Elli Investments Limited

Annual report and consolidated financial statements

Registered number 55185
31 December 2015

Contents

Chairman's review

I am pleased to report on the 2015 trading for the Elli Investments group. I would like to start by thanking Ian Smith for his very substantial contribution to the group over the last four years. During his tenure as Chairman, he has helped to drive the transformation of the group into three stand-alone businesses, each with its own brand identity and its own fully empowered leadership and management team focused on strategies to develop their business by best meeting the needs of their respective customer groups. This change began with a strategic review that was initiated shortly after Terra Firma acquired the group in 2012 and to which Ian made a significant contribution. Each of these businesses has established a standalone and distinctive competitive position and with this phase of the group's strategy accomplished, Ian has decided it was an appropriate time to pass on the Chairmanship of the group. However, Ian's knowledge and skills will not be lost to us as he has agreed to retain a role as Special Advisor to the Board to promote both the group's interests and those of the broader care home and mental health sector.

Priorities

As I take over the role of Chairman from Ian, my priorities are clear. Most importantly, I recognise that we only succeed by delivering high quality care and a good experience for the people in our homes and hospitals. I will ensure that the Group continues to prioritise the wellbeing of its 20,000 residents and patients, and supports the 31,000 engaged and committed colleagues who care for them.

Second, I will build on the momentum that has resulted from separating the group into three operational and legal structures 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 and improvements that are beginning to gain traction. A lot of things are now moving in the right direction, and we must now ensure the benefits flow through to financial performance.

Third, whilst the group's cash position, operational strategy and anticipated disposal proceeds will ensure that the group has adequate financial resources and liquidity for the medium term, I recognise that the group's capital structure is not suitable for the long term needs of the business. The business recognised this last summer and appointed advisers and my goal is to ensure that we work with the group's stakeholders to reach a capital structure which results in the group being well positioned to fulfil its potential for its residents, staff and providers of capital. In this regard, our parent company FSHC Group Holdings Limited and advisers have started the process of engaging with key stakeholders and we hope to resolve the capital structure of the group during the course of 2016.

2015 performance

2015 was a turbulent and challenging year for all independent care providers who look after publicly funded residents, with the continued problem of underfunding of social care compounded by a national shortage of nurses and a record number of winter deaths nationally. Four Seasons Health Care has not been immune to these industry headwinds, and this has been reflected in the 2015 results. However, we are now seeing encouraging signs that operational improvements have begun to benefit our customer satisfaction, occupancy levels and financial results and we expect that this positive momentum will continue into 2016. I will say more about the sector-wide issues below but the key financial points to note for 2015 are as follows:

- Revenue was stable after allowing for closed and sold homes
- After a drop due to Winter Deaths in Q1 and Q2 2015, occupancy in our care homes stabilised across the year so that while admissions in 2015 were 6.2% ahead of 2014, overall occupancy fell by 2.3% to 85.3%
- Average weekly fees were a healthy 3.4% above 2014
- As a result of increased agency usage and the occupancy reduction impacting payroll efficiency, EBITDA (for definition, see page 34) has been adversely affected and fallen to £38.7m, down 39% on 2014
- The group continued to invest in its estate, spending £46.6m in the year, up £8.2m on 2014

Chairman's review (continued)

2015 performance (continued)

- Following an independent third party valuation, the group recorded an impairment of £224m in the value of its properties

Due to the difficult trading background, our financial performance clearly remains below levels of recent years but I am pleased to say that during 2015 the operational improvements that we have been making have begun to have a financial benefit and we are seeing encouraging indications that the three businesses are moving in the right direction.

- Quality of Care has improved significantly over the last two years and this has been increasingly recognised by the regulators. The number of embargoes is now only three within the Care Home Division, the lowest level for nearly three years
- Occupancy across the Four Seasons Health Care and brighterkind care home businesses is improving. Until 2015 it had tended to average 87-88% but this declined to an average of 85.3% for 2015 as a result of an exceptionally high incidence of winter deaths among the elderly nationally. However, at the end of March 2016, which is historically a low point in the year, occupancy was significantly up 2.2% from the Q4 figure to 87.5%
- Even though agency costs have reduced over the first few months of 2016, the shortage of nurses remains acute and while the temporary relaxation of restrictions on recruiting non-EU nurses has recently been made permanent, the practicalities of the process, such as unrealistic language requirements, continue to limit the numbers
- Payroll efficiency has improved over the first few months of 2016 with higher occupancy, the wider deployment of safe staffing tools and the reduced level of embargoes
- As a result of the improvement in these key drivers, EBITDA in Q4 2015 was £5.7m, with the annual quarter on quarter shortfall reducing to £5.1m, down from £6-7m in the first three quarters of the year
- At December 2015 the group had £55.1m cash, consistent with its cash reported for both Q3 and Q2 2015
- That liquidity has been supported by the funding of capital expenditure by property disposals which comprise a mixture of closed, loss making, non-core or underperforming homes. In Q4 2015 the disposals comprised the sale of nine care homes, the group's portfolio of Investment Properties and the first phase of the Park Lodge development in South London for combined proceeds of £39.3m. The group has also benefitted from the closing of unviable sites. The closure of any home is not something we take lightly but we have to focus on homes that are capable of operating successfully. The outcome of this process is a slightly smaller estate in terms of the number of homes, but one of a higher quality in terms of care and business performance

Market and sector

Funding

- As a result of government funding constraints on social care there has been a real terms 5% reduction in fees over five years, so that they are around 15% below the independently calculated fair price of the care being provided. On average, average weekly fees are under funded by at least £40, and up to £78, per resident per week compared to the fair cost[1].

[1] As calculated by LaingBuisson, a leading source of sector data and analysis

Chairman's review (continued)

Market and sector (continued)

- To help alleviate the funding pressures arising from the introduction of the living wage and a growing elderly population with increasingly complex care requirements, the government has enabled local authorities to raise a 2% social care precept on council tax bills. This is a welcome acknowledgement of the seriousness of the issue and a first step to address it. It is encouraging that this April over 90% of councils have raised a social care precept and we are waiting to see the extent to which this funding flows into the residential Elderly Care Sector.

- The government has also put an additional £1.5bn into the Better Care Fund bringing the total to £5.3bn. The fund is to support a transformation in integrated health and social care. It is unclear however, to what extent, if at all, this fund will benefit providers of front line care.

- We await the bulk of English Local Authority fee rate settlements to determine whether the overall fee increase will cover cost inflation including the National Living Wage in 2016, but if the announcements of central government are followed through, this should be the case.

National Living Wage

- The National Living Wage was implemented on 1 April at £7.20 per hour, with the government's stated intention to get to £9.00 by 2020. In common with all the leading care providers we want to pay our people more. They deserve it for doing a challenging job very well, but the first increase in April 2016 will require an increase of about 5% in council funding, if providers are to be compensated for the extra cost on top of inflation. The funding issue was highlighted to government in representation by the care sector and by local authorities themselves.

Against the background of underfunding of publicly funded residents, national nurse shortages and the impact of the National Living Wage, we commissioned an independent property valuation which resulted in an impairment of £224m on a freehold property valuation of £505m.

Business overview

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

- *Four Seasons Health Care* – a national network of 340 homes offering high quality dementia care together with other specialist and nursing capabilities to meet the anticipated growing demand of people requiring dementia care;
- *brighterkind* - a group of homes offering high quality elderly care together with hotel standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice; and
- *The Huntercombe Group* – specialist units providing care, treatment and rehabilitation services in mental health, acquired brain injury and neurodisability that are complementary to, and in partnership with, the NHS.

Four Seasons Health Care

The Four Seasons Health Care business, which focused on the local authority market, is continuing to achieve a turnaround in its operational performance. We have a stronger home and regional manager population and importantly there are significantly fewer posts to be filled compared to 12 months ago, all of which are key to drive operational and financial improvements.

Quality of care is fundamental to our business performance, due to its direct impact on our residents, but also due to its link to embargoes, quality ratings and reputation and Four Seasons Health Care has continued to improve. The percentage of CQC Inadequate ratings for our English care homes has reduced significantly and is now below 5%. We have also maintained the strong improvements in our positive inspection ratings from the Care Inspectorate in Scotland and continue to maintain our ongoing positive position with the RQIA in Northern Ireland, with no Inadequate equivalents.

Chairman's review (continued)

Market and sector (continued)

If our estate is considered in total, and excluding closed homes, the percentage which is rated as Inadequate, or equivalent, is below 2%.

Our Quality of Life Programme is a game changer in driving quality. An electronic Resident Care Audit covers up to 185 care standards for each resident and last month alone over 2,500 individual resident care audits were completed. In Q4 last year customer satisfaction ratings, amongst residents and health professional had risen to an average of 96% whilst current levels have increased to nearly 97%. 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.

