2m, comprising a £1.0m tax charge offset by £2.2m 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 2016, 31 December 2015 and 31 December 2014.

Balance sheet (unaudited, proforma)	**2016**	2015	2014
	£000	£000	£000
Fixed assets			
Intangible assets - goodwill	**(34,113)**	(36,310)	(38,507)
Tangible assets	**547,351**	553,067	790,850
Investment properties	**-**	-	29,780
	513,238	516,757	782,123
Current assets			
Debtors	**61,570**	61,194	54,859
Cash at bank and in hand	**33,032**	55,091	85,369
	94,602	116,285	140,228
Creditors: amounts falling due within one year	**(155,431)**	(107,298)	(97,406)
Net current (liabilities)/assets	**(60,829)**	8,987	42,822
Total assets less current liabilities	**452,409**	525,744	824,945
Creditors: amounts falling due after more than one year	**(927,374)**	(905,905)	(851,545)
Provisions for liabilities and charges	**(46,896)**	(59,352)	(39,408)
Net liabilities	**(521,861)**	(439,513)	(66,008)

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. As at 31 December 2016 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, the value of the group's freehold assets has been increased by £26.4m, being the net of a £30.9m reversal of previous property impairments and £4.5m of current year impairments.

Debtors

Total debtors at December 2016 were in line with December 2015, with a £2.8m increase in trade debtors more than offset by a £4.5m reduction in prepayments, other debtors and accrued income.

Creditors

Trade creditors at December 2016 were £22.4m, a £1.1m decrease compared to 2015. Accruals and other creditors increased by £8.9m 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 2016 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 December 2017

In addition, there was £411.7m owed to related undertakings within the wider Four Seasons Health Care group of companies, 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.

Strategic report (continued)

Financial review (continued)

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 £33.0m of cash on its balance sheet.

The directors have previously recognised that the current funding structure of the group may not be appropriate for the long-term needs of the business and in October 2015 advisors were appointed to conduct a review of the group's current financing arrangements. As part of this review and as previously announced, the group's shareholder, FSHC Group Holdings Limited, and certain stakeholders have, since the summer of 2016, been engaged in discussions and efforts to bring about a consensual solution to the group's capital structure. As part of the discussions with various existing stakeholders, non-binding and confidential proposals have been exchanged although, to date, no agreement has been reached with any stakeholder (see note 1 for further details).

Cash flow statement

Cash flow statement (unaudited, proforma)	**Elli Investments Limited Year ended 31 December 2016 £000**	Elli Investments Limited Year ended 31 December 2015 £000	Elli Investments Limited Year ended 31 December 2014 £000
Net cash inflow from operating activities	**31,585**	27,851	60,572
Returns on investments and servicing of finance	**(55,170)**	(55,111)	(53,114)
Capital expenditure and financial investment	**(42,944)**	(46,648)	(38,476)
Sale of fixed assets	**44,046**	43,796	12,936
Taxation	**424**	(166)	262
Net cash outflow before financing	**(22,059)**	(30,278)	(17,820)
Revolving credit facility amendment costs	**-**	-	(1,464)
Financing	**-**	-	75,000
(Decrease)/increase in cash in the year	**(22,059)**	(30,278)	55,716

At 31 December 2016 the group's cash balance was £33.0m. Net cash generated from operating activities in the year ended 31 December 2016 was £31.6m (*2015: £27.9m*).

Working capital

The cash inflow from movements in working capital was £7.4m for the year (*2015: £4.5m*).

Interest paid

£52.1m was paid on the group's senior secured and senior notes during 2016 (*2015: £52.1m*) and £2.7m (*2015: £2.6m*) was paid in respect of the term loan. In addition, £0.3m was paid in respect of debt related costs. Interest payments on the group's Senior Secured and Senior Notes are made in June and December each year.

Strategic report (continued)

Financial review (continued)

Capital expenditure and developments

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

Total gross capital expenditure for the year ended 31 December 2016 was £42.9m (*2015: £46.6m*). The decrease of £3.7m compared to 2015 is 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 2016 was over £1,370, an increase of over £60 per bed compared to 2015.

Disposals

During the year the group disposed of assets which were underperforming or not aligned with the strategy of any of the three businesses. 33 freehold properties were sold in addition to the final phase of the Park Lodge development. In total, proceeds of £44.0m were received in respect of these disposals (*2015 disposals: £43.8m*).

Strategic report (continued)

Principal risks and uncertainties

The group's management structures, coupled with its policies and procedures, are designed to enable the achievement of business objectives while controlling the risks associated with the environment in which it operates. The group has 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

- *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 is 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 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 Huntercombe 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 2017 the National Living Wage increased by a further 4.2% 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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risks (continued)

- *Interest rate risk*

  Potential impact: The group finances the majority of its operations through called up share capital and external debt. At 31 December 2016, the group had £938.6m of fixed rate debt and £40.0m of variable rate debt, thereby minimising interest rate risk. The interest rate on the variable rate debt is LIBOR + 6%.

