Elli Investments Limited

Annual report and consolidated financial statements

Registered number 55185

Period from 31 May 2012 to 31 December 2012

Contents

Chief Executive Officer's review

I am pleased to announce that, despite the numerous challenges across the health and social care sector which continue to impact all areas of our business, the group achieved two key milestones in 2012. Firstly, we successfully completed the operational integration of the 139 care homes and specialised units which we acquired from Southern Cross plc in 2011 and, secondly, we secured a successful refinancing of the group's capital structure following the acquisition of the group by Terra Firma. Looking at these in more detail:

Southern Cross integration

Four Seasons Health Care acquired 139 care homes and specialised units from Southern Cross following its demise in the fourth quarter of 2011. The majority of these ex-Southern Cross homes had suffered from a period of underinvestment. As a result, in the post-acquisition period we deployed significant management time and resource, together with approximately £7 million of "catch-up" capex and a higher than expected quantum of operational expenditure, to stabilise their performance. This strategy saw success with the average occupancy in the ex-Southern Cross estate at approximately 88% at December 2012, in line with the rest of our Care Home Division, and significant improvements in operational quality and efficiency.

Change of ownership and debt refinancing

On 12 July 2012 the group was acquired by Terra Firma, a leading private equity firm which specialises in the acquisition of large, asset-rich and complex businesses. Terra Firma has appointed three directors, Lorenzo Levi, Steven Webber and Lorcan Woods, to the UK operating board (Elli Finance (UK) plc) and post-acquisition Ian Smith was appointed as Chairman. I welcome all of them to the Four Seasons Health Care team (their biographies are included in the Directors' Report). Terra Firma has the resources and ambition to help us to continue to deliver consistent, high quality care and peace of mind for residents, service users and their families. This, together with their commitment to further investment in the business, will help to achieve long-term sustainable growth for the group. As part of the acquisition we refinanced our existing debt structure through a combination of equity provided by Terra Firma and the issue of a £525 million high yield bond, which does not require repayment until 2019. This has very substantially reduced the group's debt. The combination of a supportive shareholder and long term debt provide the group with a stable and secure financial structure giving financial flexibility and growth potential which has been denied to the group in recent years.

Operationally 2012 was characterised by numerous challenges resulting from sector developments, such as the Health and Social Care Act 2012, on-going reaction to the Dilnot report on the future funding of care and current fee rates. At the same time as our integration of the ex-Southern Cross estate was being implemented, the level of regulatory scrutiny of the sector was significantly increased. To a large extent this was prompted by the failure of Southern Cross and the revelations regarding quality of care at the Castlebeck group. This increase in the number and rigour of inspections in the first half of 2012 resulted in an increase in the number of regulator actions taken against the group, affecting both occupancy levels and costs in the care homes that were affected. However, the actions that we took, and the additional investment made during the year, reduced the incidence of regulatory action towards historical levels, a trend that has continued into 2013. This was with the backdrop of a tough fee rate environment, with funding constraints continuing at local authorities and settlements expected to remain below cost inflation next year.

However, the completion of the acquisition by Terra Firma in July 2012 enabled us to refocus our efforts to address these operational challenges. This has resulted in a number of priority work streams to optimise internal efficiency and performance. These range from a new workforce strategy to procurement and facilities management and the accelerated roll-out of our award winning PEARL dementia service.

The workforce strategy aims to improve further the selection, recruitment and retention of a well-trained, motivated and flexible workforce with the opportunities for development in a well-invested environment. We will work with the three unions with whom we have signed a voluntary joint agreement, the GMB, the Royal College of Nurses and UNISON, the first such agreement involving a major independent care provider, in order to optimise our employer-employee relations, working together on training and career development initiatives to reduce staff turnover, to reduce recruitment and induction costs and to develop a more stable workforce that will deliver more consistent, high quality care and services.

Chief Executive Officer's review (continued)

We have partnered with a third party specialist to drive the procurement and facilities management work streams. With them we will review how we procure over a hundred different areas of non-payroll spend, focussing initially on price reduction, without impacting the quality of what we buy, before looking to change the model of delivery of certain services such as catering and facilities management. The results to date have been pleasing and quick to be realised, with certain benefits recognised in 2012.

The accelerated roll-out of PEARL is already well underway, with a further 70 new care homes on the accreditation programme – this significant investment is supported by the analysis of data from 16 homes in a study of the outcomes from our PEARL specialised dementia care programme. This study showed that those care homes that have achieved PEARL accreditation saw a 48% reduction in the use of antipsychotic medication, a 40% reduction in anxiolytic medication, whilst well-being scores increased by 46% and the use of anti-depressant medication reduced by 19%. At the same time residents experienced weight gain, a reduction in the number of falls and a reduction in the need for pain relief.

During 2012 we opened two new, purpose built, care homes. Pennine Lodge in Carlisle offers nursing, specialist dementia and respite care in 70 en-suite bedrooms whilst Westbury Court in Wiltshire comprises 60 bedrooms offering nursing, residential and specialised dementia care. Since the year end we have opened St Margaret's in Edinburgh, acquired four purpose built care homes in the Bristol area and we are due to open a new home in South London in the summer.

Looking forward, the care home sector remains relatively fragmented with a significant number of small to medium sized operators, and the top ten private-for-profit operators representing only approximately 25% of the overall market capacity. Under prevailing market conditions we are likely to see consolidation as smaller operators tend to be more vulnerable to an operating environment requiring an increased focus on higher dependency services with continuous pressure to achieve operating efficiencies.

The independent sector already has much of the expertise and capacity to deliver clinical care to selected high dependency patients at a lower cost to the NHS and tax payer, (between 35%-50% less than NHS tariff rates for hospital care). This would provide a potential solution to bed blocking as well as helping to meet spending targets without a drop in the quality of care and arguably providing a better all-round experience for residents and patients. All that is needed for this to be feasible is a more joined up approach to funding and commissioning of health and social care for the elderly. We are optimistic that this will come with the Government's reforms and a new commissioning environment.

Finally, the results and progress achieved in so many areas in such a challenging operational environment have only been possible due to the hard work and commitment of colleagues across the whole business and I thank them for their support and look forward to 2013.

Dr Pete Calveley
Chief Executive Officer

Operating and financial review

Background and ownership structure

Elli Investments Limited was incorporated on 31 May 2012 to acquire, via a direct subsidiary, FSHC (Jersey) Holdings Limited the parent company of the Four Seasons Health Care group of companies. The company is ultimately owned by funds managed by Terra Firma Investments (GP) 3 Limited. The ultimate controlling party is Guy Hands.

Heath 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 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 care: 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

Operating and financial review (continued)

Health and social care sector review *(continued)*

Mental health services

Mental health services are segmented across three patient groups:

- Acute psychiatry, encompassing acute general psychiatry, adolescent psychiatric treatment, eating disorders and addiction treatments
- Brain injury and neuro-rehabilitation, covering a wide range of services, from post hospital discharge to long term care
- Secure treatment, encompassing high, medium and low secure treatment for people with mental health problems detained under the Mental Health Act as well as non-secure and step-down services for people who are nevertheless liable to be compulsorily detained under the Mental Health Act
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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 with a variety of for-profit and not-for-profit groups and the public sector in each of the markets in which we operate. Most competition is local, based on relevant catchment areas and local placement and procurement initiatives.

Following the takeover of 139 care homes and specialised units from Southern Cross in 2011, we became 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: the for-profit division of a non-profit organisation
- HC-One: the partnership between NHP and Court Cavendish, which took over the operation of the 249 NHP-owned homes with approximately 12,500 beds for elderly and physically disabled people previously operated under leases by Southern Cross
- Barchester Healthcare: a private company

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

Operating and financial review (continued)

Health and social care sector review *(continued)*

Competition (continued)

The four largest providers of the mental health services market account for 44% 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.