From a peak of 27 embargoes, we have reduced the number to just three during Q1 2016. This reduction has undoubtedly helped us achieve the occupancy improvement of 2.2% to 87.5% by the end of March and has also allowed us to start to improve payroll efficiency.

Notwithstanding the significant quality improvements that the Four Seasons Health Care business achieved during 2015, agency remains a significant cost to the business. At over 9% of total payroll in 2015, agency spend in relation to both nurses and carers remains a key focus for management. We have a number of initiatives underway to help address this issue, one of which is the Care Homes Assistant Practitioner role, known as CHAPS. The first phase of CHAPs had been trained by the end of Q4 last year, with deployment in January 2016, to perform some duties that have traditionally been undertaken by nurses, but which do not require a qualified nurse. We will roll out this programme throughout 2016 with a target of 250 qualified CHAPs by the end of the year. We are already seeing the benefit of this initiative by way of a reduction in nurse agency hours.

Finally, for Four Seasons Health Care, in another development we have been a key contributor to the NHS England Independent Sector Steering Group to assist the NHS to better use care home capacity for people who are medically fit to leave hospital but whose discharge has been delayed. Delays in discharging people from hospital after treatment are at their highest level in five years, since records began. A government commissioned report said that information provided by trusts estimates that as many as 8,500 patients a day, most of them elderly, may be affected and this delayed discharge - so called "bed blocking" - costs the NHS £900 million a year.

Whilst the issue of delayed discharges is complex and the use of care home capacity is only part of the solution, Four Seasons Health Care has seen a significant increase in the use of our beds in this way and this is a trend we expect to continue. At any time there are between 350 and 500 patients who have been discharged from hospital wards to our homes. While the patient is being cared for and recuperating in more comfortable surroundings, their longer term care needs can be assessed with them and arrangements made. At the same time the hospital frees up beds for other patients and they save their budgets as the costs are significantly less for intermediate care in a care home than in an acute hospital ward.

Linked to this, Four Seasons Health Care has also recently introduced a 24-7 rapid response assessment and admission service that helps hospital discharge teams, CCGs and social workers to locate care services in appropriate nursing, dementia care and residential care homes to enable quicker patient discharge and in some instances avoid the need for people to be admitted to hospital.

brighterkind

brighterkind's proposition is designed to appeal to customers who choose to self-fund their care. brighterkind has moved swiftly to establish itself as a stand-alone business operationally and by the year end it was well on the way to building a differentiated market position.

By the end of 2015, brighterkind had created its brand identity and achieved its target to rebrand its homes. It has refurbished more than 23 homes and invested significantly in its estate. It has developed and launched a programme of

Chairman's review (continued)

Business overview (continued)

training and cultural change that it has been rolling out across the business to build a team culture in which each staff member feels equipped and empowered to take personal responsibility for delivering better care of residents.

During the year brighterkind developed, pilot tested and rolled out its three signature elements. Those are: high standards of personalised care; an enhanced recreation and activities programme that supports physical and mental wellbeing and above all is enjoyable; together with a superior food and dining experience. The business has also introduced a caring partner scheme which is aimed at providing value added services to its residents including vision and hearing tests.

On the costs side of the business, brighterkind has brought significant operational control to bear. Its agency payroll has reduced significantly from a peak of 6.5% of total payroll towards the end of 2014 to 3.0% by mid-2015 which has been maintained relatively consistently.

The brighterkind proposition has already proved successful in 2015, with the proportion of private or self-funded residents moving from 40% to 42% in refurbished homes and now accounting for around 58% of new admissions, the highest that it has ever been. This has resulted in average weekly fees increasing by about 6% across the year.

The Huntercombe Group

The Huntercombe Group ("THG"), which runs hospitals and homes for patients with mental health issues, completed its strategic review towards the end of 2014, with a focus on high complexity hospital services. It has withdrawn or scaled back some services where patterns of commissioning are changing, such as in learning disability, where the majority of people will receive community care provision rather than being cared for in an in-patient setting.

The business has made significant progress in delivering its plan which has entailed the re-provisioning of two hospitals, comprising about 60 beds that used to deliver adult services, to deliver Child and Adolescent Services and closing 12 other units since the beginning of 2014. In Bristol, THG's flagship Frenchay service has responded to local commissioners' demand for additional neuro rehabilitation services, and 28 additional beds are due to open in its new £5m facility later this year. The impact of increased focus, and ensuring the right service portfolio, saw an improvement in average occupancy from 75.5% in 2014 to 80.5% in 2015.

As well as the improvement in occupancy, despite fee pressures for its nationally commissioned services, THG's Average Weekly Fee at £2,173 in 2015 was £90 higher than in 2014 driven by the strategic move towards more complex services.

The THG risk assurance framework underpins the quality ratings, with regulatory scores which currently benchmark well, as 79% of THG's services inspected under the new CQC regime having been rated as Good, compared to the National average for Good or Outstanding of around 60% of all inspections.

In addition, over the past year they have invested in, and rolled out, an electronic patients' records system to their key sites. The burden of record keeping is high and this system allows THG to capture care records in a more structured and efficient way.

The business has also strengthened its clinical leadership with lead nurses and doctors in place across their three specialties and a clinical cabinet has been established that advises the senior management team on key clinical matters.

Chairman's review (continued)

Business overview (continued)

Looking forward

In summary, each of the Four Seasons Health Care group's three businesses made significant strategic and operational advances during 2015, despite the challenging market environment. The significant quality and rating improvements, together with the reduction in embargo numbers, and the benefits beginning to be felt from the estate rationalisation, gave the group a real momentum as it moved into 2016. That momentum has contributed to further reductions in embargo numbers at the start of 2016 and rising occupancy. This strategic and operational turnaround, together with the government's commitment to funding the National Living Wage, give us confidence that financial performance will improve over the course of 2016.

Finally, I would once again like to take this opportunity to thank our colleagues across the whole business for all of their hard work and effort during the year. With their support and commitment, together with the determination of the three new leadership teams, I believe that 2016 will begin to show the financial benefits arising from the quality and operational momentum we saw at the end of last year.

Robbie Barr
Chairman

Strategic report

Background and ownership structure

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

Principal activities

During the year the group had two principal activities. Firstly, the operation of care homes for the elderly and specialised healthcare facilities. Secondly, the ownership of healthcare real estate and its leasing to providers of long term care for the elderly and other specialised care activities.

Health and social care sector review

Market overview

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

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

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

Elderly care market

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

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

Strategic report (continued)

Health and social care sector review *(continued)*

Mental health services

Mental health services are segmented across three patient groups:

- 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 reductions in NHS in-house supply resulting from the closure of large NHS mental health hospitals in the 1970s and 1980s.

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

Social care and learning disabilities

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

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

Competition

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

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

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

The four largest providers of the mental health services market account for 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.

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

Strategic report (continued)

Four Seasons Health Care group

We are the largest independent provider of elderly care services in the United Kingdom, measured by both the number of facilities and number of beds, and we are a leading provider of specialised services, including brain injury rehabilitation and mental healthcare services. As at December 2015, we operated approximately 21,500 (*2014: 22,500*) beds in c440 facilities, including care homes, specialised hospitals and other centres. We employ approximately 31,000 people across the United Kingdom, the Channel Islands and the Isle of Man and we provide care for approximately 18,500 residents.

As stated in more detail on page 3, we operate as three businesses:

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

In addition to our three businesses, in 2015 we also generated rental income through the leasing of 30 care homes and specialised units to third party operators.

Competitive strengths

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

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

  Increased life expectancy is resulting in a rapidly ageing profile of the population of the United Kingdom. According to the UK Office for National Statistics, by 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 c6% 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 440 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 operational structure 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 300 purchasers. We have contracted with a large number of public sector commissioners across the UK, including more than 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 2015 customer satisfaction ratings, amongst residents and health professionals, were at 96%. This has seen a reduction in the number of embargoes impacting our business during 2015. We have made, and continue to make, substantial investments in training our employees and maintaining and improving our properties to ensure improving quality standards and to observe and enforce an established and constantly monitored set of policies and measures to ensure high levels of service quality and strict regulatory compliance.

Strategy

The group is operated as three distinct businesses with the CEO of each in place by August 2014.

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

- *Provide higher dependency, higher acuity services from our facilities as well as increasing the percentage of private payers*

  In line with our business strategy we regularly review the service offerings of each facility and, where appropriate and in consultation with the relevant local commissioner, change the service offering to one that is oriented towards higher dependency or higher acuity, which caters to a shortage of services in the local market.