  Mitigation: As at 31 December 2016, only 4.1% of the total debt is at a variable rate and as such interest rate risk is minimal.

- *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 Assistance Practitioners to take on some of the tasks of nurses.

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

- *Failure to comply with debt covenants*

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

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

Strategic report (continued)

Principal risks and uncertainties (continued)

Financial risks (continued)

- *Failure to comply with debt service requirements*

  Potential impact: The group's ability to generate sufficient cash from operating profits to fulfil its interest payments and refinance its existing indebtedness as required will be dependent on many factors, including some that are beyond the group's control. The group's £40m term loan is due to be repaid in December 2017.

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

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

  The directors have previously recognised that the current capital structure of the group may not be appropriate for the long-term needs of the business and in October 2015 advisors were appointed to conduct a review of the group's current financing arrangements. As part of this review the group's shareholder, FSHC Group Holdings Limited, and certain stakeholders have been engaged in discussions and efforts to bring about a consensual solution to the group's capital structure. There are a number of options to repay, refinance or extend the maturity of the group's £40m term loan facility. Whilst, to date, a final decision has not been taken as to the most appropriate course of action, based on indicative proposals, there remain a number of solutions to address the facility's maturity. The directors acknowledge that there can be no certainty that a solution to the capital structure will be successfully implemented, however, at the date of approval of these financial statements they have no reason to believe otherwise.

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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Operational risks (continued)

- *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 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 28,000 employees. Their performance is critical if we are to deliver the group's demanding objectives. Considerable progress has been made to create the framework, structure and support required to enable our employees to both fulfil their potential and deliver a high quality service to our residents and patients. During 2016 additional training and development courses were provided at all levels of management from home level through to senior operational management.

The group provides induction training to all new recruits, including those 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.

Strategic report (continued)

Corporate social responsibility (continued)

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 and the main board receives monthly incident reports.

Complaints, concerns and incidents

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

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

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

Strategic report (continued)

Corporate social responsibility (continued)

Environmental policy (continued)

- 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.

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 light bulbs
- Increased employee awareness to promote energy efficient behaviours

Employees

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

The group aims to provide equal opportunities 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	**4**	**-**	**4**
Senior leadership teams			
Comprising the function heads of each business (excluding any company directors included above)	**16**	**10**	**26**
Employees	**5,230**	**22,918**	**28,148**

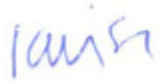
Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. 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.

Strategic report (continued)

Employees (continued)

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



I Stokes
Director

26 April 2017

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Results and dividends

The loss for the year was £82,348,000 (*2015: loss of £373,505,000*). The directors do not recommend the payment of a dividend with respect to ordinary shares (*2015: £nil*).

Fixed assets and investment properties

During the year the group disposed of 33 properties which did not fit with the group's strategic objectives for any of the group's businesses or which were no longer deemed fit for purpose. These disposals resulted in a net profit on disposal of £0.4m. In addition, the directors have reviewed the carrying value of the group's land and buildings as at 31 December 2016 taking into account the views of qualified property valuers. This has resulted in a net increase in the carrying value of the group's freehold properties by £26.4m.

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 £33.0m of cash.

At the time of approving the financial statements, whilst there are uncertainties in the trading and cash flow forecasts, as outlined in note 1 to the financial statements, which give rise to a material uncertainty, the directors have a reasonable expectation that the company and the group have adequate resources to continue to meet their liabilities as and when they fall due for the foreseeable future. With this in mind, the directors have formally considered and concluded that the preparation of the financial statements on a going concern basis is appropriate. Further details are shown in the "Going concern" section of note 1 to the financial statements.

Corporate governance

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

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

Board constitution and procedures

The Elli Investments Limited board comprises four directors whose biographies are shown on pages 30 and 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 three non-executive directors. They are responsible for the leadership, strategic direction, financial performance, corporate governance, internal control, risk management and corporate and social responsibility for the group, and report directly to the board.

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

Directors' report (continued)

Corporate governance (continued)

Board constitution and procedures (continued)

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

Board committees

The Elli Finance (UK) plc board has established three committees, each with clearly defined terms of reference, procedures, responsibilities and powers. The biographies of the company's directors are shown on pages 30 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.

- *Finance committee*

  The committee is chaired by Robbie Barr and consists of two 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.