Four Seasons Health Care

We are the largest independent provider of elderly care services in the United Kingdom, measured by both the number of facilities and beds, and we are a leading provider of specialised services, including brain injury rehabilitation and mental health care services. As at December 2012, we operated approximately 24,000 beds in approximately 500 facilities, including care homes, specialised hospitals and other centres. We employ approximately 31,000 people across the United Kingdom, the Channel Islands and the Isle of Man and we provide care for approximately 20,000 residents.

We operate two main divisions:

- *Care Home Division*

  In our Care Home Division we provide residential and nursing care services for elderly people with a particular focus on residents suffering from dementia. We also provide dedicated services for respite care, rehabilitation, intermediate care, end-of-life and palliative care, as well as care for younger people suffering from a range of long-term physical and learning disabilities. Our Care Home Division comprises approximately 22,500 beds in approximately 445 facilities across the United Kingdom, the Channel Islands and the Isle of Man.

- *The Huntercombe Group*

  In The Huntercombe Group we provide a range of specialised care services. These include operating specialist centres providing rehabilitation programmes for people with acquired brain injuries and neurodisabilities. We also operate dedicated mental health hospitals, including low- and medium-security facilities, for adults and adolescents suffering from a range of mental illness conditions, drug or alcohol addiction and eating disorders. Additionally, we provide care services for individuals with complex learning disabilities and children with physical disabilities. The Huntercombe Group comprises approximately 1,500 beds in approximately 56 facilities in England and Scotland.

In addition to our Care Home Division and The Huntercombe Group, we also generate rental income through the leasing of 30 care homes and specialised units to third party operators. These properties became part of our property portfolio as a result of past acquisitions and are not core to our strategy.

Operating and financial review (continued)

Four Seasons Health Care *(continued)*

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*

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

  The industry has seen a significant shift to private-sector providers, which represented only 5% of the market in 1993, but 84% in the year ended April 2010. 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 6% - 7% share of beds. We believe that our size and position provide us with numerous benefits, such as the ability to realise economies of scale, spread the cost of complying with increasing regulatory burdens over a greater number of units and develop best practices and new service offerings across all of our facilities.

- *High quality asset base*

  We have a property portfolio of over 500 facilities, approximately 60% of which are owned on a freehold basis. We continually invest in and maintain our facilities to high specifications, and we believe that the high level of maintenance of our properties helps us to maintain our quality of care standards, which are critical to attracting new residents and patients and maintaining and improving our occupancy rates. In addition, we believe that our strong portfolio of freehold, as opposed to leasehold, properties provides us with greater operating flexibility to reconfigure and reposition units as needed.

- *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 190 Local Authorities and more than 110 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 segment, we have been increasingly focusing on higher dependency services, such as dementia care, and we continue to implement our market leading and award winning proprietary approach to dementia care, PEARL, across our care homes.

- *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. We have made 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.

Operating and financial review (continued)

Four Seasons Health Care *(continued)*

Strategy

Our strategy is to be the highest quality provider of elderly care in the UK. The key elements of our strategy are:

- *Increase Average Weekly Fee by pursuing our strategy of providing 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 will then usually attract higher fee rates, increased occupancy or both.

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

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

- *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 our occupancy rates. In addition, we intend to continue centralising management functions and to implement procurement and staffing efficiencies in order to achieve cost savings.

- *Evaluate and execute opportunistic 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 within acceptable profit margins.

- *Continually optimise our real estate portfolio*

  We intend to 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, developing or selectively acquiring new units and exploring alternative uses for facilities within our portfolio, including with respect to our investment properties.

Operating and financial review (continued)

Financial review

These financial statements present the results of the company and its subsidiary undertakings (the "group") for its first period of trading since incorporation on 31 May 2012 to 31 December 2012. On 12 July 2012 the company, via a direct subsidiary, acquired FSHC (Jersey) Holdings Limited. Prior to this acquisition, the company did not trade and therefore no comparative figures are shown in the financial statements. However, for illustrative purposes, a full year unaudited proforma profit and loss statement is presented below for the 12 months ended 31 December 2012 with comparative figures for 2011 and 2010 based on the results of FSHC (Jersey) Holdings Limited, the acquired entity. There are no material differences in the operational activities comprising these two groups of companies, however it should be noted that there was an extra week of trading in 2012.

Profit and loss account (unaudited, proforma)	**Proforma Year ended 31 December 2012 (53 weeks) £000**	**FSHC (Jersey) Holdings Limited Year ended 31 December 2011 (52 weeks) £000**	**FSHC (Jersey) Holdings Limited Year ended 31 December 2010 (52 weeks) £000**
Turnover	**711,682**	**554,101**	**503,617**
Cost of sales	(605,922)	(443,723)	(399,645)
Gross profit	**105,760**	**110,378**	**103,972**
Administrative expenses – ordinary	(38,099)	(31,073)	(24,501)
Administrative income/(expenses) – exceptional	13,181	(48,156)	(29,600)
	(24,918)	(79,229)	(54,101)
Operating profit	**80,842**	**31,149**	**49,871**
Ordinary activities	67,661	79,305	79,471
Exceptional activities	13,181	(48,156)	(29,600)
Profit before interest	**80,842**	**31,149**	**49,871**

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)			
Analysed as:			
Operating profit before exceptional items as analysed above	67,661	79,305	79,471
Add back: depreciation of tangible fixed assets and amortisation of capital grants	32,649	25,621	21,595
Deduct: amortisation of negative goodwill	(3,708)	(3,265)	(3,364)
EBITDA before exceptional items	**96,602**	**101,661**	**97,702**

Operating and financial review (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 mix. In the Care Home Division 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 depends on the type of service provided due to the diversity 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 our care homes and specialised units. Key items of care expenditure are generally volume related and variable in nature, such as food, medical supplies, laundry and cleaning and waste disposal. Certain costs are more fixed in nature, primarily relating to utility costs, insurance, registration fees and maintenance.

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

Operating and financial review (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 non-financial KPI.

Unaudited	2011					2012				
	Q1	Q2	Q3	Q4	Full year*	Q1	Q2	Q3	Q4	Full year*
Turnover (£m)	126.5	126.9	127.3	173.4	554.1	174.1	175.3	174.8	187.5	711.7
EBITDAR (£m)	30.9	34.1	34.5	34.2	133.8	33.8	35.2	37.7	38.3	144.9
EBITDA (£m)	23.7	26.8	27.0	24.2	101.7	22.3	23.5	25.3	25.5	96.6
Effective beds – group	17,401	17,579	18,015	23,278	19,068	24,050	23,978	24,151	24,109	24,072
Occupied beds – group	15,121	15,300	15,622	19,866	16,477	20,803	20,782	20,927	20,892	20,851
CHD occupancy %	87.5%	87.8%	88.4%	86.6%	87.6%	87.7%	87.9%	87.9%	87.9%	87.8%
THG occupancy %	75.1%	72.7%	65.5%	67.3%	70.2%	70.4%	69.8%	68.7%	68.7%	69.4%
CHD average weekly fee (£)	566	563	562	550	560	559	565	566	565	564
THG average weekly fee (£)	1,741	1,738	2,015	1,957	1,891	1,947	1,937	1,905	1,893	1,920
CHD payroll (% of turnover)	58.4%	57.2%	56.9%	59.4%	58.1%	60.7%	60.6%	59.2%	59.9%	60.1%
THG payroll (% of turnover)	69.2%	68.9%	72.3%	70.0%	70.3%	68.6%	67.5%	71.1%	70.8%	69.5%
Agency to total payroll (%)	3.8%	4.0%	6.1%	5.5%	4.9%	6.5%	5.4%	4.1%	3.1%	4.7%
Expenses (% of turnover)	13.2%	12.1%	12.7%	14.3%	13.2%	14.9%	14.1%	13.5%	14.5%	14.3%
Central costs (% of turnover)	4.6%	4.3%	4.1%	4.1%	4.3%	3.9%	4.5%	4.3%	3.8%	4.1%

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

The following analysis compares the unaudited proforma full year 2012 results of the acquired group with the comparable period in 2011.

