Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2014

Contents

Presentation of financial data

This report summarises the consolidated financial and operating data derived from the unaudited consolidated financial statements of Elli Investments Limited. The summary financial information provided has been derived from our records for the quarter ended 31 March 2014 which are maintained in accordance with UK GAAP. These interim results are not necessarily indicative of the results to be expected for the full year.

The report includes the period prior to the closing of the notes offering by Elli Investments Limited and Elli Finance (UK) plc, which took place on 28 June 2012 ("closing"). On that day, Elli Investments Limited and Elli Finance (UK) plc placed the funds in Escrow until the completion of the acquisition of FSHC (Jersey) Holdings Limited by Elli Acquisitions Limited which took place on 12 July 2012. Elli Acquisitions Limited then transferred FSHC (Jersey) Holdings Limited to Elli Finance (UK) plc, who became the parent company to not only FSHC (Jersey) Holdings Limited, but also to the trading entities within the Four Seasons Health Care group of companies. Acquisition accounting under UK GAAP is applied in these accounts with regard to the 2012 information presented. A summarised corporate structure chart was presented in the Offering Memorandum showing the structure subsequent to completion on 12 July 2012.

We have presented certain non-GAAP information in the quarterly report. This information includes "EBITDA" and "EBITDAR", which represents earnings before interest, tax, depreciation, amortisation and one-off exceptional and strategic items (and rent). Our Management believes that EBITDA is meaningful for investors because it provides an analysis of our operating results, profitability and ability to service debt and because EBITDA is used by our chief operating decision makers to track our business evolution, establish operational and strategic targets and make important business decisions. In addition, we believe that EBITDA is a measure commonly used by investors and other interested parties in our industry.

Group financial highlights

- Q1 2014 turnover for Elli Investments Limited is £3.2m (1.8%) higher than Q1 2013
- Q1 2014 occupancy in the Care Home Division ("CHD") was 87.4%, down slightly from 87.8% in the comparative period
- The Huntercombe Group ("THG") occupancy, at 75.8% in Q1 2014, is 1.2 percentage points above the 2013 comparative
- In Q1 2014 payroll as a percentage of turnover in CHD has increased by 3.3 percentage points and in THG it has increased by 3.9 percentage points, primarily driven by increased use of agency staff and a general increase in staffing expectations from commissioners particularly stemming from H2 2013
- Q1 2014 EBITDA of £15.9m is down by £6.9m compared to the comparative period in 2013
- March 2014 LTM EBITDA of £87.0m, is £6.9m lower than the £93.9m for the year to 31 December 2013
- £14.7m net cash inflow from operating activities during Q1 2014
- Closing Q1 2014 cash balance of £24.0m; net debt of £501.0m at 31 March 2014 (excluding amounts owed to related undertakings and debt issue costs)

Commentary on results

Four Season Health Care is pleased to announce its results for the quarter ended 31 March 2014.

The results and KPIs for the group since Q1 2012 are summarised below.