Directors' report (continued)

Corporate governance (continued)

Board committees (continued)

- *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:

R Mackay (resigned 30 March 2016)

L Woods

L Morton (resigned 30 March 2016)

J Stares (appointed 30 March 2016)

I Stokes (appointed 30 March 2016)

A Breure (appointed 30 June 2016)

Lorcan Woods
Non-Executive 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. He joined Unilever as a graduate trainee and has worked in a variety of finance roles for 21 years in foods and personal care, for example as Vice President M&A and as Financial Director of Unilever de Mexico. In April 2017 Lorcan left Terra Firma but continues to act as a non-executive director of Elli Investments Limited.

Arjan Breure
Non-Executive Director

Arjan is an independent capital markets consultant. From 2007 to 2015, Arjan was a Managing Director at Terra Firma Capital Partners. From 2005 to 2007, Arjan was Head of European Asset Management at Citi Group Property Investors in London. Prior to that, Arjan worked in investment banking roles at Prudential Securities and Rabobank in New York. Arjan has a Masters in Economic History from the Universiteit Utrecht, and a Master of Business Administration from INSEAD.

Directors' report (continued)

Directors (continued)

John Stares
Director

John has served as a non-executive director for Guernsey-based companies of Terra Firma since 2007. He currently holds non-executive leadership positions with Jersey Electricity plc and JT Global. John graduated with Honours from Imperial College at the University of London and is also a Fellow of the Institute of Chartered Accountants in England and Wales.

Iain Stokes
Director

Iain has served as a non-executive director for Guernsey-based companies of Terra Firma since 2004. He acts as a consultant for Wyvern Partners, an independent corporate advisory firm active in many sectors, including financial services. In his early career he worked for BDO and ING Barings before joining Mourant International Finance Administration in 2003 and was a member of the senior executive team that managed the sale of the company to State Street Corporation in 2010.

Robbie Barr
Chairman

Robbie 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.

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 the group to ensure that the group leads the independent sector in its clinical excellence and standards of care. Dr Royston will also contribute on behalf of the organisation to the national development of key policy and decision making within the healthcare sector. She has held a number of senior positions within the NHS and was registered as a specialist in General Adult and Old Age Psychiatry in 1997.

Directors' report (continued)

Directors (continued)

Peter Dixon
Non-Executive Director

Peter is Chairman of Infinis, Lionrai Investments and Phoenix Energy Holdings in the UK and Chairman of EverPower in the US. He has worked in the utility infrastructure sector for the past 40 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.

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

Jeremy Richardson
Chief Executive Officer – brighterkind

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

Valerie Michie
Chief Executive Officer – The Huntercombe Group

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

Registered office

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

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

I Stokes
Director
26 April 2017

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

The directors are responsible for preparing the Annual 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 group and company and of the profit or loss of the group and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We have audited the Group and Company financial statements (the "financial statements") of Elli Investments Limited (the "Company") for the year ended 31 December 2016 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and cash flow statement," and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- are in accordance with United Kingdom accounting standards; and
- comply with the Companies (Guernsey) Law, 2008.

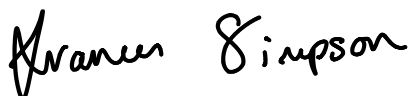
Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and the company's ability to continue as a going concern, in particular the uncertainties relating to achieving operational forecasts, the refinancing or extension of the £40m term loan maturing in December 2017 and the timing and amount of proceeds from the planned disposal of certain properties, while addressing the group's longer-term capital structure. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

Matters on which we are required to report by exception

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

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; 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.



Frances Simpson for and on behalf of
KPMG LLP
Chartered Accountants and Recognised Auditor, Guernsey
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

26 April 2017

Consolidated profit and loss account and other comprehensive income

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	*1, 2*	**686,155**	688,136
Cost of sales		**(612,038)**	(637,002)
Gross profit		**74,117**	51,134
Administrative expenses - ordinary	*4*	**(51,669)**	(47,996)
Administrative income/(expenses) - exceptional	*5*	**10,962**	(266,704)
Other operating income - exceptional	*3,5*	**430**	-
		(40,277)	(314,700)
Operating profit/(loss)	*2 – 7*	**33,840**	(263,566)
Ordinary activities		**22,448**	3,138
Exceptional activities		**11,392**	(266,704)
Interest payable and similar charges		**(117,514)**	(110,461)
Interest receivable and other income		**150**	163
Net interest payable and similar charges	*8*	**(117,364)**	(110,298)
Loss on ordinary activities before taxation		**(83,524)**	(373,864)
Tax on loss on ordinary activities	*9*	**1,176**	359
Retained loss for the financial year		**(82,348)**	(373,505)
Other comprehensive income	*19*	**-**	-
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the financial year		**(82,348)**	(373,505)

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

The notes on pages 42 to 66 form part of the financial statements.

All amounts relate to continuing operations.

