Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2015

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 30 September 2015 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.

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

- Q3 2015 turnover for Elli Investments Limited was £1.0m lower than Q3 2014 after allowing for the £5.9m of revenue of closed/sold homes. Compared to Q3 2014 there were 26 fewer care homes and 9 fewer units in The Huntercombe Group ("THG")
- Q3 2015 turnover was £0.2m above Q2 2015 revenue after allowing for £0.7m from closed/sold homes
- The Care Home Division ("CHD") occupancy has increased by 0.3 percentage points in the quarter, the first quarterly increase for 12 months, helped by improved quality of care, as indicated by reduced embargo numbers and improving regulatory ratings
- Admissions year to date are +3.4% while deaths and discharges are +7% driven by the higher level of winter deaths in Q1
- THG occupancy has increased 5.0 percentage points since Q3 2014 due mainly to the closure of underperforming units, and by 1.4 percentage points compared to the prior quarter
- Average Weekly Fees have seen a year on year increase of over 3% in both CHD and THG as the businesses improve resident/patient mix and request fees which reflect the fair cost of care
- In Q3 2015 payroll as a percentage of turnover improved by 1 percentage point in CHD and 1.2 percentage points in THG compared to Q2 2015. Since the start of 2015 payroll as a percentage of turnover has trended down
- From Q3 2014 payroll costs stepped up significantly due to additional staffing requirements on embargoed homes, increased agency usage due to a sector wide shortage of qualified nurses and a short term difficulty to flex staffing levels to reductions in occupancy
- Agency usage at 9.4% of payroll has continued at a higher than expected level primarily due to the national nurse shortfall. However a significant number of senior care practitioners are being trained to fill nurse vacancies and these will start to be deployed from Q4. In addition efforts have restarted to recruit non-EU nurses following the relaxation of migration rules
- Q3 2015 EBITDA of £12.2m is £1.1m more than Q2 2015, but £7.7m lower than the comparative period in 2014
- September 2015 LTM EBITDA of £43.8m, is £7.7m lower than the £51.5m for the year to 30 June 2015
- £10.8m net cash inflow from operating activities during Q3 2015
- Closing Q3 2015 cash balance of £52.3m; net debt of £512.7m at 30 September 2015 (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 30 September 2015.

The results and KPIs for the group since Q4 2013 are summarised below.

Unaudited	2013	2014					2015		
	Q4	Q1	Q2	Q3	Q4	Full year	Q1	Q2	Q3
Turnover (£m)	177.5	177.9	179.2	179.4	176.4	712.9	172.3	172.9	172.5
CHD Turnover (£m)	147.7	147.0	148.5	148.4	145.5	589.4	142.6	142.8	142.5
THG Turnover (£m)	29.8	29.9	29.8	30.0	29.8	119.5	28.7	29.1	28.9
CHD EBITDARM (% of turnover)	21.7%	21.6%	22.0%	23.6%	18.3%	21.4%	17.8%	19.4%	19.7%
THG EBITDARM (% of turnover)	16.1%	15.3%	16.7%	19.5%	15.0%	16.7%	17.8%	17.4%	18.8%
EBITDAR (£m)	32.3	28.5	29.9	32.9	22.6	113.9	22.2	23.9	25.0
EBITDA (£m)	20.1	15.9	17.5	19.9	10.8	64.1	9.7	11.1	12.2
Effective beds – group	23,632	23,447	23,322	23,016	22,607	23,098	22,293	22,148	21,974
Occupied beds – group	20,478	20,321	20,274	20,077	19,602	20,069	19,020	18,741	18,680
CHD occupancy %	87.4%	87.4%	87.5%	88.0%	87.5%	87.6%	85.7%	84.9%	85.2%
THG occupancy %	75.2%	75.8%	75.1%	76.0%	75.2%	75.5%	78.9%	79.6%	81.0%
CHD average weekly fee (£)	580	587	596	599	602	596	608	619	619
THG average weekly fee (£)	2,056	2,060	2,071	2,097	2,104	2,083	2,137	2,134	2,174
CHD payroll (% of turnover)[1]	63.2%	63.2%	63.3%	62.6%	66.4%	63.8%	66.9%	66.4%	65.4%
THG payroll (% of turnover)[1]	71.3%	72.3%	71.1%	69.3%	72.3%	71.2%	70.5%	71.6%	70.4%
Agency to total payroll (%)[1]	6.7%	6.1%	7.2%	8.1%	9.3%	7.7%	8.5%	8.9%	9.4%
Expenses (% of turnover)	14.7%	14.7%	14.2%	13.3%	14.8%	14.2%	14.7%	13.6%	14.2%
Central costs (% of turnover)	4.4%	4.8%	4.6%	4.9%	5.3%	4.9%	5.3%	5.8%	5.5%