Unaudited	2012					2013					2014
	Q1	Q2	Q3	Q4[2]	Full year[2]	Q1	Q2	Q3	Q4	Full year	Q1
Turnover (£m)	174.1	175.3	174.8	187.5	711.7	174.7	178.2	179.3	177.5	709.8	177.9
CHD Turnover (£m)	143.5	144.7	146.4	157.2	591.9	145.2	147.1	148.2	146.8	587.2	147.0
THG Turnover (£m)	29.6	29.6	27.4	29.3	115.9	28.5	30.2	30.1	29.8	118.7	29.9
CHD EBITDARM (% of turnover)	23.8%	24.9%	27.0%	25.2%	25.2%	25.2%	26.2%	26.6%	21.7%	24.9%	21.6%
THG EBITDARM (% of turnover)	19.2%	20.5%	17.0%	16.7%	18.4%	19.1%	21.6%	20.7%	16.1%	19.4%	15.3%
EBITDAR (£m)	33.8	35.2	37.7	38.3	144.9	35.2	38.4	38.1	32.3	143.9	28.5
EBITDA (£m)	22.3	23.5	25.3	25.5	96.6	22.8	25.4	25.6	20.1	93.9	15.9
Effective beds – group	24,050	23,978	24,151	24,109	24,072	23,772	23,844	23,788	23,632	23,759	23,447
Occupied beds – group	20,803	20,782	20,927	20,892	20,851	20,676	20,611	20,752	20,478	20,629	20,321
CHD occupancy %	87.7%	87.9%	87.9%	87.9%	87.8%	87.8%	87.2%	88.0%	87.4%	87.6%	87.4%
THG occupancy %	70.4%	69.8%	68.7%	68.7%	69.4%	74.6%	75.5%	75.3%	75.2%	75.2%	75.8%
CHD average weekly fee (£)	559	565	566	565	564	569	579	579	580	577	587
THG average weekly fee (£)	1,947	1,937	1,905	1,893	1,920	1,944	2,076	2,077	2,056	2,038	2,060
CHD payroll (% of turnover)[1]	60.7%	60.6%	59.2%	59.9%	60.1%	59.9%	59.7%	59.3%	63.2%	60.5%	63.2%
THG payroll (% of turnover)[1]	68.6%	67.5%	71.1%	70.8%	69.5%	68.4%	66.9%	67.5%	71.3%	68.5%	72.3%
Agency to total payroll (%)[1]	6.5%	5.4%	4.1%	3.1%	4.7%	3.3%	3.7%	5.7%	6.7%	4.9%	6.1%
Expenses (% of turnover)	14.9%	14.1%	13.5%	14.5%	14.3%	14.5%	13.6%	13.6%	14.7%	14.1%	14.7%
Central costs (% of turnover)	3.9%	4.5%	4.3%	3.8%	4.1%	4.2%	4.0%	4.1%	4.4%	4.2%	4.8%

Notes:

1 Payroll % excludes central payroll from total payroll and investment property income from turnover
2 14 week period/53 week year

Turnover

Q1 2014 turnover for Elli Investments Limited was £3.2m (1.8%) higher than Q1 2013 due to improvements in average weekly fee (AWF) in both CHD and THG.

Average Weekly Fee

During Q1 2014 the AWF in CHD increased by 3.2% from £569 to £587 in Q1 2013. This was driven by local authority increases of 2.5% and 3.0% in Scotland and Northern Ireland respectively in April 2013, together with private fee rate increases of up to 5% and, on average, a 1.0% – 1.5% increase in English local authority fees.

THG AWF saw an increase of 6.0% between Q1 2013 and Q1 2014. Whilst the inclusion of Specialling income within the calculation of AWF, following changes in the structure of funding, is a significant factor impacting the increase in AWF, occupancy in the division's mental health hospitals, with higher than average fee rates, also contributed to the increase with an additional 11 patients compared to the prior period.

Commentary on results (continued)

Occupancy

Average occupancy in the group in Q1 2014 was 86.7%, compared to 87.0% in Q1 2013. Within this number CHD occupancy decreased by 0.4 percentage points whilst THG increased by 1.2 percentage points. This reflected a decrease in occupancy of 355. This was primarily the result of the disposal of 14 homes (equating to c350 residents) and a reduction in the number of homes operated as management agreements, offset by additional occupancy from St Margaret's which opened in February 2013 and York Court which opened in July 2013 as well as the acquisition of four homes from Mimosa in Q1 2013.

Income from the group's investment properties was £1.0m in Q1 2014 which is consistent with Q1 2013 with rental income increasing in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, at 63.2% was 3.3 percentage points higher in the current quarter than in the comparative period. At 72.3% of turnover, the THG payroll percentage in Q1 2014 was 3.9 percentage points above the Q1 2013 figure.

Agency costs as a percentage of payroll at 6.1% have increased by 2.8 percentage points compared to the comparative period in the prior year but have fallen from the Q4 2013 peak of 6.7%. This increase was driven by a combination of additional staffing requirements from regulators and an increase in the number of embargoes across the group. Since December 2013 the number of embargoes has decreased from 28 to 21 at the end of March 2014.

Care expenses

Q1 2014 expenses (care and facility combined) at 14.7% of turnover is 0.2 percentage points above the comparable period in 2013, due to continuing inflationary pressures offset by the impact of the group's on-going procurement efficiency project.