Turnover

Turnover in the group was £157.6m (28.4%) higher than 2011. Within this amount, approximately £143m was due to the full year effect of the inclusion of 139 care homes and specialised units acquired from Southern Cross in quarter four of 2011 (excluding those care homes operated as management agreements) and 16 specialised units acquired from Care Principles.

- *Average Weekly Fee*

  The Average Weekly Fee ("AWF") in 2012 in the Care Home Division ("CHD") increased by 0.7% to £564 from £560 in 2011. This was driven by increases of 2.75% and 2.5% in Scotland and Northern Ireland respectively from April 2012, together with private fee rate increases of up to 4% across the division. However the increase in English Local Authority fees, blended across all regions, was only 0.7%.

  Within The Huntercombe Group ("THG") the AWF in quarter four 2012 decreased by 2.9% to £1,893 from the average of £1,947 in quarter one 2012. Whilst annual fee rate settlements in the division were broadly flat in April 2012, changes to the occupancy mix impacted the AWF, with higher relative occupancy in units with comparatively lower fee rate services.

Operating and financial review (continued)

Financial review *(continued)*

Turnover (continued)

- *Occupancy*

  Despite challenging conditions, average occupancy for the year for CHD was 87.8% which is in line with 2011. This is a pleasing result as the ex-Southern Cross homes were only 85% occupied at the start of 2012. In addition, public spending cuts have also made it more difficult to maintain occupancy as competition has increased for placements or more people are cared for at home. In 2012, average THG occupancy decreased by 0.8 percentage points to 69.4% compared to 2011.

- *Investment property income*

  Income from the group's investment properties was £3.7m in 2012, a decrease of £7.8m compared to 2011. This decrease is a direct result of the in-housing, in quarter four of 2011, of 44 homes previously leased to Southern Cross. Rental income from the remaining 30 properties increased in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, reduced from 60.7% in quarter one of 2012 to 59.9% in quarter four of 2012. During the first half of 2012 significant incremental costs were incurred, due to a combination of the own staff hours and agency spend required to address the operational issues in the ex-Southern Cross care homes as well as the knock on effect to the group's existing care homes.

Whilst the level of regulator actions against the group has decreased since the historical highs seen in the first half of the year, regulator scrutiny, in both the quantity and rigour of inspections, remains high. As a result, although staffing levels and costs decreased during the latter part of the year, the run rate remained above the levels achieved in 2011.

Care expenses

In 2012, expenses (care and facility combined) as a percentage of turnover, at 14.3%, were above historical levels, although this percentage declined as the year progressed. Care expenses followed a similar pattern to payroll costs during 2012, being driven by the same operational issues. The operational expenditure and response maintenance spend required to help drive the operational turnaround in a number of the ex-Southern Cross care homes was significant. Care expenses in the existing care homes also saw an increase, albeit to a lesser extent, largely due to a combination of the increased regulatory pressure and the disruption caused by the Southern Cross integration.

Rent

Rent of £49.3m was paid in 2012, a 43% increase compared to the level incurred in 2011 of £34.5m. Whilst this increase includes an element of inflationary uplift on the group's original leases of approximately £1.1m, the increase is primarily a result of additional rent on the care homes and specialised units acquired from Southern Cross and the full year effect of the 16 leasehold specialised units acquired from Care Principles in July 2011.

Operating and financial review (continued)

Financial review *(continued)*

Central costs

Central costs, at 4.1% of turnover in 2012, are slightly below the 4.3% incurred in 2011. The absolute increase compared to the prior year is a function of the conscious build-up to support an accelerated integration and turnaround of the ex-Southern Cross care homes and specialised units, together with minor inflationary increases.

Exceptional items

The operating profit during the year includes exceptional income of £25.6m in relation to the write off of a related undertaking balance in the pre-acquisition structure and a provision release of £2.4m. Netting against this exceptional income are exceptional costs of £10.5m in relation to the group's refinancing, £2.3m of closed home and redundancy costs and £1.8m relating to post-acquisition project work consisting of procurement efficiency, facilities management and estates review.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £96.6m for 2012 was £5.1m below that in 2011 of £101.7m, comprising a 4.2% decrease in gross profit and increases in other expenditure such as rent. The primary reason for this is the integration, regulatory scrutiny and operational pressures experienced during 2012 as a result of acquiring the units from Southern Cross. In addition, operational pressures such as staffing levels and the enhanced regulatory environment existed across the wider portfolio.

Interest

The interest charge in the statutory profit and loss account for the period primarily relates to interest on the £350m senior secured notes at an interest rate of 8.75% and the £175m senior notes at an interest rate of 12.25%, issued during the year. The interest charge relating to the notes in the period was £26.3m. The balance, within the total charge for the period of £46.4m, relates to accrued interest of £16.0m on balances owed to related undertakings in the wider Four Seasons Health Care group, together with £3.3m in respect of the amortisation of debt issue costs.

Tax

The tax credit for the year was £3.2m, predominantly due to the release of historic provisions that are no longer required.

Operating and financial review (continued)

Financial review *(continued)*

Balance Sheet

The table below shows the proforma balance sheet of FSHC (Jersey) Holdings Limited as at 31 December 2011 and that of Elli Investments Limited as at 31 December 2012. The movement in net assets is primarily due to the change in debt structure and the valuation of the group's properties as shown in note 16.

Proforma	**Elli Investments Limited 2012 £000**	FSHC (Jersey) Holdings Limited 2011 £000
Fixed assets		
Intangible assets - goodwill	**(83,247)**	(55,165)
Tangible assets	**908,848**	830,179
Investment properties	**29,780**	31,250
	855,381	806,264
Current assets		
Debtors	**64,963**	56,273
Cash at bank and in hand	**26,677**	73,822
	91,640	130,095
Creditors: amounts falling due within one year	**(91,016)**	(923,273)
Net current assets/(liabilities)	**624**	(793,178)
Total assets less current liabilities	**856,005**	13,086
Creditors: amounts falling due after more than one year	**(722,323)**	-
Provisions for liabilities and charges	**(22,367)**	(26,074)
Net assets/(liabilities)	**111,315**	(12,988)

Operating and financial review (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.

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 February 2012. Given the proximity to the date of acquisition, this valuation has been used as the basis for the acquisition value at 12 July 2012. The directors reviewed the property portfolio for any indicators of impairment at the period end date.

Debtors

Within total debtors, trade debtors increased by £11.3m which is a function of the maturing of the debtor profile in the care homes and specialised units acquired from Southern Cross in quarter four 2011 together with the timing of the group's billing cycle around the year end. Prepayments and other debtors have increased by £1.4m. This is the net effect of an increase in prepayments of £7.5m and a decrease in rent deposits and other debtors of £4.0m and £2.1m respectively.

Creditors

Trade creditors have reduced by £3.4m due to timing differences in the payment run at the year end. Other taxation and social security, along with accruals and deferred income, are in line with the prior year. Other creditors have decreased by £58.1m primarily due to £64.4m of debt-related creditors in 2011 which were refinanced in July 2012. Conversely payroll-related creditors have increased by £6.1m which is a function of the timing of payroll payments at the year end.

Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous rental contracts on certain of the group's leasehold properties. The £2.7m dilapidation provision in respect of certain of the leasehold properties acquired from Southern Cross in 2011 was utilised during 2012 by the deployment of significant "catch-up" capex.