Consolidated balance sheet
at 31 December 2016

	Note	**2016 £000**	2015 £000
Fixed assets			
Negative goodwill	*10*	**(34,113)**	(36,310)
Tangible assets	*11*	**547,351**	553,067
		513,238	516,757
Current assets			
Debtors	*13*	**61,570**	61,194
Cash at bank and in hand	*14*	**33,032**	55,091
		94,602	116,285
Creditors: amounts falling due within one year	*15*	**(155,431)**	(107,298)
Net current (liabilities)/assets		**(60,829)**	8,987
Total assets less current liabilities		**452,409**	525,744
Creditors: amounts falling due after more than one year	*16*	**(927,374)**	(905,905)
Provisions for liabilities			
Deferred tax liability	*17*	**(5,082)**	(5,039)
Other provisions	*18*	**(41,814)**	(54,313)
		(974,270)	(965,257)
Net liabilities		**(521,861)**	(439,513)
Capital and reserves			
Called up share capital	*19*	**174,368**	174,368
Profit and loss account		**(696,229)**	(613,881)
Shareholder's deficit		**(521,861)**	(439,513)

The notes on pages 42 to 66 form part of the financial statements.

These financial statements were approved by the board of directors on 26 April 2017 and were signed on its behalf by:

I Stokes
Director

Consolidated statement of changes in equity

	Note	Called up share capital £000	Profit and loss account £000	**Total £000**
Balance at 1 January 2015		174,368	(240,376)	**(66,008)**
Total comprehensive income for the year				
Loss for the year		-	(373,505)	**(373,505)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(373,505)	**(373,505)**
Balance at 31 December 2015	*19*	174,368	(613,881)	**(439,513)**
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)**

Company statement of changes in equity

	Note	Called up share capital £000	Profit and loss account £000	**Total £000**
Balance at 1 January 2015		174,368	(76)	**174,292**
Total comprehensive income for the year				
Loss for the year		-	(175,732)	**(175,732)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(175,732)	**(175,732)**
Balance at 31 December 2015	*19*	174,368	(175,808)	**(1,440)**
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)**

Consolidated cash flow statement

for the year ended 31 December 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Loss for the year	**(82,348)**	(373,505)
Adjustments for:		
Depreciation, amortisation and impairment losses/revaluation gains	**6,584**	259,555
Net interest payable and similar charges	**117,364**	110,298
(Gain)/loss on sale of tangible fixed assets	**(2,886)**	8,443
Taxation	**(1,176)**	(359)
	37,538	4,432
Increase in trade and other debtors	**(351)**	(5,708)
Increase in trade and other creditors	**7,799**	10,201
(Decrease)/increase in provisions	**(13,401)**	18,926
	31,585	27,851
Interest received	**150**	163
Tax received/(paid)	**424**	(166)
Net cash from operating activities	**32,159**	27,848
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**44,046**	43,796
Acquisition of tangible fixed assets	**(42,944)**	(46,648)
Net cash from investing activities	**1,102**	(2,852)
Cash flows from financing activities		
Interest paid	**(55,320)**	(55,201)
Debt issue related costs	**-**	(73)
Net cash from financing activities	**(55,320)**	(55,274)
Net decrease in cash and cash equivalents	**(22,059)**	(30,278)
Cash and cash equivalents at 1 January	**55,091**	85,369
Cash and cash equivalents at 31 December	**33,032**	55,091

Company balance sheet
at 31 December 2016

	Note	2016 £000	2015 £000
Fixed assets			
Investments	12	**-**	-
Current assets			
Debtors: due after more than one year	13	**177,937**	177,317
Cash at bank and in hand	14	**16**	16
		177,953	177,333
Creditors: amounts falling due within one year	15	**(2,885)**	(2,141)
Net current assets		**175,068**	175,192
Total assets less current liabilities		**175,068**	175,192
Creditors: amounts falling due after more than one year	16	**(176,877)**	(176,632)
Net liabilities		**(1,809)**	(1,440)
Capital and reserves			
Called up share capital	19	**174,368**	174,368
Profit and loss account		**(176,177)**	(175,808)
Shareholder's deficit		**(1,809)**	(1,440)

The notes on pages 42 to 66 form part of the financial statements.

These financial statements were approved by the board of directors on 26 April 2017 and were signed on its behalf by:

I Stokes
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 except that the following assets and liabilities are stated at their fair value: investment properties.

Group going concern

In July 2012 the group issued £350m of senior secured notes which pay interest at 8.75% and are due for repayment in June 2019 and £175m of senior notes which pay interest at 12.25% and are due for repayment in June 2020. In addition, the group has a £40m super senior secured term loan facility (the "£40m term loan facility") which has a repayment date in December 2017.

Capital structure

The directors have previously recognised that the current funding structure of the group may not be appropriate for the long term needs of the business and in October 2015 advisors were appointed to conduct a review of the group's current financing arrangements.