- *Increase occupancy by maintaining and continually improving our quality of care and relationships with Local Authorities and commissioners*

  We believe that our focus on quality of care and the recognised quality of our services are key drivers of our longstanding relationships with Local Authorities and commissioners. We plan to continue delivering industry leading service quality and implementing best practices and new service offerings across our facilities, including a continued focus on higher dependency residents, such as through our dementia service. We believe that this approach supports the stability of our revenues and will allow us to increase our occupancy rates and to continue to find new growth opportunities and serve our customers better.

- *Increase proportion of self-funding residents*

  As part of the group's segmentation strategy into three separate businesses, additional capital expenditure will continue to be deployed to attract a higher proportion of self-funding residents. Together with additional operational expenditure this investment will reduce the group's exposure to the funding constraints which affect the fee rates paid in respect of Local Authority funded residents.

Strategic report (continued)

Four Seasons Health Care group *(continued)*

Strategy (continued)

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

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

- *Continually optimise our real estate portfolio*

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

- *Evaluate and execute strategic and accretive acquisitions*

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

Strategic report (continued)

Financial review

These financial statements present the results of the company and its subsidiary undertakings (the "group") for 2015 with comparatives for 2014 and 2013.

Profit and loss account (unaudited, proforma)	**Year ended 31 December 2015 (52 weeks) £000**	**Year ended 31 December 2014 (52 weeks) £000**	**Year ended 31 December 2013 (52 weeks) £000**
Turnover	**688,136**	**712,876**	**709,793**
Cost of sales	(637,002)	(638,642)	(606,591)
Gross profit	**51,134**	**74,234**	**103,202**
Administrative expenses – ordinary	(47,996)	(45,585)	(41,389)
Administrative expenses– exceptional	(266,704)	(98,762)	(9,516)
	(314,700)	(144,347)	(50,905)
Operating (loss)/profit	**(263,566)**	**(70,113)**	**52,297**
Ordinary activities	3,138	28,649	61,813
Exceptional activities	(266,704)	(98,762)	(9,516)
(Loss)/profit before interest	**(263,566)**	**(70,113)**	**52,297**

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
Analysed as:			
Operating profit before exceptional items as analysed above	3,138	28,649	61,813
Add back: depreciation of tangible fixed assets and amortisation of capital grants	37,747	36,659	33,286
Deduct: amortisation of negative goodwill	(2,197)	(2,197)	(1,225)
EBITDA before exceptional items	**38,688**	**63,111**	**93,874**

2013 figures presented under old UK GAAP prior to transition to FRS 102 as detailed in note 28

Strategic report (continued)

Financial review *(continued)*

Key factors affecting results of operations

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

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

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

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

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

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

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

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

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

Rent: The group pays rental charges under operating leases in respect of approximately 45% of its properties. The remainder are owned and operated as freehold assets or leased to third-party operators. Under the majority of the leaseholds agreements, the rent payable is subject to index-linked annual increases within certain caps and collars, whilst certain lease agreements contain flexing rent mechanisms linked to the performance of the home or specialised unit, which provides downside protection while preserving incremental profit margin.

Strategic report (continued)

Financial review *(continued)*

Key performance indicators ("KPIs")

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

Unaudited	2014					2015				
	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3	Q4	Full Year
Turnover (£m)	177.9	179.2	179.4	176.4	712.9	172.3	172.9	172.5	170.4	688.1
- Total CHD	147.0	148.5	148.4	145.5	589.3	142.6	142.8	142.5	140.3	568.1
- THG	29.9	29.8	30.0	29.8	119.4	28.7	29.1	28.9	29.3	115.9
CHD EBITDARM (% of turnover)	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%	19.7%	15.6%	18.1%
THG EBITDARM (% of turnover)	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%	18.8%	17.9%	18.0%
EBITDAR (£m)	28.5	29.9	32.9	22.6	113.9	22.2	23.9	25.0	17.4	88.5
EBITDA (£m)	15.9	17.5	19.9	10.8	64.1	9.7	11.1	12.2	5.7	38.7
Effective beds – group	23,447	23,322	23,016	22,607	23,098	22,293	22,148	21,974	21,647	22,015
CHD occupancy %	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%	85.2%	85.3%	85.3%
THG occupancy %	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%	81.0%	82.7%	80.5%
CHD average weekly fee (£)	587	597	599	602	596	608	619	619	617	616
THG average weekly fee (£)	2,060	2,071	2,097	2,104	2,083	2,137	2,134	2,174	2,246	2,173
CHD payroll (% of turnover)	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%	65.4%	68.3%	66.7%
THG payroll (% of turnover)	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%	70.4%	70.5%	70.7%
Agency to total payroll %	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%	9.4%	9.4%	9.1%
Expenses (% of turnover)	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%	14.2%	15.4%	14.5%
Central costs (% of turnover)	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%	5.5%	6.3%	5.7%

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

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

FRS 102 operating lease charge of £0.8m included within Q4 2015. Previous quarter EBITDA figures have not been adjusted for FRS 102 impact

Strategic report (continued)

Financial review *(continued)*

Turnover

Full year 2015 Elli Investments Limited turnover decreased by £0.2m compared to 2014 after allowing for the £24.6m of revenue from closed/sold homes.

- *Average Weekly Fee*

  The Average Weekly Fee ("AWF") in 2015 in the Care Home Division ("CHD") increased by 3.4% to £616 from £596 in 2014. This was driven by an increase of 3.8% in Scotland from April 2015, albeit linked to a pay settlement, together with private fee rate increases of up to 5% across the division. However the increase in English Local Authority fees, blended across all regions, was between only 1.0% and 2.0% whilst the increase in Northern Ireland was only 2.0%.

  Within The Huntercombe Group ("THG") the AWF in 2015 increased by 4.3% to £2,173 from the average of £2,083 in 2014.

- *Occupancy*

  Average occupancy in 2015 for CHD was 85.3%, albeit with approximately 990 fewer beds as a result of closures and disposals during the year. In 2015, average THG occupancy increased by 5.0 percentage points compared to 2014, to 80.5%, mainly as a result of 11 units closed/sold during 2015.

- *Investment property income*

  Income from the group's investment properties was £4.0m in 2015 consistent with the prior year. All of the group's investment properties, apart from two sublet facilities, were disposed of in December 2015.

Payroll

CHD payroll, as a percentage of turnover, increased from 66.9% in Q1 2015 to 68.3% in Q4 of 2015. This is compared to 63.8% during 2014. Throughout 2015 significant additional payroll costs have been incurred due to a combination of increased own staff hours and agency spend required to address a sector-wide shortage of nurses, together with the impact of continued intense regulatory scrutiny across the sector. In addition, in October 2015 the payroll percentage was impacted by the National Minimum Wage increase of 3% and 1.5% pay increase for non-minimum wage colleagues.

Care expenses

In 2015 expenses (care and facility combined), as a percentage of turnover, at 14.5%, represented an increase of 0.3 percentage points compared to 2014.

Rent

Rent of £49.0m was paid in 2015 compared to the 2014 payment £49.7m – underlying annual inflationary uplifts on the majority of the leasehold estate were offset by a decrease in the rental charge following the surrender of five leases in early 2015 as well as variations in rental charges in care homes with flexing rental agreements based on EBITDARM.

Central cost

Central costs, at 5.7% of turnover in 2015, have increased by 0.8 percentage points compared to 2014. The increase predominantly reflects the full year cost of the additional cost of moving to a segmented operational structure and the additional resource deployed to drive service quality through the estate, as well as the impact of reduced turnover following the home closures and disposals.

Exceptional items

The operating profit during the year includes exceptional costs of £266.7m (*2014: £98.8m*). Within this total are property impairments totalling £224m, onerous lease provisions of £21.9m, professional fees and specific project costs of £5.4m, £5m 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.

Strategic report (continued)

Financial review *(continued)*

Exceptional items (continued)

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

EBITDA

As a consequence of the factors outlined above, the EBITDA of £38.7m for 2015 was £24.4m below that achieved in 2014 of £63.1m, after allowing for the accounting impact of the FRS 102 operating lease adjustment of £0.8m (*2014: £1.0m*). The primary reason for this was significantly higher payroll costs, driven by additional own staff costs but primarily agency usage as a result of the shortage of nurses across the wider healthcare sector and regulatory pressure. In addition, central costs increased as a result of the full year impact of the segmented business structure and the additional resources deployed to drive service quality.

Interest

The interest charge in the statutory profit and loss account for the year primarily relates to interest on the group's £350m senior secured notes at an interest rate of 8.75% and the £175m senior notes at an interest rate of 12.25%. The interest charge relating to the notes in the year was £52.1m. The balance, within the total charge for the year of £110.5m, relates primarily to non-cash, accrued interest of £47.0m 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 £2.6m interest payable on the term loan.