Financing arrangements

- *Senior secured and senior notes*

At 31 December 2012 the group's long term liabilities comprised the following:

- Senior Secured Notes: £350m at a fixed interest rate of 8.75%
- Senior Notes: £175m at a fixed interest rate of 12.25%

In addition there were £236.5m of amounts owed to related undertakings, being amounts owed to entities 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 raise finance for the group's operations. It is, and was throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken. The group has borrowed at fixed interest rates to avoid exposure to interest rate fluctuations.

- *Revolving credit facility*

The group's revolving credit facility provides up to of £40m on a committed basis and allows for borrowings of up to a further £35m in certain circumstances. The interest rate on cash advances under the revolving credit facility is the aggregate of the margin (4% per annum), LIBOR and a mandatory cost (if any), with a fee payable for any undrawn amounts. The facility matures in 2018.

Operating and financial review (continued)

Financial review *(continued)*

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. In addition the group has access to a £40m revolving credit facility which was undrawn at the period end.

Cash flow statement

Proforma, unaudited	**Elli Investments Limited Period ended 31 December 2012**	**Full year for FSHC (Jersey) Holdings Limited (proforma, unaudited) Year ended 31 December 2012**	**FSHC (Jersey) Holdings Limited Year ended 31 December 2011**	**FSHC (Jersey) Holdings Limited Year ended 31 December 2010**
	£000	**£000**	**£000**	**£000**
Net cash inflow from operating activities	**47,688**	**79,013**	**86,959**	**77,309**
Returns on investments and servicing of finance	(24,414)	(85,205)	(32,749)	(68,936)
Capital expenditure and financial investment	(17,664)	(34,733)	(27,675)	(20,791)
Taxation	(1,818)	(533)	(3,689)	(6,487)
Acquisitions and disposals	41,418	(29,582)	(2,285)	874
Net cash inflow / (outflow) before financing	**45,210**	**(71,040)**	**20,561**	**(18,031)**
Debt issue costs	(42,488)	-	-	-
Financing	23,955	23,895	-	(3,783)
Increase / (decrease) in cash in the period	**26,677**	**(47,145)**	**20,561**	**(21,814)**

At 31 December 2012 the group's cash balance was £26.7m. Net cash generated from operating activities in the five and a half month period to 31 December 2012 was £47.7m. The full year proforma net cash inflow from operating activities was £79.0m, broadly consistent with prior years. The 2012 full year proforma cash outflow was primarily driven by payments made in relation to the refinancing of the group's debt in July.

Working capital

The cash inflow on working capital was £3.4m for the period with an outflow of £1.2m for the 12 months ended 31 December 2012, compared to an outflow of £12.6m in 2011.

Interest paid

£24.2m was paid on the group's senior secured and senior notes since they were drawn down into escrow on 28 June 2012. Interest payments are made in June and December each year.

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, in particular in light of the younger age of some of our residents and patients and the nature of their condition, the higher our 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 our facilities where appropriate and to develop potential new facilities.

Operating and financial review (continued)

Financial review *(continued)*

Capital expenditure and developments (continued)

Total capital expenditure for the full year to 31 December 2012 was £34.7m, with £17.7m deployed since July 2012. This is an increase of £7.1m compared to 2011 which is primarily a function of the 35% increase in the number of care home and specialised unit beds acquired from Southern Cross together with the catch-up capex spent on the ex-Southern Cross homes. In certain areas the existing estate has also required additional capital expenditure to ensure regulatory compliance during a period of heightened scrutiny. Including the ex-Southern Cross catch up capital expenditure, in 2012 the spend per effective bed for CHD was approximately £1,100.

The total capital expenditure in 2012 on St Margaret's, the group's new care home in Edinburgh, was £2.5m. The care home opened in February 2013 at a total cost of £5.9m. York Court, formerly known as Longhedge, in South London is due to open in the summer of 2013 at a total development cost of approximately £4.0m. During 2012 we also acquired Westbury Court at a cost of £5.5m. The £29.6m of acquisitions in the full year is comprised of the £5.5m acquisition of Westbury Court together with the proforma acquisition of the FSHC (Jersey) Holdings group of companies in July 2012.

Related party transactions

On 11 April 2013 a parent company of the group acquired, via a newly incorporated subsidiary, Optimum Care which comprises 17 care homes, which operate approximately 1,200 beds. The homes have a very good reputation that reflects the high quality of the assets. The acquisition was funded by a new bank loan, separate from the group's existing debt facilities, together with new equity from Terra Firma.

Post balance sheet events

On 25 March 2013 the group acquired the trade of four care homes from Mimosa Healthcare. On the same date, but as part of a separate transaction, the group acquired the freehold properties from which those care homes trade for approximately £7.5m. This transaction represented an opportunity to add to the number of beds that the group provides in the Bristol area and is consistent with one of the group's development objectives to increase capacity in areas where it is possible to add value by providing a high quality of care and service.

B. R. Taberner

Ben Taberner
Chief Financial Officer

Directors' report

The directors present their report and the audited financial statements for the period ended 31 December 2012.

Principal activities

The group has two principal activities. Firstly, the operation of care homes for the elderly and specialised healthcare facilities under the Four Seasons Health Care and The Huntercombe Group brands respectively. Secondly, the ownership of healthcare real estate and its leasing to providers of long term care for the elderly and other specialised care activities. See the Operating and Financial Review for details of the group's principal activities.

Background and ownership structure

Elli Investments Limited ("the company") was incorporated on 31 May 2012. The company's ownership structure is shown in note 26. On 12 July 2012 the company acquired, via a direct Guernsey subsidiary, Elli Acquisitions Limited, the entire share capital of FSHC (Jersey) Holdings Limited. These financial statements present the results of the company and its subsidiary undertakings ("the group"). The company did not trade prior to the acquisition.

Business and financial review

The Chief Executive Officer's review and Operating and Financial Review are set out on pages 1 to 16.

These reviews provide a comprehensive picture and analysis of the group's business and performance during the period. All of the information detailed in those pages is incorporated by reference into this report and is deemed to form part of this report.

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 non-financial KPI. Details of the KPIs can be found in the Operating and Financial Review on page 10.

Going concern and liquidity management

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. With this in mind, the directors have formally considered and concluded that the preparation of the financial statements on a going concern basis is appropriate. Further details are shown in the "Basis of preparation" section of note 1 to the financial statements.

Supplier payment policy

The group's policy is to agree the terms of payment with suppliers when determining the terms of the transaction, to ensure that the suppliers are made aware of the terms of payment and to abide by the terms of payment. Trade creditors of the group at 31 December 2012 were equivalent to 30 days' purchases, based on the average daily amount invoiced by suppliers during the period.

Directors' report (continued)

Corporate social responsibility

Investing in our people

The group continues to invest in its most important asset – its 31,000 members of staff. 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.

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 system is designed to be inclusive to all users regardless of their technical expertise or level of computer literacy in order to accelerate widespread adoption.

We believe that it is important that staff feel recognised and rewarded for the work that they do. We ensure that our staff are appropriately remunerated and benchmark our salaries and benefits against our key competitors, the local market and the NHS. In addition to staff 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 a member of staff for a special award. This is a simple way of honouring any members of staff who residents or relatives believe have gone that extra mile or have shown exemplary standards of care towards a resident.

Community involvement and charitable giving

The group is proud that our care homes and facilities form part of the communities around them, and we believe that being a part of those communities gives us a responsibility to help where we can. This can include raising funds for causes that local communities believe in, as well as supporting the wider community by raising funds for national charities.

The main focus of our work for charities is centred around:

- Charities that help us engage with the communities we are part of
- Charities that provide care and support in areas that affect our residents
- Charities that are based in areas where we have care homes and facilities

We also believe that encouraging residents to maintain their links with their community forms an integral part of the care we provide. It is for this reason that we organise various events both in the care homes and out in the community that facilitate meeting people.