Rent

£12.6m was charged for rent in Q1 2014, a 1.6% increase compared to Q1 2013 of £12.4m. Whilst this increase includes approximately £0.2m (c2.6%) of inflation and increases on rents payable under flexing agreements, it is offset by a reduction in external rent payable following the purchase of the freehold of five Northern Ireland leasehold properties on 1 July 2013.

Central costs

Central costs, at 4.8% of turnover in Q1 2014, are 0.6 percentage points above the comparable period in 2013 and the average for full-year 2013.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £15.9m for Q1 2014 was £6.9m below the comparable period in 2013 of £22.8m, with a 3.6% decrease in the EBITDARM margin. The LTM EBITDA at March 2014 has therefore decreased to £87.0m compared to the £93.9m for the year to December 2013.

Capital expenditure

Capital expenditure in Q1 2014 was £8.8m. Four homes have been disposed of during Q1 2014, realising cash proceeds in excess of £3m.

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2014

Commentary on the unaudited condensed consolidated financial statements

Summary

Profit and loss account

The consolidated profit and loss account of Elli Investments Limited is for the quarter ended 31 March 2014. The comparative period is for the quarter ended 31 March 2013.

Balance sheet

Elli Investments Limited is an intermediate holding company in a wider group headed by FSHC Group Holdings Limited. There are therefore certain balances between Elli Investments Limited and other members of the wider FSHC Group Holdings Limited group of companies which only net out on consolidation further up the corporate structure.

Profit and loss account (page 10)

For an analysis of profit and loss account categories above interest, please see the "Commentary on results" section.

Interest

The interest charge for the period includes £13.0m interest on the £350m 8.75% senior secured notes and the £175m 12.25% senior notes. The balance primarily relates to £9.5m of accrued interest on the balances owed to related party undertakings and £1.8m in respect of the amortisation of debt issue costs.

Tax

The tax charge for the quarter was £0.3m. This is comparable with the charge in Q1 2013 and reflects the current estimate of the full year charge.

Balance sheet (page 11)

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.

Fixed assets

Land and buildings are included in the Elli Investments Limited consolidated balance sheet at their fair value on acquisition plus any subsequent movements for additions, disposals, impairments and depreciation.

Commentary on the unaudited condensed consolidated financial statements (continued)

Debtors

The following table presents the debtors at 31 March 2014 and 31 March 2013.

	31 March 2014 £000	31 March 2013 £000
Trade debtors	41,314	39,004
Prepayments, other debtors and accrued income	23,670	25,579
	64,984	64,583

After taking into account the gross up of trade debtors at March 2014 there was a reduction of c£1.0m compared to March 2013.

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 31 March 2014 and 31 March 2013.

	31 March 2014 £000	31 March 2013 £000
Extract		
Trade creditors	14,197	10,853
Corporation tax	17	312
Other taxation and social security	7,892	7,159
Other creditors	42,397	39,620
Accruals and deferred income	30,062	27,011
	94,565	84,955

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.

Long term liabilities

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

- Senior Secured Notes: £350m, 8.75% interest rate
- Senior Notes: £175m, 12.25% interest rate
- Amounts owed to related undertakings: £281.4m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies

Commentary on the unaudited condensed consolidated financial statements (continued)

Cash flow statement (page 12)

Cash flow and liquidity

At 31 March 2014 the group's cash balance was £24.0m. Net cash generated from operating activities in the quarter to 31 March 2014 was £14.7m. In the quarter to 31 March 2013, the net cash generated from operating activities was £19.2m.

At the quarter end the group's £40m revolving credit facility was undrawn.

Working capital

The cash inflow from working capital was £1.0m in the quarter, compared to a £2.4m outflow in Q1 2013.

Interest paid

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. £0.2m of interest was paid in relation to the revolving credit facility.