Tax

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

Strategic report (continued)

Financial review *(continued)*

Balance sheet

The table below shows the consolidated balance sheet of Elli Investments Limited as at 31 December 2015, 31 December 2014 and 31 December 2013.

Proforma (unaudited)	**2015**	2014	2013
	£000	£000	£000
Fixed assets			
Intangible assets - goodwill	**(36,310)**	(38,507)	(40,704)
Tangible assets	**553,067**	790,850	881,692
Investment properties	**-**	29,780	29,780
	516,757	782,123	870,768
Current assets			
Debtors	**61,194**	54,859	63,241
Cash at bank and in hand	**55,091**	85,369	29,653
	116,285	140,228	92,894
Creditors: amounts falling due within one year	**(107,298)**	(97,406)	(92,865)
Net current assets	**8,987**	42,822	29
Total assets less current liabilities	**525,744**	824,945	870,797
Creditors: amounts falling due after more than one year	**(905,905)**	(851,545)	(780,208)
Provisions for liabilities and charges	**(59,352)**	(39,408)	(24,068)
Net (liabilities)/assets	**(439,513)**	(66,008)	66,521

2013 figures presented under old UK GAAP prior to transition to FRS 102 as detailed in note 28

Strategic report (continued)

Financial review *(continued)*

Goodwill

The negative goodwill balance is a function of the 12 July 2012 acquisition structure, the fair value of the acquired net assets and the acquisition costs. Negative goodwill is being amortised over 20 years. A fair value adjustment was made in 2013 to reflect the impairment of the property portfolio at the date of acquisition.

Fixed assets

The valuation of the group's properties was carried out by an external valuer on an individual property basis for balance sheet purposes in April 2016. This valuation has been used as the basis of the statutory balance sheet valuation at 31 December 2015, following which an impairment of £224m has been reflected on the group's balance sheet as at that date.

Debtors

Within total debtors, trade debtors increased by £7.2m during 2015 which is a function of the timing of the group's billing cycle around the year end. Prepayments and other debtors have decreased by £1.7m.

Creditors

Trade creditors are £17.0m, a £9.8m increase, which is primarily due to timing differences in the payment cycle at the year end. Accruals have increased by £2.8m and other creditors have decreased by £2.1m.

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 reflect the operating lease accounting requirements of FRS 102.

Financing arrangements

At 31 December 2015 the group's long term liabilities comprised the following:

- *Senior secured and senior notes*
  - Senior Secured Notes: £350m at a fixed interest rate of 8.75%, due to be repaid in 2019
  - Senior Notes: £175m at a fixed interest rate of 12.25%, due to be repaid in 2020
- *Term loan*
  - Term loan: £40m at an interest rate of LIBOR + 6%, due to be repaid in December 2017

In addition, there was £358.0m owed to related undertakings within the wider Four Seasons Health Care group of companies, accruing interest at 15% on a compounding basis.

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

Strategic report (continued)

Financial review *(continued)*

Share capital

There were no changes to the group's share capital during the year. During the prior year the group received an additional £50m of equity funding from its shareholder.

Liquidity and capital resources

The group maintains cash to fund the day-to-day requirements of the business, which display limited seasonality and are relatively constant throughout the year, subject to intra-month peaks and troughs related to the timing of fee receipts compared to purchase ledger, payroll and rent payment cycles. At the year end the group had £55.1m of unrestricted cash on its balance sheet. The directors recognise 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. Options are now being explored for, and on behalf of, a parent undertaking (FSHC Group Holdings Limited) with regard to a financing solution for the group (see note 1).

Cash flow statement

Proforma, unaudited	**Elli Investments Limited Year ended 31 December 2015 £000**	**Elli Investments Limited Year ended 31 December 2014 £000**	**Elli Investments Limited Year ended 31 December 2013 £000**
Net cash inflow from operating activities	**27,851**	**60,572**	**89,247**
Returns on investments and servicing of finance	(55,111)	(53,114)	(53,149)
Capital expenditure and financial investment	(46,648)	(38,476)	(46,743)
Sale of fixed assets	43,796	12,936	1,843
Taxation	(166)	262	(3,222)
Net cash outflow before financing	**(30,278)**	**(17,820)**	**(12,024)**
Revolving credit facility amendment costs	-	(1,464)	-
Financing	-	75,000	15,000
(Decrease)/increase in cash in the year	**(30,278)**	**55,716**	**2,976**

At 31 December 2015 the group's cash balance was £55.1m. Net cash generated from operating activities in the year ended 31 December 2015 was £27.8m (*2014: £60.6m*).

Working capital

The cash inflow from movements in working capital was £4.5m for the year (*2014: £15.8m*).

Interest paid

£52.1m was paid on the group's senior secured and senior notes during 2015 (*2014: £52.1m*) and £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 2015 was £46.6m (*2014: £38.5m*). This increase of £8.2m compared to 2014 is primarily due to the spend of c£6m on the developments at Park Lodge, La Haule and Frenchay. Additional capital expenditure of £7.3m was incurred to support the rollout of the brighterkind refurbishment programme.

Disposals

During the year the group continued to dispose of those assets which are underperforming or are not aligned with the strategy of any of the three businesses. 18 freehold properties were sold in addition to the investment property portfolio and the sale of the first phase of the Park Lodge development. In total, proceeds of £43.8m were received in respect of these disposals (*2014 disposals: £12.9m*).

Strategic report (continued)

Principal risks and uncertainties

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

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

Financial risks

- *Budget constraints and public spending cuts*

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

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

- *Reduction in the demand for our services*

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

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

- *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 the statutory National Minimum Wage or close to the minimum wage. As such, increases in the National Minimum Wage which are in excess of income inflation could significantly reduce the group's profitability. Due to continued local authority budget constraints, the rise in the National Minimum Wage has not been matched by the inflationary increase in local authority fee rates. The National Minimum Wage increase has been significantly compounded by the announcement of the National Living Wage in the July 2015 and its implementation from 1 April 2016. The initial £7.20 minimum hourly rate represents a further c7% increase over the National Minimum Wage for those aged 25 and over, with proposed annual increases to £9.00 per hour by 2020. The extent to which this additional imposed cost is funded by Local Authorities and other commissioners of our services could have a significant impact on the group's profitability and cash flows.

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

- *Interest rate risk*

  Potential impact: the group finances the majority of its operations through called up share capital and external debt. At 31 December 2015, the group had £884.7m of fixed rate debt and £40.0m of variable rate debt, thereby minimising interest rate risk. The interest rate on the variable rate debt is LIBOR + 6%.

  Mitigation: as at 31 December 2015, only 4.3% of the total debt is at a variable rate and as such interest rate risk is minimal.

Strategic report (continued)

Principal risks and uncertainties *(continued)*

Financial risks (continued)

- *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.

- *Liquidity risk*

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

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

- *Failure to comply with debt covenants*

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

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

- *Failure to comply with debt service requirements*

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

  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 recognise 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. Options are now being explored for and on behalf of a parent undertaking (FSHC Group Holdings Limited) with regard to a financing solution for the group. The directors acknowledge that there can be no certainty that this process will be successful although, at the date of approval of these financial statements, they have no reason to believe otherwise and are targeting a completion by no later than the end of 2016.

Operational risks

- *Reputational risk*

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

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

Strategic report (continued)

Principal risks and uncertainties *(continued)*

Operational risks (continued)

- *Regulatory risk*

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

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

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

Corporate social responsibility

Investing in our people

The group continues to invest in its most important asset – its 31,000 employees. Their performance is critical if we are to deliver the group's demanding objectives. Considerable progress has been made to create the framework, structure and support required to enable our employees to both fulfil their potential and deliver a high quality service to our residents and patients. During 2015 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 which are employed on a temporary basis. We have a comprehensive e-learning system in place which incorporates formal, informal, scheduled and unscheduled learning for our staff. The system provides the group with the ability to continually communicate a diverse range of industry critical information, disperse knowledge and share best practice with every care home and specialised unit.

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

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

Community involvement and charitable giving

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

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

Strategic report (continued)

Corporate social responsibility *(continued)*

Community involvement and charitable giving (continued)

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

Complaints, concerns and incidents

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

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

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

Environmental policy

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

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

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

Strategic report (continued)

Corporate social responsibility *(continued)*

Energy efficiency

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

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

Employees

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

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

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

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

By order of the board

Iain

I Stokes
Director

27 April 2016

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2015.

Results and dividends

The loss for the year was £373,505,000 (*2014: £172,348,000*). The directors do not recommend the payment of a dividend with respect to ordinary shares (*2014: £nil*).