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 full management system including monitoring of safety standards and incident review is in place. Policies and training needs are kept under review and overall direction is given by the Group Health and Safety Committee.

Directors' report (continued)

Corporate social responsibility *(continued)*

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.

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

In addition, 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.

Environmental policy

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

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

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

Directors' report (continued)

Corporate social responsibility *(continued)*

Energy efficiency

The group is committed to reducing its own Carbon Emissions Footprint of approximately 100,000 tonnes by 2015. To back up this commitment the group is making an initial investment of £2.5 million in energy efficiency ideas:

- *Improving heating and hot water systems*

  The group has committed to auditing its facilities and either replacing boilers or installing boiler control improvements where appropriate. This includes equipping boiler rooms with new heating systems and in many cases hot water systems, using new high efficiency condensing boilers that are up to 50% more efficient. In addition, where needed, we have fitted boiler optimisation units that control the way in which boilers burn gas making them up to 20% more energy efficient

- *Insulation*

  We now use only low energy bulbs across all our facilities drastically reducing energy consumption

- *Energy champions*

  Every facility within the company has appointed an energy champion who works with the staff to consider energy saving ideas and implementing initiatives

- *Partnership working*

  The group is working with companies to achieve our commitment to reduce our Carbon Emissions Footprint

- *Awareness campaigns*

  During the year we also ran short energy efficiency campaigns to remind staff of the need to be eco-friendly both at work and in their own homes

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 continued 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 and the company 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.

Directors' report (continued)

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 25.

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

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

To ensure that key policy and strategic decisions are made by the board, certain matters must be brought to the board for approval, including but not limited to: final approval of the annual accounts and budget, major acquisitions and disposals and any changes to the group's financing arrangements and financial policies.

The directors also have access to the advice and services of the Company Secretary and external advisers, as appropriate.

Directors' report (continued)

Corporate governance *(continued)*

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 page 26.

- *Audit committee*

  The audit committee is chaired by Ian Smith and consists of three non-executive directors. The Chief Executive Officer, Chief Financial Officer and external auditors are normally invited to attend meetings. The committee meets at least four times 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 Chair 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 appointment and reappointment of the group's external auditors and annually reviews a formal letter provided by the external 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 external auditors' engagement letter; the overall work plan for the forthcoming year; the cost-effectiveness of the audit, as well as the auditors' remuneration; major issues which arose during the course of the audit 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; and reviewing the level and scope of non-audit fees to ensure that auditor independence is maintained.

- *Finance committee*

  The committee is chaired by Lorenzo Levi and consists of three non-executive directors, the Chairman, the Chief Executive Officer and Chief Financial Officer.

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

- *Remuneration and nominations committee*

  The remuneration and nominations committee is chaired by Lorenzo Levi and consists of two non-executive directors, the Chairman and the Chief Executive Officer. 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 ensure 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)

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. Regular 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 material 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 impact the business*

  Potential impact: publicly funded entities could allocate less money to the services we provide. In addition, political or policy changes could lead to fewer services being purchased from us 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.

- *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 Four Seasons Health Care brand is synonymous with quality of care.

- *Liquidity risk*

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

  Mitigation: the group 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 long-term business plans and shorter term budgets against actual performance in line with obligations under financing agreements.

- *Interest rate risk*

  Potential impact: the group finances its operations through called up share capital and external debt. At 31 December 2012, the group had fixed rate debt only, thereby removing interest rate risk. Future drawings under the revolving credit facility would expose the group to interest rate risk. The interest rate on cash advances under the revolving credit facility will reflect changes in LIBOR.

  Mitigation: as at 31 December 2012, the revolving credit facility remained undrawn. If this facility is utilised in the future then the interest rate risk would remain comparatively low due to the quantum of the revolving credit facility compared to fixed rate debt in the group.

- *Failure to comply with debt covenants*

  Potential impact: withdrawal of funding prior to its 2019-2020 maturity dates.

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

Directors' report (continued)

Principal risks and uncertainties *(continued)*

Operational risks

- *Reputational risk*

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

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

- *Regulatory risk*

  Potential impact: the group operates in a highly regulated business environment and predicting regulatory changes or developments is difficult. 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.

  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.

Results and dividends

The loss for the period was £13,053,000. The directors do not recommend the payment of a dividend with respect to ordinary shares.

Fixed assets and investment properties

The directors have undertaken a review of the carrying value of the group's land and buildings as at December 2012 taking into account the views of qualified property valuers.

Political and charitable donations

The group made no political or charitable donations during the period although it does encourage employees to participate in charitable fundraising activities.

Share capital

On incorporation on 31 May 2012, 87,500 ordinary £1 shares were allotted. A further 124,280,000 ordinary £1 shares were allotted in the period to 31 December 2012.

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:

N Carey	(appointed 31 May 2012)
J Stares	(appointed 31 May 2012)
I Stokes	(appointed 31 May 2012)

Nigel Carey
Director

Nigel has served as a non-executive director of various Guernsey-based Terra Firma companies since 2003. He was previously a partner at Carey Olsen, a Guernsey law firm, where he is currently employed as a consultant. Holding an LLB from Southampton University, he was admitted as a solicitor in 1972 and was also awarded a Certificat d'Études Juridiques Francaises et Normandes in 1975. He was admitted to the Guernsey Bar in 1975.

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 Honors 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 in audit and advisory for BDO Binder before moving to Guernsey International Fund Managers Limited in 1996. He joined Mourant International Finance Administration (MIFA) in 2003 as head of its Guernsey office, becoming group managing director in 2008 with responsibility for its jurisdictional network covering North America, Europe and Asia and was a member of the senior executive team that managed the sale of the company to State Street Corporation in 2010. He holds board appointments of fund management and fund investment companies, is a Fellow of the Association of Chartered Accountants and holds a Diploma in Company Direction from the Institute of Directors.

Directors' report (continued)

Directors *(continued)*

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

Ian Smith
Chairman

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

Pete Calveley
Chief Executive Officer

Pete has been the Chief Executive Officer of the Four Seasons Health Care group since April 2008, having held the position of acting CEO since November 2007. Pete has 20 years of experience in the health care sector, having previously practised as a GP for a number of years and having held various NHS management positions from 1991 to 2007. He joined the group in November 2005 as Primary Care Medical Director and has been instrumental in raising awareness in government and the NHS of the capability of independent providers to help free up hospital bed blocking.

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 nine years of experience in the health and social care sector. Prior to joining the group he was an assurance senior manager at KPMG.

Dominic Kay
Commercial Director

Dominic has been the commercial director responsible for group developments since 2007, having joined the Four Seasons Health Care group in June 2005 as company secretary responsible for statutory compliance, insurance and day to day legal matters. Dominic has seven years of experience in the health and social care sector. Prior to joining the group, he served on the main board at Yates Group plc as their Human Resources and Legal Services Director.

Steven Webber
Non-Executive Director

Steven has worked on some of Terra Firma's most successful investments including transactions as diverse as the recent Annington Homes acquisition, Tank & Rast and the group's pub businesses. Steven also worked on the AWAS deal and the acquisition of Pegasus by AWAS, and has focussed on the leisure, leasing and transportation sectors. Steven sits on the boards of Annington, AWAS, Four Seasons Health Care and CPC. He joined PFG, the forerunner to Terra Firma, in 1996 following his graduation from the University of Reading with a master's degree in International Securities, Investment and Banking (MSc).

Lorenzo Levi
Non-Executive Director

Lorenzo is an Operational Managing Director at Terra Firma. He has had a wide-ranging career encompassing sales management and corporate development for companies such as IBM and Nortel Networks, to strategy for management consultants, Bain & Co. In addition to due diligence work on transactions, Lorenzo also handles post-acquisition operational development.