Notes:

1 Payroll excludes central payroll from total payroll and investment property income from turnover
2 Full year numbers may include minor rounding differences compared to the four quarter aggregate
3 Q4 2014 and Q1 – Q3 2015 exclude 40 beds in Buchanan Nursery

Turnover

After adjusting for disposals and home closures Q3 2015 turnover for Elli Investments Limited was £1.0m lower than Q3 2014. The combined effect of disposals and closures in CHD and THG was a further £5.9m reduction.

Average Weekly Fee ("AWF")

During Q3 2015 the AWF in CHD increased by 3.3% to £619 from £599 in Q3 2014. This was driven by local authority increases of 3.8% and c2.0% in Scotland and Northern Ireland respectively in April 2015, together with private fee rate increases of up to 5% and, on average, a 1.5% – 2.0% increase in English local authority fees.

THG AWF saw an increase of 3.7% between Q3 2015 and Q3 2014 and an increase of 1.9% compared to Q2 2015.

Commentary on results (continued)

Occupancy

Average occupancy in the group in Q3 2015 was 85.0%, an increase of 0.4 percentage points on the previous quarter, but 2.2 percentage points lower than Q3 2014. Within this number CHD occupancy decreased by 2.8 percentage points, whilst THG increased by 5.0 percentage points. The actual movement in CHD occupancy was a decrease of c770 residents, not including a decrease of c550 due to 26 homes that have been sold or closed. Of the c770 decrease a significant element was due to the higher than historical average winter death rate experienced in Q1 2015 which continued into Q2 2015 and which has not yet reversed. The actual movement in THG was an increase of 10 residents, not including a decrease of c90 due to 9 units that have been sold or closed.

Income from the group's investment properties was £1.0m in Q3 2015 which is consistent with Q3 2014 with rental income increasing in line with the lease agreements.

Payroll

CHD payroll, as a percentage of turnover, at 65.4% was a 1.5 percentage point improvement on the 66.9% peak in Q1 2015. However this was 2.8 percentage points higher than in the comparative period in 2014. At 70.4% of turnover, the THG payroll percentage in Q3 2015 improved by 1.2 percentage points compared to Q2 2015, albeit 1.1 percentage points above Q3 2014.

Agency costs as a percentage of payroll at 9.4% have increased compared to both the comparative period in the prior year and the previous quarter. This increase was driven by a combination of continued additional staffing requirements from regulators and the shortage of qualified nurses across the care home and wider healthcare sector requiring the use of agency staff.

Care expenses

Q3 2015 expenses (care and facility combined) at 14.2% of turnover is 0.9 and 0.6 percentage points above the comparable period in 2014 and the previous quarter respectively, in part due to reduced income in the period.

Rent

£12.8m was charged for rent in Q3 2015 compared to £13.0m in Q3 2014.

Central costs

Central costs, at 5.5% of turnover in Q3 2015, are broadly similar to the previous quarters in 2015 and the comparable period in 2014.

EBITDA

As a consequence of the factors outlined above, the EBITDA of £12.2m for Q3 2015 was £7.7m below the comparable period in 2014 of £19.9m, with a 3.3 percentage point reduction in the EBITDARM margin. The LTM EBITDA at September 2015 has therefore decreased to £43.8m compared to the £51.5m for the year to June 2015.

Capital expenditure

Capital expenditure in Q3 2015 was £11.5m, offset by sales proceeds of £2.1m.

Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 30 September 2015

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 30 September 2015. The comparative period is for the quarter ended 30 September 2014.

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 £12.6m of accrued interest on the balances owed to related party undertakings, £1.9m in respect of the amortisation of debt issue costs and £0.7m interest on the term loan.

Tax

The tax credit for the quarter was £0.2m, comprising a £0.2m tax charge, reflecting the current estimate of the full year charge, offset by a £0.4m credit for utilisation of group relief.

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, depreciation or impairment.

Commentary on the unaudited condensed consolidated financial statements (continued)

Debtors

The following table presents the debtors at 30 September 2015 and 30 September 2014.