Fixed assets and investment properties

During the year the group disposed of 18 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 loss on disposal of £9.9million. In addition, the directors have reviewed the carrying value of the group's land and buildings as at 31 December 2015 taking into account the views of qualified property valuers. This has resulted in a reduction in the carrying value of the group's freehold properties and related assets by £224 million. The group's investment properties were sold in December 2015.

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 £55.1 million of cash.

At the time of approving the financial statements, the directors have a reasonable expectation that the company and the group have adequate resources to continue to meet its 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 "Basis of preparation" section of note 1 to the financial statements.

Corporate governance

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

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

Board constitution and procedures

The Elli Investments Limited board comprises three directors whose biographies are shown on page 28.

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 28 to 29.

- *Audit committee*

  Lorcan Woods is the chairman of the Audit Committee, having taken over from Robbie Barr subsequent to the year end. The audit committee consists of three non-executive directors in addition to the Chairman. 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 auditors' engagement letter; the overall work plan for the forthcoming year; the cost-effectiveness of the audit, as well as the auditors' remuneration; major audit issues and their resolution; key accounting and audit judgements; the level of errors identified during the audit; the recommendations made to management by the auditors and management's response; the level and scope of non-audit fees to ensure that auditor independence is maintained.

- *Finance committee*

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

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

- *Remuneration and nominations committee*

  The remuneration and nominations committee is chaired by Robbie Barr and consists of two 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' report (continued)

Directors

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

R Mackay (appointed 3 October 2014, resigned 30 March 2016)

S Holden (appointed 3 October 2014, resigned 26 June 2015)

L Woods (appointed 29 June 2015)

L Morton (appointed 29 June 2015, resigned 30 March 2016)

J Stares (appointed 30 March 2016)

I Stokes (appointed 30 March 2016)

Lorcan Woods
Non-Executive Director

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

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 is currently the Chairman of Odeon & UCI Cinemas. Until 2015 Robbie was also Deputy Chairman of the Supervisory Board of Deutsche Annington and a director of AWAS. Prior to joining Terra Firma, Robbie held a number of senior positions at Vodafone Group plc, including the role of Group Financial Controller and the regional CFO for Vodafone's businesses outside Western Europe. Robbie is a Fellow of the Institute of Chartered Accountants in England and Wales and has an MA in Mathematics from Magdalen College, Oxford University.

Directors' report (continued)

Directors *(continued)*

Robin Boehringer
Director

Robin joined Terra Firma in 2009 and has worked on a number of Terra Firma's portfolio businesses including AWAS, Deutsche Annington and Tank & Rast. Robin was involved in the refinancing, IPO and final exit of Deutsche Annington, the refinancing of Tank & Rast and the sale of AWAS' SkyFin portfolio. Most recently, Robin led the exit of Terra Firma's investment in Tank & Rast. Between 2013 and 2015, Robin served on the board of Tank & Rast, and he currently serves on the board of AWAS. Prior to joining Terra Firma, Robin worked in M&A at Credit Suisse. Robin has a Master's in Financial Economics from Oxford University, and a bachelor's degree in Economics from the University of St. Gallen.

Tim Hammond
Chief Executive Officer – Four Seasons Health Care

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

Ben Taberner
Chief Financial Officer

Ben was appointed CFO in March 2010, having joined the Four Seasons Health Care group in 2003 as Group Financial Accountant with responsibility for the group consolidation, statutory and investor reporting and management of the group's debt-related responsibilities. Ben has over 13 years of experience in the health and social care sector. Prior to joining the group he was an assurance senior manager at KPMG.

Claire Royston
Group Medical Director

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

Peter Dixon
Non-Executive Director

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

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.

Directors' report (continued)

Registered office

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

Walker Report

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

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant information of which the group's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Auditor

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

By order of the board

I Stokes
Director

27 April 2016

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 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 2015 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 31, 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 2015 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.

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 Whittle for and on behalf of
KPMG LLP
Chartered Accountants and Recognised Auditor, Guernsey
1 St Peter's Square
Manchester
M2 3AE
United Kingdom

27 April 2016

Consolidated profit and loss account and other comprehensive income

for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Turnover	*1, 2*	**688,136**	712,876
Cost of sales		**(637,002)**	(638,642)
Gross profit		**51,134**	74,234
Administrative expenses - ordinary	*4*	**(47,996)**	(45,585)
Administrative expenses - exceptional	*5*	**(266,704)**	(99,826)
Other operating income - exceptional	*3*	**-**	1,064
		(314,700)	(144,347)
Operating loss	*2 – 7*	**(263,566)**	(70,113)
Ordinary activities		**3,138**	28,649
Exceptional activities		**(266,704)**	(98,762)
Interest payable and similar charges		**(110,461)**	(101,969)
Interest receivable and other income		**163**	168
Net interest payable and similar charges	*8*	**(110,298)**	(101,801)
Loss on ordinary activities before taxation		**(373,864)**	(171,914)
Tax on loss on ordinary activities	*9*	**359**	(434)
Retained loss for the financial year		**(373,505)**	(172,348)
Other comprehensive income	*20*	**-**	-
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the financial year		**(373,505)**	(172,348)

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

The notes on pages 40 to 65 form part of the financial statements.

All amounts relate to continuing operations.

Consolidated balance sheet

at 31 December 2015

	Note	2015 £000	2014 £000
Fixed assets			
Negative goodwill	*10*	**(36,310)**	(38,507)
Tangible assets	*11*	**553,067**	790,850
Investment properties	*12*	**-**	29,780
		516,757	782,123
Current assets			
Debtors	*14*	**61,194**	54,859
Cash at bank and in hand	*15*	**55,091**	85,369
		116,285	140,228
Creditors: amounts falling due within one year	*16*	**(107,298)**	(97,406)
Net current assets		**8,987**	42,822
Total assets less current liabilities		**525,744**	824,945
Creditors: amounts falling due after more than one year	*17*	**(905,905)**	(851,545)
Provisions for liabilities			
Deferred tax liability	*18*	**(5,039)**	(4,937)
Other provisions	*19*	**(54,313)**	(34,471)
		(965,257)	(890,953)
Net liabilities		**(439,513)**	(66,008)
Capital and reserves			
Called up share capital	*20*	**174,368**	174,368
Profit and loss account		**(613,881)**	(240,376)
Shareholder's deficit		**(439,513)**	(66,008)

The notes on pages 40 to 65 form part of the financial statements.

These financial statements were approved by the board of directors on 27 April 2016 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 2014		124,368	(68,028)	**56,340**
Total comprehensive income for the year				
Loss for the year		-	(172,348)	**(172,348)**
Other comprehensive income		-	-	**-**
Total comprehensive income for the year		-	(172,348)	**(172,348)**
Transactions with owners, recorded directly in equity				
New shares issued		50,000	-	**50,000**
Total contributions by and distributions to owners		50,000	-	**50,000**
Balance at 31 December 2014	*20*	174,368	(240,376)	**(66,008)**
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	*20*	174,368	(613,881)	**(439,513)**

Company statement of changes in equity

	Note	Called up share capital £000	Profit and loss account £000	Total £000
Balance at 1 January 2014		124,368	(35)	124,333
Total comprehensive income for the year				
Loss for the year		-	(41)	(41)
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	(41)	(41)
Transactions with owners, recorded directly in equity				
New shares issued		50,000	-	50,000
Total contributions by and distributions to owners		50,000	-	50,000
Balance at 31 December 2014	20	174,368	(76)	174,292
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	20	174,368	(175,808)	**(1,440)**

Consolidated cash flow statement

for the year ended 31 December 2015

	2015	2014
	£000	£000
Cash flows from operating activities		
Loss for the year	**(373,505)**	(172,348)
Adjustments for:		
Depreciation, amortisation and impairment	**259,555**	115,261
Net interest payable and similar charges	**110,298**	101,801
Loss/(gain) on sale of tangible fixed assets	**8,443**	(1,382)
Taxation	**(359)**	434
	4,432	43,766
(Increase)/decrease in trade and other debtors	**(5,708)**	7,738
Increase in trade and other creditors	**10,201**	8,066
Increase in provisions	**18,926**	1,002
	27,851	60,572
Interest received	**163**	168
Tax (paid)/received	**(166)**	262
Net cash from operating activities	**27,848**	61,002
Cash flows from investing activities		
Proceeds from sale of tangible fixed assets	**43,796**	12,936
Acquisition of tangible fixed assets	**(46,648)**	(38,476)
Net cash from investing activities	**(2,852)**	(25,540)
Cash flows from financing activities		
Proceeds from the issue of share capital	**-**	50,000
Utilisation of revolving credit facility	**-**	25,000
Interest paid	**(55,201)**	(53,282)
Debt issue related costs	**(73)**	(1,464)
Net cash from financing activities	**(55,274)**	20,254
Net (decrease)/increase in cash and cash equivalents	**(30,278)**	55,716
Cash and cash equivalents at 1 January	**85,369**	29,653
Cash and cash equivalents at 31 December	**55,091**	85,369

Company balance sheet
at 31 December 2015

	Note	**2015 £000**	2014 £000
Fixed assets			
Investments	*13*	**-**	174,368
Current assets			
Debtors: due after more than one year	*14*	**177,317**	177,253
Cash at bank and in hand		**16**	-
		177,333	177,253
Creditors: amounts falling due within one year	*16*	**(2,141)**	(2,329)
Net current assets		**175,192**	174,924
Total assets less current liabilities		**175,192**	349,292
Creditors: amounts falling due after more than one year	*17*	**(176,632)**	(175,000)
Net (liabilities)/assets		**(1,440)**	174,292
Capital and reserves			
Called up share capital	*20*	**174,368**	174,368
Profit and loss account		**(175,808)**	(76)
Shareholder's (deficit)/funds		**(1,440)**	174,292

The notes on pages 40 to 65 form part of the financial statements.