As part of this review and as previously announced, the group's shareholder, FSHC Group Holdings Limited (the "Parent"), and certain stakeholders have, since the summer of 2016, been engaged in discussions and efforts to bring about a consensual solution to the group's capital structure. As part of the discussions with various existing stakeholders, non-binding and confidential proposals have been exchanged although, to date, no agreement has been reached with any stakeholder.

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

1 Accounting policies (continued)

Group going concern (continued)

Capital structure (continued)

However, the directors are reassured that the group's stakeholders have been actively engaged in efforts to bring about a consensual solution and will continue to consider all options available with respect to seeking a capital structure more appropriate to the long-term requirements of the group. The directors acknowledge that there can be no certainty that these options will be successfully implemented. However, at the date of approval of these financial statements and notwithstanding the passage of time since the review of the capital structure commenced, they have no reason to believe otherwise.

The Parent and its advisors continue to consider a number of options to repay, refinance or extend the maturity of the group's £40m term loan facility. Whilst, to date, a final decision has not been taken as to the most appropriate course of action, the directors' current opinion, based on indicative proposals, is that there remain a number of solutions to address the facility's maturity.

Cash flow forecast

The directors have prepared trading and cash flow forecasts for the group to December 2018. These forecasts include a number of assumptions in relation to trading performance and indicate that the increased cost base, driven by the National Living Wage, the Apprenticeship Levy and underlying inflation, is expected to be met by further improved operational performance, additional sector funding as a result of the permitted increase in the Social Care Precept to 3% of Council Tax in 2017/18, and further funding pledges announced in the Government's Budget on 8 March 2017. These forecasts include an assumption that the £40m term loan facility is refinanced ahead of the maturity in December 2017 and the receipt of proceeds of approximately £20m in the next six months from the disposal of properties. Of these disposal proceeds, £5m, assuming the operational forecasts are achieved, is required to ensure adequate resources to continue to meet the group's liabilities as they fall due in the next 12 months.

Material risks and uncertainties

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, for example, of higher than expected winter deaths or embargoes. To illustrate the sensitivity of the forecasts to this key financial driver, the annual earnings before interest, tax, depreciation and amortisation (EBITDA) impact from a one percentage point reduction in occupancy across the group is approximately £1.7m, based on the fee and cost structure 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 anticipated levels of agency staff. In addition, the impact of Brexit on the availability of nurses and hence the level of future agency usage is yet to be fully understood. 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 annual impact of £2.2m.

Related party liabilities

Although the group has net liabilities of £521.9m (*2015: net liabilities of £439.5m*), they include £411.7m (*2015: £358.0m*) within creditors falling due after more than one year which is due to related undertakings which are controlled by the same parent undertaking. This facility accrues effective interest at 15% on a compounding basis and is due for repayment in 2022. The directors of the related undertaking have confirmed that this facility will continue to be available to the group.

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

1 Accounting policies (continued)

Group going concern (continued)

Conclusion

Whilst there are uncertainties in the trading and cash flow forecasts outlined above, the directors have a number of mitigating options available to them, in addition to the options to address the group's capital structure, including the phasing of non-mandatory capital expenditure, additional disposals and new equity.

The directors have considered ISA 570 and concluded that the 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.

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 liabilities as and when they fall due for the foreseeable future. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2016. 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.

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

1 Accounting policies (continued)

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.

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.

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

1 Accounting policies (continued)

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

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.

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

1 Accounting policies (continued)

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.

Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition:

i) Investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and

ii) No depreciation is provided in respect of investment properties applying the fair value model.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as tangible fixed assets in accordance with FRS 102 section 17 until a reliable measure of the fair value becomes available.

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.

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 is it 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.

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

2 Segmental information

Group			**2016**			
	Four Seasons Health Care	**brighterkind**	**The Huntercombe Group**	**Investment Properties**	**Unallocated**	**Total**
	£000	**£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**

Group			2015			
	Four Seasons Health Care	brighterkind	The Huntercombe Group	Investment Properties	Unallocated	Total
	£000	£000	£000	£000	£000	£000
Turnover	474,825	93,550	116,679	3,082	-	688,136
EBITDARM before exceptional items	78,325	24,655	21,636	3,082	-	127,698
Rent					(49,774)	(49,774)
Central costs					(39,236)	(39,236)
EBITDA before exceptional items						38,688

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 around 300 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 2016 and 2015 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)

3 Other operating income

	2016	2015
	£000	£000
Net gain on disposal of tangible fixed assets	**430**	-

4 Expenses and auditor's remuneration

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

	2016	2015
	£000	£000
Net (gain)/loss on disposal of tangible fixed assets	**(430)**	9,928
Impairment loss on tangible fixed assets - exceptional	**4,489**	224,005
Revaluation gain on previously impaired tangible fixed assets - exceptional	**(30,903)**	-
Depreciation of tangible fixed assets	**35,342**	37,967
Amortisation of capital grants	**(147)**	(220)
Amortisation of negative goodwill	**(2,197)**	(2,197)
Auditor's remuneration		
Amounts receivable by the company's auditor and its associates in respect of:		
- Audit of these financial statements	**50**	47
- Audit of financial statements of subsidiaries of the company	**350**	336
- Other services relating to taxation	**69**	401
- Other non-audit services	**322**	70

5 Exceptional items

The operating profit during the year includes exceptional income of £11.4m (*2015: £266.7m expense*). Within this total are 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 valuation 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.