Elli Investments Limited

Condensed consolidated financial statements - unaudited

Quarter ended 31 March 2014

Contents

Profit and loss account (unaudited)

for the quarter ended 31 March 2014

	Note	**Quarter ended March 2014 £000**	Quarter ended March 2013 £000
Turnover	*4*	**177,877**	174,680
Cost of sales		**(158,771)**	(149,074)
Gross profit		**19,106**	25,606
Administrative expenses - ordinary		**(11,394)**	(10,240)
Administrative expenses - exceptional		**(1,300)**	(1,318)
		(12,694)	(11,558)
Operating profit		**6,412**	14,048
Ordinary activities		**7,712**	15,366
Exceptional activities		**(1,300)**	(1,318)
		6,412	14,048
Interest payable and similar charges		**(24,720)**	(23,453)
Interest receivable and other income		**28**	6
Net interest payable and similar charges		**(24,692)**	(23,447)
Loss on ordinary activities before taxation		**(18,280)**	(9,399)
Tax on loss on ordinary activities	*5*	**(294)**	(274)
Retained loss for the financial period	*13*	**(18,574)**	(9,673)

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

Analysed as:

Operating profit before exceptional items as analysed above	**7,712**	15,366
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**8,714**	8,540
Deduct: amortisation of negative goodwill	**(549)**	(1,065)
EBITDA before exceptional items	**15,877**	22,841

All amounts relate to continuing operations.

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

Consolidated balance sheet (unaudited)
at 31 March 2014

	Note	**31 March 2014**	31 March 2013
		£000	£000
Fixed assets			
Intangible assets	*6*	**(40,155)**	(82,182)
Tangible assets	*7*	**879,432**	914,546
Investment properties	*8*	**29,780**	29,780
		869,057	862,144
Current assets			
Debtors	*9*	**64,984**	64,583
Cash at bank and in hand		**24,031**	29,747
		89,015	94,330
Creditors: amounts falling due within one year	*10*	**(109,748)**	(100,284)
Net current liabilities		**(20,733)**	(5,954)
Total assets less current liabilities		**848,324**	856,190
Creditors: amounts falling due after more than one year	*11*	**(776,445)**	(732,341)
Provisions for liabilities and charges	*12*	**(23,932)**	(22,207)
Net assets		**47,947**	101,642
Capital and reserves			
Called up share capital		**124,368**	124,368
Profit and loss account	*13*	**(76,421)**	(22,726)
Shareholder's funds		**47,947**	101,642

Cash flow statement (unaudited)
for the quarter ended 31 March 2014

	Quarter ended March 2014	Quarter ended March 2013
	£000	£000
Operating profit	**6,412**	14,048
Depreciation and amortisation	**8,165**	7,523
(Increase)/decrease in debtors	**(2,521)**	380
Increase/(decrease) in creditors and provisions	**3,531**	(2,770)
Profit on disposal of fixed assets	**(897)**	-
Net cash inflow from operating activities	**14,690**	19,181
Returns on investments and servicing of finance	**(196)**	(154)
Capital expenditure and financial investment	**(5,631)**	(6,986)
Taxation	**515**	(1,671)
Acquisitions and disposals	**-**	(7,300)
Net cash inflow before financing	**9,378**	3,070
Financing	**(15,000)**	-
(Decrease)/increase in cash in the period	**(5,622)**	3,070
Cash brought forward	**29,653**	26,677
Cash carried forward	**24,031**	29,747

Reconciliation of net cash flow to movement in net debt (unaudited)
for the quarter ended 31 March 2014

	Quarter ended March 2014	Quarter ended March 2013
	£000	£000
(Decrease)/increase in cash in the period	**(5,622)**	3,070
Repayment of revolving credit facility	**15,000**	-
Movement in net debt in the period	**9,378**	3,070
Non cash movement	**(11,238)**	(10,018)
Net debt at start of period	**(750,555)**	(695,646)
Net debt at end of period	**(752,415)**	(702,594)

Reconciliation of movements in equity shareholder's funds (unaudited)

for the quarter ended 31 March 2014

	Quarter ended March 2014	Quarter ended March 2013
	£000	£000
Loss for the financial period	**(18,574)**	(9,673)
Net movement in shareholder's funds	**(18,574)**	(9,673)
Opening shareholder's funds	**66,521**	111,315
Closing shareholder's funds	**47,947**	101,642

Notes

(forming part of the financial statements)

1 General information

Elli Investments Limited (the "company") is a company registered in Guernsey. The condensed interim financial statements of the company are for quarter ended 31 March 2014.