These financial statements were approved by the board of directors on 27 April 2016 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 and effective immediately 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.

In the transition to FRS 102 from old UK GAAP, the group has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the group is provided in note 28.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – business combinations that took place prior to 1 January 2014 have not been restated;
- Fair value or revaluation as deemed cost – old UK GAAP revaluation at 1 January 2014 has been used as deemed cost for land and building;
- Separate financial instruments – the carrying amount of the company's cost of investments in subsidiaries is its deemed cost at 1 January 2014;
- Lease incentives – for leases which commenced before 1 January 2014 the group and company continued to account for lease incentives under old UK GAAP.

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. On first time adoption of FRS 102, the group and company has not retrospectively changed its accounting under old UK GAAP for accounting estimates.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 27.

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

1 Accounting policies (continued)

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

The directors recognise 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. Options are now being explored for and on behalf of a parent undertaking (FSHC Group Holdings Limited) with regard to a financing solution for the group. The directors acknowledge that there can be no certainty that this process will be successful although, at the date of approval of these financial statements, they have no reason to believe otherwise and are targeting a completion by no later than the end of 2016.

The directors have prepared trading and cash flow forecasts for the group to December 2017. 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 is expected to be met by improved operational performance. These forecasts include proceeds in the next six months from the disposal of properties, of which £20 million, 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.

These forecasts, after adjustment for sensitivity analysis to incorporate the impact of reasonably foreseeable changes in trading and cash flow performance, and a delay in the timing of property disposal proceeds, show that the group has sufficient funding and covenant headroom within its current financing arrangements. In addition, the directors have a number of mitigating options available to them including phasing of non-mandatory capital expenditure, additional disposals and new equity.

Furthermore, the net liabilities of £439.5 million *(2014: net liabilities of £66.0 million)*, include £358 million (*2014: £311 million*) within creditors falling due after more than one year due to related undertakings which are controlled by the same ultimate parent undertaking and which accrues interest at 15% on a compounding basis and is due for repayment in 2022. The directors have confirmed that this facility will continue to be available to the group allowing it to meet its liabilities as they fall due and therefore continue in operational existence for the foreseeable future.

Based on the above, the directors have a reasonable expectation that the company, together with its subsidiary undertakings, have 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 2015. 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.

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

1 Accounting policies (continued)

Foreign currency

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

Classification of financial instruments issued by the group

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

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

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

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

Basic financial instruments

Trade and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

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 recognition 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 and call deposits.

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 last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Business combinations

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

At the acquisition date, the group recognises goodwill as:

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

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

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

Notes *(continued)*

(forming part of the financial statements)

1 Accounting policies (continued)

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 shall be 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.

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 there after accounted for as tangible fixed assets in accordance with FRS 102 section 17 until a reliable measure of the fair value becomes available.

Notes *(continued)*

(forming part of the financial statements)

1 Accounting policies (continued)

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.

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, or ("CGU") 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 (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.

Notes *(continued)*

(forming part of the financial statements)

1 Accounting policies (continued)

Employee benefits *(continued)*

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.

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

	2015					
Group	**Four Seasons Health Care £000**	**brighterkind £000**	**The Huntercombe Group £000**	**Investment Properties £000**	**Unallocated £000**	**Total £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						38,688

Two sublet properties previously reported within Investment Properties have been included within The Huntercombe Group from 2015 (2015: Operating profit £0.7m).

	2014			
Group	Care homes and specialist £000	Investment Properties £000	Unallocated £000	Total £000
Turnover	709,061	3,815	-	712,876
EBITDARM before exceptional items	146,186	3,815	-	150,001
Rent			(50,739)	(50,739)
Central costs			(36,151)	(36,151)
EBITDA				63,111

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 review group performance based on its three businesses:

- *Four Seasons Health Care* – a national network of around 340 homes offering high quality dementia care together with other specialist and nursing capabilities to meet the anticipated growing demand of people requiring dementia care, all operated under the umbrella of our award winning dementia service;
- *brighterkind* – a group of homes offering high quality elderly care together with hotel standard services and activity programmes designed for residents who see the option of a care home as a life enhancing choice; and
- *The Huntercombe Group* – specialist units providing care, treatment and rehabilitation services in mental health, acquired brain injury and neurodisability that are complementary to, and in partnership with, the NHS.

The segmentationof the group into three distinct businesses was completed during 2014 and therefore the comparative periods results are based on the segments in place at that time.

The above disclosure of financial information for the year ended 31 December 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

	2015	2014
	£000	£000
Net gain on disposal of tangible fixed assets	**-**	1,064

4 Expenses and auditor's remuneration

Included in the loss are the following:

	2015	2014
	£000	£000
Net loss on disposal of tangible fixed assets	**9,928**	-
Impairment loss on tangible fixed assets	**224,005**	80,799
Depreciation of tangible fixed assets	**37,967**	36,965
Amortisation of capital grants	**(220)**	(306)
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	**47**	47
- Audit of financial statements of subsidiaries of the company	**336**	289
- Other services relating to taxation	**401**	109
- Other advisory services	**70**	15

5 Exceptional items

The operating loss during the year includes exceptional costs of £266.7m (*2014: £98.8m*). Within this total are 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.

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

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:

	2015	2014
	No.	No.
Healthcare facilities	**29,420**	29,778
Administration	**1,601**	1,582
	31,021	31,360

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£000	£000
Wages and salaries	**455,238**	418,800
Social security costs	**31,636**	30,085
Pension costs	**2,616**	2,589
	489,490	451,474

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

	2015	2014
	£000	£000
Amounts paid to third parties in respect of directors' services	**8**	66

The remuneration of the highest paid director was £3,000 (*2014: £23,000*). Other directors within the group are remunerated by fellow subsidiary companies and the related cost is disclosed in the accounts of those companies.

In addition, during the year fees of £22,000 were paid to Morgan Sharpe Administration for administration and secretarial services (*2014: £26,000 paid to Morgan Sharpe Administration Limited*).

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

8 Net interest payable and similar charges

	2015	2014
	£000	£000
Interest payable and similar charges:		
On debt repayable after more than one year	**54,613**	52,773
On balances due to related undertakings	**46,937**	40,845
On balances due to parent undertakings	**213**	185
Amortisation of debt issue costs	**7,521**	7,009
Other finance costs	**261**	229
Unwinding of discounts on provisions	**916**	928
Total interest payable and similar charges	**110,461**	101,969
Bank interest receivable	**(163)**	(168)
Total interest receivable and similar income	**(163)**	(168)
Net interest payable and similar charges	**110,298**	101,801

9 Taxation

	2015	2014
	£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 period	**(1,572)**	(654)
Adjustments in respect of prior periods	**1**	-
UK income tax		
Current tax on loss for the period	**1,068**	1,069
Adjustments in respect of prior periods	**11**	(48)
Foreign tax		
Current tax on income for the period	**31**	40
Adjustments in respect of prior periods	**-**	(25)
Total current tax	**(461)**	382
Deferred tax (see note 18)		
Origination and reversal of timing differences	**53**	109
Adjustments in respect of prior periods	**49**	(57)
Total deferred tax	**102**	52
Total tax	**(359)**	434

Notes *(continued)*

(forming part of the financial statements)

9 Taxation *(continued)*

	2015			2014		
	Current tax	**Deferred tax**	**Total tax**	Current tax	Deferred tax	Total tax
	£000	**£000**	**£000**	£000	£000	£000
Recognised in profit and loss account	**(461)**	**102**	**(359)**	382	52	434
Recognised in other comprehensive income	**-**	**-**	**-**	-	-	-
Recognised directly in equity	**-**	**-**	**-**	-	-	-
Total tax	**(461)**	**102**	**(359)**	382	52	434