In the prior year there were exceptional costs of £266.7m. Within this total were property impairments totalling £224m, onerous lease provisions of £21.9m, professional fees and specific project and business segmentation costs of £5.4m, £5.0m relating to closed homes and redundancy costs and a net loss on disposal of £9.8m in relation to the disposal of properties during the year.

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

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:

	2016	2015
	No.	No.
Healthcare facilities	**26,640**	29,420
Administration	**1,534**	1,601
	28,174	31,021

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	**395,741**	413,681
Social security costs	**29,823**	31,636
Pension costs	**2,555**	2,616
	428,119	447,933

The company had no employees during the year.

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

7 Directors' remuneration

	2016	2015
	£000	£000
Amounts paid to third parties in respect of directors' services	**36**	8

The table above does not include payments totalling £94,000 (*2015: £nil*) paid to a director 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 £29,000 were paid to Morgan Sharpe Administration for administration and secretarial services (*2015: £22,000*).

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

8 Net interest payable and similar charges

	2016	2015
	£000	£000
Interest payable and similar charges:		
On debt repayable within one year	**2,680**	-
On debt repayable after more than one year	**51,920**	54,613
On balances due to related undertakings	**53,941**	46,937
On balances due to parent undertakings	**245**	213
Amortisation of debt issue costs	**7,521**	7,521
Other finance costs	**305**	261
Unwinding of discounts on provisions	**902**	916
Total interest payable and similar charges	**117,514**	110,461
Bank interest receivable	**(150)**	(163)
Total interest receivable and similar income	**(150)**	(163)
Net interest payable and similar charges	**117,364**	110,298

9 Taxation

	2016	2015
	£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	**(2,214)**	(1,572)
Adjustments in respect of prior periods	**41**	1
UK income tax		
Current tax on loss for the year	**1,095**	1,068
Adjustments in respect of prior periods	**(180)**	11
Foreign tax		
Current tax on income for the year	**39**	31
Adjustments in respect of prior periods	**-**	-
Total current tax	**(1,219)**	(461)
Deferred tax (see note 17)		
Origination and reversal of timing differences	**46**	53
Adjustments in respect of prior periods	**(3)**	49
Total deferred tax	**43**	102
Total tax	**(1,176)**	(359)

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

9 Taxation (continued)

	2016			2015		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
	£000	**£000**	**£000**	£000	£000	£000
Recognised in profit and loss account	**(1,219)**	**43**	**(1,176)**	(461)	102	(359)
Recognised in other comprehensive income	**-**	**-**	**-**	-	-	-
Recognised directly in equity	**-**	**-**	**-**	-	-	-
Total tax	**(1,219)**	**43**	**(1,176)**	(461)	102	(359)

	2016	2015
	£000	£000
Analysis of current tax recognised in profit and loss		
UK corporation tax	**(2,173)**	(1,571)
UK income tax	**915**	1,079
Foreign tax	**39**	31
Total current tax recognised in profit and loss	**(1,219)**	(461)

	2016	2015
	£000	£000
Reconciliation of effective tax rate		
Loss for the year	**(82,348)**	(373,505)
Total tax income	**1,176**	359
Loss excluding taxation	**(83,524)**	(373,864)
Tax using the UK corporation tax rate of 20% (*2015: 20.25%*)	**(16,705)**	(75,707)
Expenses not deductible for tax purposes	**10,522**	52,673
Intercompany expenses not deductible for tax purposes	**4,568**	9,456
Difference in overseas tax rate	**(1,657)**	(1,859)
Overseas tax liability	**38**	31
Tax exempt revenues	**(5)**	(183)
Reduction in tax rate on deferred tax balances	**(1)**	2
Current year movement in recognised deferred tax	**47**	56
Current year movement in unrecognised deferred tax assets	**2,159**	15,112
Prior year adjustment	**(142)**	60
Total tax credit included in profit and loss	**(1,176)**	(359)

Factors that may affect future current and total tax charge:

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were 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. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

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

10 Negative goodwill

	Negative goodwill £000
Cost	
Balance at beginning and end of year	**(43,943)**
Amortisation	
Balance at beginning of year	7,633
Amortisation for the year	2,197
Balance at end of year	**9,830**
Net book value	
At 1 January 2016	(36,310)
At 31 December 2016	**(34,113)**

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.