This report does not constitute statutory financial statements and is unaudited.

2 Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice (UK GAAP). They do not include all of the information required for full annual statements and should be read in conjunction with the consolidated financial statements of Elli Investments Limited for the year ended 31 December 2013 which were prepared in accordance with UK Generally Accepted Accounting Practice.

3 Accounting policies

The condensed consolidated financial statements have been prepared on the basis of the accounting policies set out in the 2013 annual report and 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 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.

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.

Notes *(continued)*

(forming part of the financial statements)

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.

Deferred 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.

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.

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

4 Segmental information

	Quarter ended March 2014		Quarter ended March 2013	
	Turnover £000	**Result £000**	Turnover £000	Result £000
Property leases	**967**	**845**	927	625
Operation of care homes and specialised services	**176,910**	**5,567**	173,753	13,423
Group turnover/operating profit after exceptional activities	**177,877**	**6,412**	174,680	14,048
Net interest payable and similar charges		**(24,692)**		(23,447)
Loss before taxation		**(18,280)**		(9,399)

All activities arose in the United Kingdom, Isle of Man and Jersey.

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

5 Taxation

	Quarter ended March 2014	Quarter ended March 2013
	£000	£000
Analysis of tax charge in the period:		
UK corporation tax		
Current tax on loss for the period	**-**	-
UK income tax		
Current tax on loss for the period	**270**	260
Foreign tax		
Current tax on income for the period	**10**	9
Total current tax	**280**	269
Deferred tax		
Origination of timing differences	**14**	5
Tax on loss on ordinary activities	**294**	274

The group structure results in certain profits being taxable under UK income tax rather than UK corporation tax. This increases the group's tax liability in the quarter by £270,000.

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

6 Intangible fixed assets

	Goodwill £000
Net book value	
At beginning of period	**(40,704)**
Amortisation	**549**
At 31 March 2014	**(40,155)**
At 31 March 2013*	**(82,182)**

*During Q4 2013 a fair value adjustment of £41.3m was recorded against negative goodwill

Negative goodwill is being amortised over 20 years.

7 Tangible fixed assets

	Total £000
Net book value	
At beginning of period	**881,692**
Additions	**8,796**
Disposals	**(2,268)**
Depreciation	**(8,788)**
At 31 March 2014	**879,432**
At 31 March 2013	**914,546**

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

8 Investment properties

	March 2014	March 2013
	£000	£000
Valuation	**29,780**	29,780

9 Debtors

	March 2014	March 2013
	£000	£000
Trade debtors	**41,314**	39,004
Prepayments, other debtors and accrued income	**23,670**	25,579
	64,984	64,583

10 Creditors: amounts falling due within one year

	March 2014	March 2013
	£000	£000
Trade creditors	**14,197**	10,853
Corporation tax	**17**	312
Other taxation and social security	**7,892**	7,159
Other creditors	**42,397**	39,620
Amounts due to related undertakings	**71**	71
Accruals and deferred income	**30,062**	27,011
Accrued interest	**15,112**	15,258
	109,748	100,284

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

11 Creditors: amounts falling due after more than one year

	March 2014 £000	March 2013 £000
High yield bonds	**525,000**	525,000
Debt issue costs	**(29,990)**	(37,385)
High yield bonds net of debt issue costs	**495,010**	487,615
Amounts owed to related undertakings	**281,435**	244,726
	776,445	732,341

12 Provisions for liabilities and charges

	Deferred taxation £000	**Provision for onerous contracts £000**	**Total £000**
At beginning of period	4,885	19,183	**24,068**
Charged/(released) to the profit and loss account	14	(382)	**(368)**
Unwinding of discount	-	232	**232**
At end of period	4,899	19,033	**23,932**

The elements of deferred taxation are as follows:	
Difference between accumulated depreciation, amortisation and capital allowances	**4,899**

The group has unrecognised deferred tax assets 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.

13 Reserves

	Profit and loss account £000	**Total £000**
At beginning of period	(57,847)	**(57,847)**
Retained loss for the financial period	(18,574)	**(18,274)**
At end of period	(76,421)	**(76,121)**