	2015	2014
	£000	£000
Analysis of current tax recognised in profit and loss		
UK corporation tax	**(1,571)**	(654)
UK income tax	**1,079**	1,021
Foreign tax	**31**	15
Total current tax recognised in profit and loss	**(461)**	382

	2015	2014
	£000	£000
Reconciliation of effective tax rate		
Loss for the year	**(373,505)**	(172,348)
Total tax income/(expense)	**359**	(434)
Loss excluding taxation	**(373,864)**	(171,914)
Tax using the UK corporation tax rate of 20.25% (*2014: 21.5%*)	**(75,707)**	(36,962)
Expenses not deductible for tax purposes	**52,673**	22,345
Intercompany expenses not deductible for tax purposes	**9,456**	9,521
Difference in overseas tax rate	**(1,859)**	(1,714)
Overseas tax liability	**31**	40
Tax exempt revenues	**(183)**	(8)
Reduction in tax rate on deferred tax balances	**2**	-
Current year movement in recognised deferred tax	**56**	109
Current year movement in unrecognised deferred tax assets	**15,112**	7,232
Prior year adjustment	**60**	(129)
Total tax (credit)/expense included in profit and loss	**(359)**	434

Factors that may affect future current and total tax charge:

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were 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. The deferred tax liability at the balance sheet date has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge and deferred tax liability accordingly.

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	5,436
Amortisation for the year	2,197
Balance at end of year	**7,633**
Net book value	
At 1 January 2015	(38,507)
At 31 December 2015	**(36,310)**

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 £43.9 million 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	**801,823**	**3,023**	**141,550**	**6,197**	**952,593**
Additions	-	11,752	33,209	1,687	46,648
Transfers	3,884	(8,277)	4,393	-	-
Disposals	(33,108)	-	(6,649)	(142)	(39,899)
Balance at end of year	**772,599**	**6,498**	**172,503**	**7,742**	**959,342**
Depreciation and impairment					
Balance at beginning of year	**91,999**	**-**	**66,698**	**3,046**	**161,743**
Depreciation charge for the year	5,694	-	30,624	1,649	37,967
Impairment losses	224,005	-	-	-	224,005
Disposals	(12,930)	-	(4,374)	(136)	(17,440)
At end of year	**308,768**	**-**	**92,948**	**4,559**	**406,275**
Net book value					
Balance at 1 January 2015	709,824	3,023	74,852	3,151	790,850
Balance at 31 December 2015	**463,831**	**6,498**	**79,555**	**3,183**	**553,067**

Impairment loss and subsequent reversal

A valuation of the group's properties was carried out by an external independent valuer in April 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. Given the proximity of this valuation to the year end date, the carrying value of the group's properties have been considered with reference to this valuation.

As a result of this valuation, an impairment loss of £224 million has been recognised on some of the group's properties and related assets as at 31 December 2015, within the exceptional administrative expenses line in the profit and loss account. The impairment charge reflects the reduced profitability of the group compared to prior years and pressures and uncertainties impacting the wider social healthcare sector.

Security

The term loan facility and senior secured notes (see note 17) are secured on the trade and assets of certain subsidiary undertakings.

Land and Buildings

The net book value of land and buildings comprises:

	2015 £000	2014 £000
Freehold	**459,660**	**701,112**
Long leasehold	**4,171**	**8,712**
Short leasehold	**-**	**-**
	463,831	**709,824**

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

12 Investment properties

	2015
	£000
Balance at 1 January 2015	29,780
Disposals	(29,780)
Balance at 31 December 2015	**-**

The fair value of investment property, as at the end of 2014 was arrived at through a directors' valuation of the portfolio.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in Note 1 Accounting policies.

13 Fixed asset investments

	£000
Cost	
Balance at beginning and end of year	174,368
Provisions	
Balance at 1 January 2015	-
Impairment losses	(174,368)
Balance at 31 December 2015	-
Net book value	
At 1 January 2015	174,368
At 31 December 2015	**-**

A list of the company's principal subsidiary undertakings at 31 December 2015 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

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

13 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.

14 Debtors

	Group 2015 £000	**Company 2015 £000**	Group 2014 £000	Company 2014 £000
Trade debtors	**39,453**	**-**	32,184	-
Amounts owed by related undertakings	**348**	**175,953**	211	175,953
Amounts owed by subsidiary undertakings	**-**	**1,364**	-	1,300
Corporation tax	**761**	**-**	134	-
Prepayments, other debtors and accrued income	**20,632**	**-**	22,330	-
	61,194	**177,317**	54,859	177,253

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

The company's debtor balances are due in more than one year. The amounts owed by related undertakings are due to be repaid in 2020 and interest is charged at 12.25%.

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

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

15 Cash and cash equivalents

	Group 2015 £000	Group 2014 £000
Cash at bank and in hand	**55,091**	85,369
Cash and cash equivalents	**55,091**	85,369

16 Creditors: amounts falling due within one year

	Group 2015 £000	**Company 2015 £000**	Group 2014 £000	Company 2014 £000
Trade creditors	**17,034**	**-**	7,237	-
Amounts owed to related undertakings	**11**	**-**	11	
Amounts owed to subsidiary undertakings	**-**	**193**	-	136
Amounts owed to parent undertaking	**-**	**1**	-	1,419
Taxation and social security	**8,048**	**-**	8,427	-
Other creditors	**39,717**	**-**	41,847	-
Accruals and deferred income	**40,548**	**1,242**	37,780	10
Accrued interest and finance costs	**1,940**	**705**	2,104	764
	107,298	**2,141**	97,406	2,329

The amounts owed by related undertakings are unsecured and repayable on demand. Where applicable, interest is charged at amounts between 7.5% and 12.5%.

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

17 Creditors: amounts falling due after more than one year

	Group 2015 £000	**Company 2015 £000**	Group 2014 £000	Company 2014 £000
High yield bonds	**525,000**	**175,000**	525,000	175,000
Credit facility	**40,000**	**-**	40,000	-
Debt issue costs	**(18,747)**	**-**	(26,195)	-
External debt net of debt issue costs	**546,253**	**175,000**	538,805	175,000
Amounts owed to related undertakings	**358,020**	**-**	311,321	-
Amounts owed to parent undertakings	**1,632**	**1,632**	1,419	-
	905,905	**176,632**	851,545	175,000

External debt

The high yield bonds consist of:

- £350,000,000 of senior secured notes accruing interest at a fixed rate of 8.75%. At the year end, the interest accrued was £1,007,000 (*2014: £1,090,000*) 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 £705,000 (*2014: £764,000*) all of which was due within one year. The notes are due to be repaid in 2020.

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

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

The term loan credit facility bears interest at LIBOR + 6% and is due for repayment in December 2017. At the year end £40 million was drawn under this facility and the accrued interest was £228,000 (*2014: £250,000*) all of which was due within one year.

Maturity of credit facilities

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

	Group 2015 £000	Group 2014 £000
In 1 to 2 years	**40,000**	-
In 2 to 5 years	**525,000**	390,000
In more than 5 years	**359,652**	487,740
	924,652	877,740

Notes *(continued)*

(forming part of the financial statements)

17 Creditors: amounts falling due after more than one year *(continued)*

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities, excluding balances with related undertakings, as at 31 December 2015:

	Book value	**Fair value**	Book value	Fair value
	2015	**2015**	2014	2014
	£000	**£000**	£000	£000
Primary financial instruments held or issued to finance the group's operations:				
Financial assets: cash	**55,090**	**55,090**	85,369	85,369
Financial liabilities:				
8.75% senior secured notes	**350,000**	**294,350**	350,000	354,095
12.25% senior notes	**175,000**	**66,500**	175,000	188,562
Credit facility	**40,000**	**40,000**	40,000	40,000

The fair values have been calculated by reference to the prices available as at 31 December 2015 for the senior secured notes and the senior notes. Please refer to page 22 for details of the principal financial risks facing the group.

18 Deferred tax liabilities

	Group	Group
	2015	2014
	£000	£000
Deferred tax liabilities are attributable to the following:		
Accelerated capital allowances	**5,039**	4,937

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

19 Other provisions

Group	Provision for operating leases £000	Provision for onerous contracts £000	Total £000
Balance at beginning of year	**11,183**	**23,288**	**34,471**
Provisions made during the year	**896**	**22,720**	**23,616**
Provisions used during the year	**(144)**	**(3,731)**	**(3,875)**
Provisions released during the year	**-**	**(815)**	**(815)**
Unwinding of discounted amounts	**-**	**916**	**916**
Balance at end of year	**11,935**	**42,378**	**54,313**

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

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

20 Share capital and other comprehensive income

	2015		2014	
	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.

