

# Four Seasons Health Care

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2018



## Contents

Group financial highlights	1
Commentary on results	2
Commentary on the unaudited condensed consolidated financial statements	5
Condensed consolidated financial statements (unaudited)	8
Consolidated profit and loss account and other comprehensive income (unaudited)	10
Consolidated balance sheet (unaudited)	11
Consolidated statement of changes in equity (unaudited)	12
Consolidated cash flow statement (unaudited)	13
Notes	14

### 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 2018 which are maintained in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. 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.

### DISCLAIMER

**THIS DOCUMENT HAS BEEN PREPARED BY ELLI INVESTMENTS LIMITED. BY REVIEWING THIS DOCUMENT OR PARTICIPATING ON THE CONFERENCE CALL THAT PRESENTS IT, YOU AGREE TO BE BOUND BY THE FOLLOWING CONDITIONS.**

**THIS DOCUMENT IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ELLI FINANCE (UK) PLC. FURTHERMORE, IT DOES NOT CONSTITUTE A RECOMMENDATION BY ELLI INVESTMENTS LIMITED OR ANY OTHER PARTY TO SELL OR BUY SECURITIES IN ELLI INVESTMENTS LIMITED OR ANY OTHER SECURITIES. ALL WRITTEN OR ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO ELLI INVESTMENTS OR PERSONS ACTING ON THEIR BEHALF ARE QUALIFIED IN THEIR ENTIRETY BY THESE CAUTIONARY STATEMENTS.**

## Group financial highlights

- At £155.6m, Q1 2018 turnover for Elli Investments Limited is £4.9m, or 3.3%, higher than Q1 2017 after adjusting for the impact of disposals and closures (an average reduction of c1,500 effective beds)
- Q1 2018 EBITDA of £7.3m is £4.6m lower than Q1 2017, primarily driven by lower care home occupancy and increases in agency in Four Seasons and The Huntercombe Group
- Group occupancy % in Q1 2018 saw a 1.5 percentage point decrease (Four Seasons Health Care: 2.0 percentage point decrease; brighterkind: 0.8 percentage point increase; The Huntercombe Group (THG): 0.9 percentage point increase) compared to Q1 2017, and a 1.8 percentage point decrease compared to Q4 2017 due to a high level of winter deaths
- Q1 2018 group average weekly fee was £828, 1.3% higher than Q4 2017 (Four Seasons Health Care: 1.5%; brighterkind 2.0%; THG: 4.2%)
- Improvements in quality, with over 71% of the group's care homes rated as Good or Outstanding, or the approximate equivalents under the different regulators, as at April 2018 – an increase from around 64% as at April 2017
- Q1 2018 payroll as a percentage of turnover in the group's care homes increased by 1.9 percentage points compared to Q1 2017 and 1.2 percentage points compared to Q4 2017. Within THG, payroll as a percentage of turnover improved by 0.4 percentage points on the previous quarter
- Agency as a percentage of payroll of 9.3% in the group's care homes in Q1 2018 represented an increase of 0.4 percentage points on the previous quarter, and reflects the impact of the on-going shortage of nurses across the wider healthcare sector. Agency spend continues to represent a challenge in THG
- £6.7m net cash outflow from operations in Q1 2018
- On 15 March 2018 the group entered into a new £70m credit facility agreement with its majority creditor, and repaid the £40m term loan
- Closing Q1 2018 cash balance of £21.4m; net debt of £552.6m at March 2018 (excluding any accrued interest, amounts owed to related undertakings and debt issue costs) with undrawn available facilities of £21.0m

## Commentary on results

Four Seasons Health Care is pleased to announce its results for the quarter ended 31 March 2018.

The results and KPIs for the group since Q1 2017 are summarised below.