	30 September 2015	30 September 2014
	£000	£000
Extract		
Trade debtors	**33,542**	39,906
Other debtors and prepayments	**20,356**	20,063
	53,898	59,969

The reduction in trade debtors of c£6.4m compared to September 2014 was largely due to improved cash collection and timing of billing cycles.

Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 30 September 2015 and 30 September 2014.

	30 September 2015	30 September 2014
	£000	£000
Extract		
Trade creditors	**10,514**	9,799
Corporation tax	**-**	321
Other taxes and social security	**7,757**	7,694
Other creditors	**38,355**	49,560
Accruals and deferred income	**36,254**	26,904
	92,880	94,278

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 30 September 2015 the group's long term liabilities comprised the following:

- Senior Secured Notes: £350m, 8.75% interest rate
- Senior Notes: £175m, 12.25% interest rate
- Term loan: £40m, LIBOR + 6% interest rate
- Amounts owed to related undertakings: £347.0m, 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 30 September 2015 the group's cash balance was £52.3m. Net cash generated from operating activities in the period to 30 September 2015 was £10.8m. In the comparative three month period to 30 September 2014, the net cash generated from operating activities was £22.6m.

Working capital

The cash inflow from working capital was £0.04m in the quarter.

Interest paid

No interest has been paid during the quarter as interest on the £525m high yield bonds is payable in June and December and the next interest on the term loan is due in November. £0.2m has been paid in respect of debt related items.

Elli Investments Limited

Condensed consolidated financial statements - unaudited

Quarter ended 30 September 2015

Contents

Profit and loss account (unaudited)

for the quarter ended 30 September 2015

	Note	**Quarter ended September 2015 £000**	Quarter ended September 2014 £000
Turnover	*4*	**172,472**	179,409
Cost of sales		**(157,637)**	(156,863)
Gross profit		**14,835**	22,546
Administrative expenses - ordinary		**(11,260)**	(11,672)
Administrative expenses - exceptional		**(617)**	(939)
		(11,877)	(12,611)
Operating profit		**2,958**	9,935
Ordinary activities		**3,575**	10,874
Exceptional activities		**(617)**	(939)
		2,958	9,935
Interest payable and similar charges		**(28,429)**	(26,237)
Interest receivable and other income		**54**	94
Net interest payable and similar charges		**(28,375)**	(26,143)
Loss on ordinary activities before taxation		**(25,417)**	(16,208)
Tax on loss on ordinary activities	*5*	**195**	(276)
Retained loss for the financial period	*13*	**(25,222)**	(16,484)

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

Analysed as:

Operating profit before exceptional items as analysed above	**3,575**	10,874
Add back: depreciation of tangible fixed assets and amortisation of capital grants	**9,159**	9,617
Deduct: amortisation of negative goodwill	**(549)**	(549)
EBITDA before exceptional items	**12,185**	19,942

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 30 September 2015

	Note	30 September 2015 £000	30 September 2014 £000
Fixed assets			
Intangible assets	*6*	**(36,860)**	(39,057)
Tangible assets	*7*	**791,836**	875,659
Investment properties	*8*	**29,780**	29,780
		784,756	866,382
Current assets			
Debtors	*9*	**56,337**	60,358
Cash at bank and in hand		**52,334**	20,368
		108,671	80,726
Creditors: amounts falling due within one year	*10*	**(108,625)**	(109,385)
Net current assets/(liabilities)		**46**	(28,659)
Total assets less current liabilities		**784,802**	837,723
Creditors: amounts falling due after more than one year	*11*	**(891,339)**	(800,211)
Provisions for liabilities and charges	*12*	**(26,965)**	(23,662)
Net (liabilities)/assets		**(133,502)**	13,850
Capital and reserves			
Called up share capital		**174,368**	124,368
Profit and loss account	*13*	**(307,870)**	(110,518)
Shareholder's (deficit)/funds		**(133,502)**	13,850

Cash flow statement (unaudited)

for the quarter ended 30 September 2015

	Quarter ended September 2015 £000	Quarter ended September 2014 £000
Operating profit	**2,958**	9,935
Depreciation and amortisation	**8,610**	9,068
Decrease in debtors	**1,626**	2,664
(Decrease)/increase in creditors and provisions	**(1,591)**	1,929
Profit on disposal of fixed assets	**(776)**	(1,005)
Net cash inflow from operating activities	**10,827**	22,591
Returns on investments and servicing of finance	**(108)**	(260)
Capital expenditure and financial investment	**(9,400)**	(4,320)
Taxation	**(320)**	(215)
Net cash inflow before financing	**999**	17,796
Financing	**-**	(15,000)
Increase in cash in the period	**999**	2,796
Cash brought forward	**51,335**	17,572
Cash carried forward	**52,334**	20,368