21 Financial instruments

Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	Group 2015 £000	Group 2014 £000
Assets measured at amortised cost	**94,544**	117,553
Liabilities measured at amortised cost	**(905,905)**	(851,545)
	(811,361)	(733,992)

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

22 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 £2,600,000 (*2014: £2,589,000)*. At the year end £359,000 (*2014: £381,000*) of pension contributions were outstanding.

23 Operating leases

Non-cancellable operating leases rentals are payable as follows:

Group	**2015 £000**	2014 £000
Land and buildings – in less than one year	**53,934**	51,520
Land and buildings – in two to five years	**206,088**	211,314
Land and buildings – more than five years	**625,325**	674,033
Equipment, fixtures and motor vehicles – expiring in less than one year	**34**	33
	885,381	936,900

During the year £49.8m was recognised as an expense in the profit and loss account in respect of operating leases (*2014:* £50.7m).

24 Commitments

Capital commitments

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

Group	**2015 £000**	2014 £000
Contracted	**4,421**	5,724

The company had no capital commitments at 31 December 2015 (*2014: £nil*).

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

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 therefore have 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 £650,000 (*2014: £1,158,000*) for the full time secondment of certain employees. At the year end £689,000 (*2014: £800,000*) 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 £3,498,000 (*2014: £3,106,000*).

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 are available to the public and may be obtained from Morgan Sharpe, Old Bank Chambers, La Grande Rue, St Martin's, Guernsey, GY4 6RT.

27 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.

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

28 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the group's and company's first financial statements prepared in accordance with FRS 102. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from old UK GAAP to FRS 102 has affected the group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

		1 January 2014			31 December 2014		
		Old UK GAAP	**Effect of transition to FRS 102**	**FRS 102**	Old UK GAAP	Effect of transition to FRS 102	FRS 102
Group	*Note*	**£000**	**£000**	**£000**	£000	£000	£000
Fixed assets							
Intangible assets		**(40,704)**	**-**	**(40,704)**	(38,507)	-	(38,507)
Tangible fixed assets		**881,692**	**-**	**881,692**	790,850	-	790,850
Investment properties		**29,780**	**-**	**29,780**	29,780	-	29,780
		870,768	**-**	**870,768**	782,123	-	782,123
Current assets							
Debtors		**63,241**	**-**	**63,241**	54,859	-	54,859
Cash at bank and in hand		**29,653**	**-**	**29,653**	85,369	-	85,369
		92,894	**-**	**92,894**	140,228	-	140,228
Creditors: amounts falling due within one year		**(92,865)**	**-**	**(92,865)**	(97,406)	-	(97,406)
Net current assets		**29**	**-**	**29**	42,822	-	42,822
Total assets less current liabilities		**870,797**	**-**	**870,797**	824,945	-	824,945
Creditors: amounts falling due after more than one year		**(780,208)**	**-**	**(780,208)**	(851,545)	-	(851,545)
Provisions for liabilities							
Deferred tax liability		**(4,885)**	**-**	**(4,885)**	(4,937)	-	(4,937)
Other provisions		**(19,183)**	**(10,181)**	**(29,364)**	(23,288)	(11,183)	(34,471)
Net assets/(liabilities)		**66,521**	**(10,181)**	**56,340**	(54,825)	(11,183)	(66,008)
Capital and reserves							
Called up share capital		**124,368**	**-**	**124,368**	174,368	-	174,368
Profit and loss account		**(57,847)**	**(10,181)**	**(68,028)**	(229,193)	(11,183)	(240,376)
Shareholder's equity/(deficit)		**66,521**	**(10,181)**	**56,340**	(54,825)	(11,183)	(66,008)

Notes *(continued)*

(forming part of the financial statements)

28 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of equity

		31 December 2015			31 December 2014		
		Old UK GAAP	**Effect of transition to FRS 102**	**FRS 102**	Old UK GAAP	Effect of transition to FRS 102	FRS 102
Group	*Note*	**£000**	**£000**	**£000**	£000	£000	£000
Fixed assets							
Intangible assets		**(36,310)**	**-**	**(36,310)**	(38,507)	-	(38,507)
Tangible fixed assets		**553,067**	**-**	**553,067**	790,850	-	790,850
Investment properties		**-**	**-**	**-**	29,780	-	29,780
		516,757	**-**	**516,757**	782,123	-	782,123
Current assets							
Debtors		**61,194**	**-**	**61,194**	54,859	-	54,859
Cash at bank and in hand		**55,091**	**-**	**55,091**	85,369	-	85,369
		116,285	**-**	**116,285**	140,228	-	140,228
Creditors: amounts falling due within one year		**(107,298)**	**-**	**(107,298)**	(97,406)	-	(97,406)
Net current assets		**8,987**	**-**	**8,987**	42,822	-	42,822
Total assets less current liabilities		**525,744**	**-**	**525,744**	824,945	-	824,945
Creditors: amounts falling due after more than one year		**(905,905)**	**-**	**(905,905)**	(851,545)	-	(851,545)
Provisions for liabilities							
Deferred tax liability		**(5,039)**	**-**	**(5,039)**	(4,937)	-	(4,937)
Other provisions		**(42,378)**	**(11,935)**	**(54,313)**	(23,288)	(11,183)	(34,471)
Net liabilities		**(427,578)**	**(11,935)**	**(439,513)**	(54,825)	(11,183)	(66,008)
Capital and reserves							
Called up share capital		**174,368**	**-**	**174,368**	174,368	-	174,368
Profit and loss account		**(601,946)**	**(11,935)**	**(613,881)**	(229,193)	(11,183)	(240,376)
Shareholder's deficit		**(427,578)**	**(11,935)**	**(439,513)**	(54,825)	(11,183)	(66,008)

Notes to the reconciliation of equity

Operating lease adjustment

Under FRS 102 guaranteed increases in rental payments should be recognised on a straight line basis over the lease term. Lease payments that are structured to increase in line with actual rates of inflation or are variable in nature are recognised as incurred. On transition to FRS 102 this results in a £10.2m provision being recognised on the balance sheet. The provision increased by £1.0m in 2014 and a further £0.8m in 2015. Under old UK GAAP operating lease rentals are charged to the profit and loss account on a systematic and rational basis over the period of the lease.

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

28 Explanation of transition to FRS 102 from old UK GAAP *(continued)*

Reconciliation of loss for the year ended 31 December 2014 and 2015

		2015			2014		
		Old UK GAAP	**Effect of transition to FRS 102**	**FRS 102**	Old UK GAAP	Effect of transition to FRS 102	FRS 102
	Note	**£000**	**£000**	**£000**	£000	£000	£000
Turnover		**688,136**	**-**	**688,136**	712,876	-	712,876
Cost of sales		**(636,250)**	**(752)**	**(637,002)**	(637,640)	(1,002)	(638,642)
Gross profit		**51,886**	**(752)**	**51,134**	75,236	(1,002)	74,234
Administrative expenses - ordinary		**(47,996)**	**-**	**(47,996)**	(45,585)	-	(45,585)
Administrative expenses - exceptional		**(266,704)**	**-**	**(266,704)**	(98,762)	-	(98,762)
		(314,700)	**-**	**(314,700)**	(144,347)	-	(144,347)
Operating (loss)/profit		**(262,814)**	**(752)**	**(263,566)**	(69,111)	(1,002)	(70,113)
Ordinary activities		**3,890**	**(752)**	**3,138**	29,651	(1,002)	28,649
Exceptional activities		**(266,704)**	**-**	**(266,704)**	(98,762)	-	(98,762)
Interest payable and similar charges		**(110,461)**	**-**	**(110,461)**	(101,969)	-	(101,969)
Interest receivable and other income		**163**	**-**	**163**	168	-	168
Net interest payable and similar charges		**(110,298)**	**-**	**(110,298)**	(101,801)	-	(101,801)
Loss on ordinary activities before taxation		**(373,112)**	**(752)**	**(373,864)**	(170,912)	(1,002)	(171,914)
Tax on loss on ordinary activities		**359**	**-**	**359**	(434)	-	(434)
Retained loss for the financial year		**(372,753)**	**(752)**	**(373,505)**	(171,346)	(1,002)	(172,348)

Notes to the reconciliation of loss

Operating lease adjustment

Under FRS 102 guaranteed increases in rental payments should be recognised on a straight line basis over the lease term. Lease payments that are structured to increase in line with actual rates of inflation or are variable in nature are recognised as incurred. The impact is to increase the rent charge by £1.0m in 2014 and by £0.8m in 2015.

Cash flow

There are no differences between old UK GAAP and FRS 102 that impact on the group's consolidated cash flow statement.