Directors' report (continued)

Directors *(continued)*

Lorcan Woods
Non-Executive Director

Lorcan joined Terra Firma in London as Finance Director for Portfolio Businesses with current board responsibility for two of Terra Firma's renewable energy businesses (Everpower Wind and Infinis) as well as Phoenix Natural Gas and 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.

Registered office

The registered office is: First Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ.

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 auditors

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 auditors are 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 auditors are aware of that information.

Auditors

KPMG LLP were appointed auditors to fill a casual vacancy in the period.

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

By order of the Board

Iain Stokes
Director

29 April 2013

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

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

KPMG LLP
St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' 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 period from 31 May 2012 (date of incorporation) to 31 December 2012 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditors' 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 2012 and of its loss for the period from 31 May 2012 (date of incorporation) to 31 December 2012;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

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

Nicola Quayle

Nicola Quayle for and on behalf of
KPMG LLP
Chartered Accountants and Registered Auditors

29 April 2013

Consolidated profit and loss account

for the period ended 31 December 2012

	Note	Period ended 31 December 2012 £000
Turnover	1, 2	**329,396**
Cost of sales		**(279,317)**
Gross profit		**50,079**
Administrative expenses - ordinary	3	**(18,086)**
Administrative expenses - exceptional	4	**(1,841)**
		(19,927)
Operating profit	2 - 6	**30,152**
Ordinary activities		**31,993**
Exceptional activities		**(1,841)**
Interest payable and similar charges		**(46,396)**
Interest receivable and other income		**26**
Net interest payable and similar charges	7	**(46,370)**
Loss on ordinary activities before taxation	3	**(16,218)**
Tax on loss on ordinary activities	8	**3,165**
Retained loss for the financial period	19	**(13,053)**

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	
Analysed as:	
Operating profit before exceptional items as analysed above	**31,993**
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**16,151**
Deduct: amortisation of negative goodwill	**(2,014)**
EBITDA before exceptional items	**46,130**

All amounts relate to continuing operations that were acquired during the period.

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

Consolidated balance sheet
at 31 December 2012

	Note	**2012** **£000**
Fixed assets		
Intangible assets	*9*	**(83,247)**
Tangible assets	*10*	**908,848**
Investment properties	*11*	**29,780**
		855,381
Current assets		
Debtors	*13*	**64,963**
Cash at bank and in hand		**26,677**
		91,640
Creditors: amounts falling due within one year	*14*	**(91,016)**
Net current assets		**624**
Total assets less current liabilities		**856,005**
Creditors: amounts falling due after more than one year	*15*	**(722,323)**
Provisions for liabilities and charges	*17*	**(22,367)**
Net assets		**111,315**
Capital and reserves		
Called up share capital	*18*	**124,368**
Profit and loss account	*19*	**(13,053)**
Shareholder's funds		**111,315**

These financial statements were approved by the board of directors on 29 April 2013 and were signed on its behalf by:

I Stokes
Director

J Stares
Director

Consolidated cash flow statement

for the period ended 31 December 2012

	Note	Period ended 31 December 2012 £000
Net cash inflow from operating activities	*20*	**47,688**
Returns on investments and servicing of finance	*21*	**(24,414)**
Capital expenditure and financial investment	*21*	**(17,664)**
Taxation		**(1,818)**
Acquisitions and disposals	*21*	**41,418**
Net cash inflow before financing		**45,210**
Debt issue costs		**(42,488)**
Financing	*21*	**23,955**
Increase in cash in the period	*22*	**26,677**
Cash brought forward		**-**
Cash carried forward		**26,677**

Reconciliation of net cash flow to movement in net debt

for the period ended 31 December 2012

	Note	Period ended 31 December 2012 £000
Increase in cash in the period	*22*	**26,677**
Debt acquired with subsidiaries	*22*	**(846,023)**
Repayment of acquired debt	*22*	**846,023**
Senior secured and senior notes	*22*	**(525,000)**
Amounts owed to related undertakings	*22*	**(236,474)**
Debt issue costs	*22*	**42,488**
Movement in net debt in the period		**(692,309)**
Non cash movement	*22*	**(3,337)**
Net debt at beginning of period		**-**
Net debt at end of period	*22*	**(695,646)**

Reconciliation of movements in shareholder's funds

for the period ended 31 December 2012

	Group Period ended 31 December 2012 £000	Company Period ended 31 December 2012 £000
New share capital issued	124,368	124,368
(Loss)/profit for the financial period	(13,053)	61
Net movement in shareholder's funds	**111,315**	**124,429**
Opening shareholder's funds	-	-
Closing shareholder's funds	**111,315**	**124,429**

Company balance sheet
at 31 December 2012

	Note	2012 £000
Fixed assets		
Investments	*12*	**124,368**
Current assets		
Debtors	*13*	**175,947**
Creditors: amounts falling due within one year	*14*	**(886)**
Net current assets		**175,061**
Total assets less current liabilities		**299,429**
Creditors: amounts falling due after more than one year	*15*	**(175,000)**
Net assets		**124,429**
Capital and reserves		
Called up share capital	*18*	**124,368**
Profit and loss account	*19*	**61**
Shareholder's funds		**124,429**

These financial statements were approved by the board of directors on 29 April 2013 and were signed on its behalf by:

I Stokes
Director

J Stares
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. Elli Investments Limited (the "company") is a company registered in Guernsey. The company was incorporated on 31 May 2012. On 12 July 2012 the company, through a direct subsidiary, acquired the trade and assets of FSHC (Jersey) Holdings Limited (together referred to as the "group"). Prior to that date the company did not trade; as such the results for the period represent the group's trading for the 172 day period from 12 July 2012 to 31 December 2012. There is no comparative period.

Group going concern

Following the acquisition, all debt-related liabilities owed by the acquired group were refinanced in full on 12 July 2012. As part of the refinancing the group issued £350 million of senior secured notes which pay interest at 8.75%, and which are due for repayment in 2019, and £175 million of senior notes which pay interest at 12.25%, and which are due for repayment in 2020. In addition to the external debt, the group owes £236.5 million to related undertakings which accrues interest at 15% on a compounding basis and which is due for repayment in 2022. There is also a £40 million revolving credit facility which remained undrawn at the period end and which is available until 2018. This provides the group with a stable and secure financial structure.

The forecast and projections of Elli Investments Limited and its subsidiary undertakings, sensitised to take into account all reasonably foreseeable changes in trading performance, show that it has sufficient funding and covenant headroom within its current financing arrangements.

The directors have a reasonable expectation that the company, together with its subsidiary undertakings, have adequate resources to continue in operational existence for the foreseeable future. The directors therefore believe that it is appropriate to prepare the 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 2012. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.
Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account. Of the loss for the financial period, a profit of £61,000 is dealt with in the stand alone accounts of Elli Investments Limited.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost, less the estimated residual value, of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

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

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

Notes (continued)

(forming part of the financial statements)

1 Accounting policies *(continued)*

Investments

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

Investment properties

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

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

Leases

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

Goodwill

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

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

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of tangible fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Turnover

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

Post-retirement benefits

The group operates defined contribution pension schemes as set out in note 23. The assets of the scheme are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Notes (continued)

(forming part of the financial statements)

1 Accounting policies *(continued)*

Share based payments

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

Provisions

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

Foreign currencies

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

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

Finance costs

Finance costs related to financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Financial liabilities and borrowings

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

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

Guarantees

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other related parties which are subsidiaries of its ultimate parent, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make payment under the guarantee.