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	**772,599**	**6,498**	**172,503**	**7,742**	**959,342**
Additions	2,341	2,273	38,983	775	44,372
Transfers	6,761	(4,904)	(1,857)	-	-
Disposals	(65,574)	-	(21,811)	(2)	(87,387)
Balance at end of year	**716,127**	**3,867**	**187,818**	**8,515**	**916,327**
Depreciation and impairment					
Balance at beginning of year	**308,768**	**-**	**92,948**	**4,559**	**406,275**
Depreciation charge for the year	4,092	-	29,775	1,475	35,342
Reversal of previous impairments	(30,903)	-	-	-	(30,903)
Impairment losses	4,489	-	-	-	4,489
Disposals	(32,808)	-	(13,417)	(2)	(46,227)
At end of year	**253,638**	**-**	**109,306**	**6,032**	**368,976**
Net book value					
At 1 January 2016	463,831	6,498	79,555	3,183	553,067
At 31 December 2016	**462,489**	**3,867**	**78,512**	**2,483**	**547,351**

Impairment loss and subsequent reversal

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. As at 31 December 2016 the directors reviewed the property portfolio in line with the requirements of FRS 102 Chapter 27 *Impairment of assets* 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. As a result of this review, the value of the group's freehold assets has been increased by £26.4m (being a £30.9m reversal of previous property impairments less £4.5m of current year impairments). The net £26.4m is included within the operating profit for the year and disclosed within exceptional activities.

Security

The term loan facility and senior secured notes (see note 16) 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:

	2016	2015
	£000	£000
Freehold	**457,853**	459,660
Long leasehold	**4,636**	4,171
Short leasehold	**-**	-
	462,489	463,831

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 2016	-
At 31 December 2016	**-**

A list of the company's principal subsidiary undertakings at 31 December 2016 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 Health Care Limited	Holding company
Tamaris Healthcare (England) Limited	Operator of care homes
Four Seasons Health Care (England) Limited	Operator of care homes
Tamulst Care Limited	Operator of care homes
Four Seasons Homes No.4 Limited	Operator of care homes
Four Seasons Health Care (Northern Ireland) Limited	Operator of care homes
Four Seasons (No.10) Limited	Operator of care homes
Four Seasons (No.12) Limited	Operator of care homes
Four Seasons Health Care Properties (Frenchay) Limited	Operator of care homes
Four Seasons Health Care (Scotland) Limited	Operator of care homes
FSHC Properties (BIR) Limited	Property holding company
FSHC (SP) Limited	Property holding company
FSHC Properties (CH2) Limited	Property holding company
Mericourt Limited*	Holding company

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

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

12 Fixed asset investments (continued)

The following companies are incorporated in Jersey, Channel Islands:

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

The following company is incorporated in the Cayman Islands:

Company	Nature of business
Fino Seniorco Limited	Holding company

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

13 Debtors

	Group 2016 £000	**Company 2016 £000**	Group 2015 £000	Company 2015 £000
Trade debtors	**31,323**	**-**	28,481	-
Amounts owed by related undertakings	**3,169**	**175,953**	348	175,953
Amounts owed by subsidiary undertakings	**-**	**1,984**	-	1,364
Corporation tax	**-**	**-**	761	-
Prepayments, other debtors and accrued income	**27,078**	**-**	31,604	-
	61,570	**177,937**	61,194	177,317

£11.0m of accrued income in 2015 has been reclassified from trade debtors to prepayments, other debtors and accrued income to be consistent with 2016 and reflect the substance of these balances.

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 are due to be repaid in 2020 and accrue interest at 15%. Of the amounts due to the company by subsidiary undertakings, £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 2016 £000	**Company 2016 £000**	Group 2015 £000	Company 2015 £000
Cash at bank and in hand	**33,032**	**16**	55,091	16
Cash and cash equivalents	**33,032**	**16**	55,091	16

15 Creditors: amounts falling due within one year

	Group 2016 £000	**Company 2016 £000**	Group 2015 £000	Company 2015 £000
Term loan	**40,000**	**-**	-	-
Trade creditors	**22,419**	**303**	23,524	-
Amounts owed to related undertakings	**11**	**-**	11	-
Amounts owed to subsidiary undertakings	**-**	**1,874**	-	193
Amounts owed to parent undertakings	**215**	**1**	-	1
Taxation and social security	**7,721**	**-**	8,048	-
Other creditors	**38,089**	**-**	39,717	-
Accruals and deferred income	**44,555**	**61**	34,058	1,242
Corporation tax creditor	**658**	**-**	-	-
Accrued interest and finance costs	**1,763**	**646**	1,940	705
	155,431	**2,885**	107,298	2,141

In 2015 the trade creditor balance has been increased by £6.5m with a corresponding decrease in accruals and deferred income to be consistent with 2016 and reflect the substance of these balances.