Reconciliation of net cash flow to movement in net debt (unaudited)

for the quarter ended 30 September 2015

	Quarter ended September 2015 £000	Quarter ended September 2014 £000
Increase in cash in the period	**999**	2,796
Repayment of revolving credit facility/bank loans	**-**	15,000
Debt related costs	**90**	-
Movement in net debt in the period	**1,089**	17,796
Non cash movement	**(14,419)**	(12,637)
Net debt at start of period	**(825,675)**	(785,002)
Net debt at end of period	**(839,005)**	(779,843)

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

for the quarter ended 30 September 2015

	Quarter ended September 2015	Quarter ended September 2014
	£000	£000
Loss for the financial period	**(25,222)**	(16,484)
Net movement in shareholder's (deficit)/funds	**(25,222)**	(16,484)
Opening shareholder's (deficit)/funds	**(108,280)**	30,334
Closing shareholder's (deficit)/funds	**(133,502)**	13,850

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 30 September 2015.

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 period ended 31 December 2014 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 2014 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 September 2015		Quarter ended September 2014	
	Turnover £000	**Result £000**	Turnover £000	Result £000
Property leases	**1,007**	**887**	989	671
Operation of care homes and specialised services	**171,465**	**2,071**	178,420	9,264
Group turnover/operating profit after exceptional activities	**172,472**	**2,958**	179,409	9,935
Net interest payable and similar charges		**(28,375)**		(26,143)
Loss before taxation		**(25,417)**		(16,208)

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 September 2015 £000	Quarter ended September 2014 £000
Analysis of tax charge in the period:		
UK corporation tax		
Current tax on loss for the period	**(218)**	251
Foreign tax		
Current tax on income for the period	**10**	10
Total current tax	**(208)**	261
Deferred tax		
Origination of timing differences	**13**	15
Tax on loss on ordinary activities	**(195)**	276

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 £203,000. This has been offset by a £421,000 credit for the utilisation of group relief.

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

6 Intangible fixed assets

	Goodwill £000
Net book value	
At beginning of period	**(37,409)**
Amortisation	**549**
At 30 September 2015	**(36,860)**
At 30 September 2014	(39,057)

Negative goodwill is being amortised over 20 years.

7 Tangible fixed assets

	Total £000
Net book value	
At beginning of period	**790,848**
Additions	**11,512**
Disposals	**(1,336)**
Depreciation	**(9,188)**
At 30 September 2015*	**791,836**
At 30 September 2014	875,659

* During Q4 2014 an impairment of £80.8m was recorded against tangible fixed assets

8 Investment properties

	September 2015 £000	September 2014 £000
Valuation	**29,780**	29,780

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

9 Debtors

	September 2015 £000	September 2014 £000
Trade debtors	**33,542**	39,906
Prepayments, other debtors and accrued income	**20,356**	20,063
Corporation tax	**1,473**	-
Amounts due from related undertakings	**966**	389
	56,337	60,358

10 Creditors: amounts falling due within one year

	September 2015 £000	September 2014 £000
Trade creditors	**10,514**	9,799
Corporation tax	**-**	321
Other taxation and social security	**7,757**	7,694
Other creditors	**38,355**	49,560
Amounts due to related undertakings	**70**	78
Accruals and deferred income	**36,254**	26,904
Accrued interest	**15,675**	15,029
	108,625	109,385

11 Creditors: amounts falling due after more than one year

	September 2015 £000	September 2014 £000
High yield bonds	**525,000**	525,000
Term loan	**40,000**	-
Debt issue costs	**(20,628)**	(26,498)
External debt net of debt issue costs	**544,372**	498,502
Amounts owed to group undertakings	**346,967**	301,709
	891,339	800,211

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

12 Provisions for liabilities and charges

	Deferred taxation £000	Provision for onerous contracts £000	Total £000
At beginning of period	4,962	22,061	**27,023**
Charged/(released) to the profit and loss account	13	(300)	**(287)**
Unwinding of discount	-	229	**229**
At end of period	4,975	21,990	**26,965**

The elements of deferred taxation are as follows:	
Difference between accumulated depreciation, amortisation and capital allowances	**4,975**

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	(282,648)	**(282,648)**
Retained loss for the financial period	(25,222)	**(25,222)**
At end of period	(307,870)	**(307,870)**