Related party transactions

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

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

2 Segmental information

	Period ended 31 December 2012	
	Turnover £000	**Result £000**
Property leasing	**1,378**	**1,182**
Operation of care homes and specialised services	**328,018**	**28,970**
Group turnover/operating profit after exceptional activities	**329,396**	**30,152**
Net interest payable and similar charges		**(46,370)**
Loss before taxation		**(16,218)**

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

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

3 Loss on ordinary activities before taxation

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

	Period ended 31 December 2012 £000
Depreciation and amounts written off tangible fixed assets:	**16,289**
Amortisation of negative goodwill	**(2,014)**
Amortisation of capital grants	**(138)**
Amounts receivable by the auditors and their associates in respect of:	
- audit of these financial statements	**70**
- audit of subsidiaries pursuant to legislation	**254**
- other services relating to taxation	**300**
- other services	**325**
Operating lease rentals	
- buildings	**22,937**
- motor vehicles	**303**
- equipment and fixtures	**18**

4 Exceptional items

The operating profit during the period includes exceptional costs of £1,841,000. Within this total is £1,781,000 relating to post-acquisition project work consisting of procurement efficiency, facilities management and estates review and there is £1,029,000 relating to closed homes and redundancy costs net of a £2,350,000 provision release.

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

5 Staff numbers and costs

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

	Period ended 31 December 2012 No.
Healthcare facilities	**29,966**
Administration	**1,505**
	31,471

The aggregate payroll costs of these persons were as follows:

	Period ended 31 December 2012 £000
Wages and salaries	**190,081**
Social security costs	**12,593**
Pension costs	**574**
	203,248

The company had no employees during the period.

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

6 Remuneration of directors

	Period ended 31 December 2012 £000
Amounts paid to third parties in respect of directors' services	**40**

In addition, during the period fees of £24,000 were paid to State Street Global Advisors for administration and secretarial services.

Notes *(continued)*

(forming part of the financial statements)

7 Net interest payable and similar charges

	Period ended 31 December 2012 £000
Interest payable:	
On debt repayable after more than one year	26,291
On balances due to related undertakings	15,987
Amortisation of debt issue costs	3,337
Other finance costs	351
Unwinding of discounts on provisions	430
Total interest payable and finance charges	**46,396**
Bank interest receivable	(26)
Total interest receivable	**(26)**
Net interest payable and similar charges	**46,370**

8 Taxation

	Period ended 31 December 2012 £000
Analysis of tax charge in the period:	
UK corporation tax	
Current tax on loss for the period	**308**
Provisions release	**(3,440)**
Foreign tax	
Current tax on income for the period	**64**
Total current tax	**(3,068)**
Deferred tax	
Origination of timing differences (note 17)	**(97)**
Tax on loss on ordinary activities	**(3,165)**

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

8 Taxation (*continued*)

Factors affecting the tax charge:

The current tax charge for the period is higher than the average standard rate of corporation tax in the UK (24.5%). The differences are explained below.

	Period ended 31 December 2012 £000
Current tax reconciliation:	
Loss on ordinary activities before taxation	**(16,218)**
Tax on loss at current rate of 24.5%	**(3,973)**
Effects of:	
Expenses not deductible for tax purposes	**(209)**
Depreciation in excess of capital allowances	**2,542**
Other timing differences	**466**
Tax losses created	**6,088**
Difference in overseas tax rate	**(4,606)**
Foreign tax	**64**
Provisions release	**(3,440)**
Tax on loss on ordinary activities	**(3,068)**

Factors that may affect future current and total tax charge:

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the group's future current tax charge accordingly. The effect of the rate reduction on the deferred tax balances has been included in the figures above.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the group's future current tax charge.

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

9 Intangible fixed assets

	Negative goodwill £000
Cost	
At beginning of period	-
On acquisition	(85,261)
At end of period	**(85,261)**
Amortisation	
At beginning of period	-
Amortisation for the period	2,014
At end of period	**2,014**
Net book value	
At 31 December 2012	**(83,247)**

On 12 July 2012 Elli Investments Limited, via a direct subsidiary, acquired FSHC (Jersey) Holdings Limited and its subsidiary undertakings. Negative goodwill of £85.3 million arose on this transaction (note 16) and is being amortised over 20 years.

10 Tangible fixed assets

	Land and buildings £000	Buildings under construction £000	Equipment and fixtures £000	Motor vehicles £000	Total £000
Cost					
At beginning of period	-	-	-	-	-
On acquisition	824,436	7,296	72,990	2,749	907,471
Additions	1,555	1,329	13,565	1,217	17,666
Disposals	-	-	-	(50)	(50)
At end of period	**825,991**	**8,625**	**86,555**	**3,916**	**925,087**
Depreciation					
At beginning of period	-	-	-	-	-
Charge for the period	3,221	-	12,408	660	16,289
Disposals	-	-	-	(50)	(50)
At end of period	**3,221**	**-**	**12,408**	**610**	**16,239**
Net book value					
At 31 December 2012	**822,770**	**8,625**	**74,147**	**3,306**	**908,848**

The valuation of the group's properties was carried out by an external valuer on an individual property basis for balance sheet purposes in February 2012. Given the proximity to the date of acquisition, this valuation has been used as the basis for the acquisition value at 12 July 2012.

The directors reviewed the property portfolio for any indicators of impairment at the period end date and none were identified.

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

11 Investment properties

	2012 £000
At beginning of period	-
Acquisitions	**29,780**
At end of period	**29,780**

12 Fixed asset investments

The company's investment in its direct subsidiary is as follows:	**2012 £000**
At beginning of period	-
Acquisitions	124,368
At end of period	**124,368**

A list of the company's principal subsidiary undertakings at 31 December 2012 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

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
PHF Reversions No.1 Limited	Property holding company
Rhyme (Jersey) Limited*	Holding company
Principal Healthcare Finance Limited	Holding company

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

12 Fixed asset investments *(continued)*

The following company is incorporated in the Cayman Islands:

Company	Nature of business
Fino Seniorco Limited	Holding company

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

13 Debtors

	Group 2012 £000	Company 2012 £000
Trade debtors	42,460	-
Amounts owed by related undertakings	-	174,880
Amounts owed by subsidiary undertakings	-	1,067
Prepayments, other debtors and accrued income	22,503	-
	64,963	**175,947**

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

14 Creditors: amounts falling due within one year

	Group 2012 £000	Company 2012 £000
Trade creditors	14,090	-
Corporation tax	1,714	-
Other taxation and social security	7,193	-
Other creditors	36,822	-
Amounts owed to related undertakings	11	-
Accruals and deferred income	28,907	5
Accrued interest and finance costs	2,279	881
	91,016	**886**

Notes *(continued)*

(forming part of the financial statements)

15 Creditors: amounts falling due after more than one year

	Group 2012 £000	Company 2012 £000
High yield bonds	525,000	175,000
Debt issue costs	(39,151)	-
High yield bonds net of debt issue costs	**485,849**	**175,000**
Amounts owed to related undertakings	236,474	-
	722,323	**175,000**

Credit facilities

The high yield bonds consist of:

- £350,000,000 of senior secured notes accruing interest at a fixed rate of 8.75%. At the period end, the interest accrued was £1,259,000 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 period end, the interest accrued was £881,000 all of which was due within one year. The notes are due to be repaid in 2020.

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

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

In addition, there is an accrual for £139,000 of accrued commitment fees relating to the revolving credit facility due within one year.

Maturity of credit facilities

The maturity profile of the group's credit facilities at 31 December 2012 was as follows:

	Group £000
In more than 5 years	**722,323**

The group also has an undrawn committed revolving credit facility. The facility available at 31 December 2012 was as follows:

	Group £000
In more than 5 years	**40,000**

Notes *(continued)*

(forming part of the financial statements)

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

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities, excluding balances with related undertakings, as at 31 December 2012:

	Book value	**Fair value**
	£000	**£000**
Primary financial instruments held or issued to finance the group's operations:		
Financial assets: cash	26,677	26,677
Financial liabilities:		
8.75% senior secured notes	350,000	379,575
12.25% senior notes	175,000	178,150

The senior secured notes and senior notes are traded on the Irish stock exchange. The fair values have been calculated by reference to the prices available as at 28 December 2012. Please refer to page 23 for details of the financial risks facing the group.