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

The term loan bears interest at LIBOR + 6% and is due for repayment in December 2017. At the year end the accrued interest was £194,000 (*2015: £228,000*) all of which was due within one year.

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

16 Creditors: amounts falling due after more than one year

	Group 2016 £000	**Company 2016 £000**	Group 2015 £000	Company 2015 £000
High yield bonds	**525,000**	**175,000**	525,000	175,000
Term loan	**-**	**-**	40,000	-
Debt issue costs	**(11,226)**	**-**	(18,747)	-
External debt net of debt issue costs	**513,774**	**175,000**	546,253	175,000
Amounts owed to related undertakings	**411,723**	**-**	358,020	-
Amounts owed to parent undertakings	**1,877**	**1,877**	1,632	1,632
	927,374	**176,877**	905,905	176,632

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 £923,000 (*2015: £1,007,000*) 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 £646,000 (*2015: £705,000*) all of which was due within one year. The notes are due to be repaid in 2020.

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

The amount due to 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 2016 £000	Group 2015 £000
In less than one year	**40,000**	-
In 1 to 2 years	**-**	40,000
In 2 to 5 years	**525,000**	525,000
In more than 5 years	**413,600**	359,652
	978,600	924,652

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

	Book value 2016 £000	**Fair value 2016 £000**	Book value 2015 £000	Fair value 2015 £000
Primary financial instruments held or issued to finance the group's operations:				
Financial assets: cash	**33,032**	**33,032**	55,091	55,091
Financial liabilities:				
8.75% senior secured notes	**350,000**	**339,560**	350,000	294,350
12.25% senior notes	**175,000**	**78,969**	175,000	66,500
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 2016 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 2016 £000	Group 2015 £000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,082**	5,039

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

18 Other provisions

Group	Provision for operating leases £000	Provision for onerous contracts £000	Total £000
Balance at beginning of year	**11,935**	**42,378**	**54,313**
Provisions made during the year	757	4,479	5,236
Provisions used during the year	(262)	(9,277)	(9,539)
Provisions released to exceptional items during the year	-	(9,098)	(9,098)
Unwinding of discounted amounts	-	902	902
Balance at end of year	**12,430**	**29,384**	**41,814**

£14.7m of the provision for onerous contracts will unwind over the period of the relevant contracts, with the balance expected to unwind in the 18 month period 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

	2016		2015	
	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 £2,555,000 (*2015: £2,616,000)*. At the year end £345,000 (*2015: £359,000*) 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	Group
	2016	2015
	£000	£000
Assets measured at amortised cost	**64,355**	83,572
Liabilities measured at amortised cost	**(967,374)**	(905,905)
	(903,019)	(822,333)

22 Operating leases

Non-cancellable operating leases rentals are payable as follows:

	Group	Group
	2016	2015
	£000	£000
Land and buildings – in less than one year	**52,544**	53,934
Land and buildings – in two to five years	**203,303**	206,088
Land and buildings – more than five years	**584,425**	625,325
Equipment, fixtures and motor vehicles – expiring in less than one year	**-**	34
	840,272	885,381

During the year £44,365,000 was recognised as an expense in the profit and loss account in respect of operating leases (*2015:* £49,774,000).

23 Commitments

Capital commitments

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

	Group	Group
	2016	2015
	£000	£000
Contracted	**1,755**	4,421

The company had no capital commitments at 31 December 2016 (*31 December 2015: £nil*).

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

24 Accounting estimates and judgements

Key sources of estimation uncertainty

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are detailed below:

- 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 current credit rating of the debtor, the ageing profile of debtors and historical experience;
- The company makes an estimate of onerous lease provisions. When assessing the quantum of these provisions management considers factors including the minimum operating loss under the leases and the time required to address those losses;
- At December 2016 the directors have reviewed the carrying value of the group's property portfolio. When assessing the quantum of a reversal of previous impairments or current year impairments, factors such as the current and expected trading in individual care homes and specialist units have been considered, with particular focus on occupancy levels, fee rates and payroll costs, or, where applicable, have been based on actual or expected disposal proceeds following the year end;
- The directors have considered the basis of preparation of the financial statements. Details of the assessment are included in note 1.

25 Related parties

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

As the company is a wholly owned subsidiary of FSHC Group Holdings Limited, the directors have taken advantage of the exemption in FRS 102 Chapter 33.21 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 £184,000 (*2015: £650,000*) for the full time secondment of certain employees. At the year end £629,000 (*2015: £689,000*) 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 £6,001,000 (*2015: £3,498,000*).

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 ultimate controlling party is Guy Hands.

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 Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.