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

16 Acquisitions

On 12 July 2012 Elli Investments Limited acquired, via a direct Guernsey subsidiary, the entire share capital of FSHC (Jersey) Holdings Limited. The fair value of the total consideration was £24,082,000 which included acquisition costs of £4,603,000. The resulting negative goodwill of £85,261,000 was capitalised and will be credited to the profit and loss account over twenty years.

The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group:

	Book value £000	Fair value adjustment £000	Fair value £000
Fixed assets			
Tangible fixed assets	838,506	68,965	**907,471**
Investment properties	29,780	-	**29,780**
Current assets			
Debtors	57,853	-	**57,853**
Cash at bank and in hand	65,500	-	**65,500**
Total assets	**991,639**	**68,965**	**1,060,604**
Liabilities			
Creditors	83,519	(1,335)	**82,184**
Long term borrowings	846,023	-	**846,023**
Provisions for liabilities and charges	23,054	-	**23,054**
Total liabilities	**952,596**	**(1,335)**	**951,261**
Net assets	**39,043**	**70,300**	**109,343**
Goodwill			**85,261**
Purchase consideration and costs of acquisition			**24,082**

Net cash inflow in respect of the acquisition comprised:

	£000
Cash consideration	(24,082)
Cash at bank and in hand acquired	65,500
Net cash inflow	**41,418**

The book value of assets and liabilities has been taken from the management accounts of FSHC (Jersey) Holdings Limited at 12 July 2012. At the period end certain presentational adjustments have been made to gross up certain debtor and creditor balances. No such adjustments have been made in the acquisition balance sheet. This has no impact on the net assets acquired. A provisional fair value adjustment of £68,965,000 was made to increase the book value of tangible assets to market value at 12 July 2012, taking into account an independent property valuation. The fair value adjustment of £1,335,000 which reduces creditors relates to the release of an exceptional cost accrual in FSHC (Jersey) Holdings Limited.

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

16 Acquisitions *(continued)*

The profit and loss account of FSHC (Jersey) Holdings Limited (pre- and post-acquisition) for the year ended 2012, with 2011 comparative figures, is presented below.

	Pre-acquisition Period ended 11 July 2012 £000	Post-acquisition Period ended 31 December 2012 £000	Total 2012 £000	Year ended 31 December 2011 £000
Turnover	382,286	329,396	**711,682**	**554,101**
Cost of sales	(326,605)	(279,317)	**(605,922)**	**(443,723)**
Gross profit	55,681	50,079	**105,760**	**110,378**
Administrative expenses - ordinary	(20,013)	(18,086)	**(38,099)**	**(31,073)**
Administrative income/(expenses) - exceptional	15,022	(1,841)	**13,181**	**(48,156)**
	(4,991)	(19,927)	**(24,918)**	**(79,229)**
Operating profit	50,690	30,152	**80,842**	**31,149**
Ordinary activities	35,668	31,993	**67,661**	**79,305**
Exceptional activities	15,022	(1,841)	**13,181**	**(48,156)**
Profit before interest	50,690	30,152	**80,842**	**31,149**

Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)				
Analysed as:				
Operating profit before exceptional items as analysed above	35,668	31,993	**67,661**	**79,305**
Add back: depreciation of tangible fixed assets and amortisation of capital grants	16,498	16,151	**32,649**	**25,621**
Deduct: amortisation of negative goodwill	(1,694)	(2,014)	**(3,708)**	**(3,265)**
EBITDA before exceptional items	50,472	46,130	**96,602**	**101,661**

There were no other gains or losses recognised in FSHC (Jersey) Holdings Limited and its subsidiary undertakings in the period from 1 January 2012 to 11 July 2012.

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

17 Provisions for liabilities and charges

Group	Deferred taxation £000	Dilapidations provisions £000	Provision for onerous contracts £000	**Total £000**
At beginning of period	-	-	-	**-**
On acquisition	5,018	535	17,501	**23,054**
Released to the profit and loss account	(97)	(370)	(650)	**(1,117)**
Unwinding of discount	-	-	430	**430**
At end of period	**4,921**	**165**	**17,281**	**22,367**

The elements of deferred taxation are as follows:	
Difference between accumulated depreciation, amortisation and capital allowances	**4,921**

The group has unrecognised deferred tax assets of £74m arising on tax losses, timing differences and depreciation in excess of capital allowances on fixed assets. The group has not recognised these assets as there is no certainty over the group's ability to obtain value from the assets in the foreseeable future.

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

18 Called up share capital

	Allotted, called up and fully paid	
	No.	**£000**
Ordinary shares of £1 each	**124,367,500**	**124,368**

On incorporation, 87,500 ordinary shares were allotted and a further 124,280,000 ordinary shares were allotted in the period to 31 December 2012.

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

19 Reserves

Group	Profit and loss account £000	Total £000
At beginning of period	-	-
Retained loss for the financial period	(13,053)	(13,053)
At end of period	**(13,053)**	**(13,053)**
Company		
At beginning of period	-	-
Retained profit for the financial period	61	61
At end of period	**61**	**61**

Included in the group profit and loss account reserve is amortised negative goodwill of £2,014,000 which arose on the acquisition of subsidiary undertakings.

20 Reconciliation of operating profit to net cash inflow from operating activities

	Period ended 31 December 2012 £000
Operating profit	**30,152**
Depreciation and amortisation	**14,137**
Increase in debtors	**(7,145)**
Increase in creditors	**10,544**
Net cash inflow from operating activities	**47,688**

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

21 Analysis of cash flows

	Period ended 31 December 2012 £000
Returns on investment and servicing of finance	
Interest received	26
Interest paid – external debt	(24,330)
Interest paid (net) – related undertakings	(110)
	(24,414)
Capital expenditure and financial investment	
Purchase of tangible fixed assets	(17,664)
	(17,664)
Acquisitions and disposals	
Purchase of subsidiary undertakings	(24,082)
Net cash acquired with subsidiary undertakings	65,500
	41,418
Financing	
Issue of ordinary share capital	124,368
Repayment of acquired debt	(846,023)
New secured loans	525,000
Amounts received from related undertakings	220,610
	23,955

22 Analysis of net debt

	At beginning of period £000	Acquisitions £000	Cash flow £000	Non-cash items £000	**At 31 December 2012 £000**
Cash at bank and in hand	-	65,500	(38,823)	-	**26,677**
Bank loans due in less than one year	-	(846,023)	846,023	-	**-**
Amounts owed to related undertakings due in more than one year	-	-	(220,610)	(15,864)	**(236,474)**
High yield bonds due in more than one year	-	-	(482,512)	(3,337)	**(485,849)**
	-	**(780,523)**	**104,078**	**(19,201)**	**(695,646)**

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

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

23 Pension schemes

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

The total cost charged to the profit and loss account during the period was £574,000. At the period end £145,000 of pension contributions were outstanding.

24 Commitments

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

Group	2012 £000
Contracted	**6,900**

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

Group	2012 £000
Land and buildings – expiring in more than five years	54,278
Equipment, fixtures and motor vehicles – expiring in less than one year	190
	54,468

The company had no capital or operating lease commitments at 31 December 2012.

25 Related parties and related party transactions

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

During the period, entities within the Terra Firma group charged the group £286,000 for the secondment of certain employees.

On 11 April 2013 a parent company of the group acquired, via a newly incorporated subsidiary, Optimum Care which comprises 17 care homes, which operate approximately 1,200 beds. The homes have a very good reputation that reflects the high quality of the assets. The acquisition was funded by a new bank loan, separate from the group's existing debt facilities, together with new equity from Terra Firma.

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.