Unaudited	2017 <sup>(5)</sup>					2018
	Q1	Q2	Q3	Q4	Year <sup>(2)</sup>	Q1
<b>Turnover (£m)</b>						
- FSHC	113.2	112.3	110.1	115.1	<b>450.6</b>	105.6
- brighterkind	23.3	24.0	24.5	26.6	<b>98.5</b>	25.0
- THG	27.3	28.1	27.5	28.2	<b>111.2</b>	24.9
<b>Effective beds</b>						
- FSHC	14,690	14,105	13,712	13,403	<b>13,977</b>	13,359
- brighterkind	2,208	2,208	2,208	2,208	<b>2,208</b>	2,210
- THG	934	901	833	766	<b>859</b>	690
<b>Occupancy %</b>						
- FSHC	90.2%	90.0%	90.5%	90.3%	<b>90.3%</b>	88.2%
- brighterkind	85.8%	85.7%	86.8%	87.3%	<b>86.4%</b>	86.6%
- THG	81.4%	82.4%	82.3%	81.2%	<b>81.8%</b>	82.3%
<b>Average weekly fee (£)</b>						
- FSHC	657	680	682	679	<b>674</b>	689
- brighterkind	937	968	973	976	<b>964</b>	996
- THG	2,607	2,721	2,876	3,016	<b>2,805</b>	3,144
<b>Payroll % (of turnover)<sup>(1)</sup></b>						
- FSHC	64.8%	64.9%	64.6%	66.3%	<b>65.2%</b>	67.7%
- brighterkind	58.2%	57.8%	55.9%	56.0%	<b>57.0%</b>	56.8%
- THG	72.9%	74.2%	76.3%	75.3%	<b>74.7%</b>	74.9%
<b>Agency to total payroll % <sup>(1)</sup></b>						
- FSHC	9.0%	9.6%	10.7%	9.9%	<b>9.8%</b>	10.4%
- brighterkind	5.3%	3.7%	4.3%	3.5%	<b>4.2%</b>	3.6%
- THG	12.3%	14.3%	17.1%	16.6%	<b>15.0%</b>	16.2%
<b>EBITDARM % (of turnover)</b>						
- FSHC	19.8%	20.7%	21.7%	18.6%	<b>20.2%</b>	16.6%
- brighterkind	28.3%	29.8%	32.3%	32.2%	<b>30.6%</b>	29.3%
- THG <sup>(3)</sup>	16.3%	15.2%	12.6%	13.4%	<b>14.4%</b>	14.2%
<b>Total EBITDA (£m)</b>						
	11.8	13.5	13.9	14.5	<b>53.7</b>	7.3

Notes:

- 1 Payroll % excludes central payroll from total payroll
- 2 Full year numbers may include minor rounding differences compared to the four quarter aggregate
- 3 Includes £0.2m rental income per quarter
- 4 "FSHC" Four Seasons Health Care; "THG" The Huntercombe Group
- 5 2017 is a 53 week period and Q4 2017 is a 14 week period

## Commentary on results (continued)

### Turnover

Q1 2018 turnover for Elli Investments Limited was £4.9m, or 3.3%, higher than Q1 2017 after adjusting for the impact of disposals and closures (an average reduction of c1,500 effective beds).

#### *Average Weekly Fee*

During Q1 2018 the Average Weekly Fee ("AWF") of £828 across the group was 5.7% higher than the comparative quarter in 2017. Since Q1 2017 FSHC has seen an increase of 4.9%, brighterkind a 6.3% increase and THG a 20.6% increase. The increase included the benefit of the rationalisation of the FSHC estate, including removing certain homes with unviable fee rates, an increase in private mix in brighterkind and the disposal of certain lower acuity units in THG. Excluding the impact of the disposals of lower acuity units, THG's Q1 2018 increase versus Q1 2017 was 8.2%.

#### *Occupancy*

Average occupancy in the group in Q1 2018 was 87.7%, compared to 89.2% in Q1 2017. The decrease is predominantly due to a very high level of winter deaths, both within the sector and the wider population.

### Payroll

Payroll in the group's care homes as a percentage of turnover was at 65.6% in Q1 2018, a 1.2% increase from Q4 2017. Within this number, FSHC payroll as a percentage of turnover increased by 1.4 percentage points and brighterkind increased by 0.8 percentage points compared to Q4 2017. THG payroll as a percentage of turnover improved by 0.4 percentage points in Q1 2018 compared to Q4 2017.

Total agency costs across the group have increased by 0.2 percentage points compared to the previous quarter, and by 1.4 percentage points compared to Q1 2017, predominantly due to the continued shortage of nurses across the NHS and the wider health care sector.

### Care and facility expenses

Q1 2018 expenses (care and facility combined), at 14.8% of turnover, have increased by 0.7 percentage points since Q4 2017, and are broadly consistent with Q1 2017.

### Rent

£10.7m was charged for rent in Q1 2018, a £0.7m reduction from Q1 2017, being a combination of underlying inflationary uplifts, certain rents flexing based on performance, the surrender of certain leases and the £0.6m additional non-cash credit (£2.5m in Q1 2018) resulting from the unwind of the group's onerous lease provision.

### Central costs

Central costs, at 6.7% of turnover in Q1 2018, were 0.3 percentage points higher than Q4 2017 and 0.4 percentage points above Q1 2017.

### EBITDA

As a consequence of the factors outlined above, the EBITDA of £7.3m for Q1 2018 was £4.5m lower than the same period in 2017, with £1.7m of the decrease related to homes and specialised units closed or sold since Q1 2017. LTM EBITDA at March 2018 is therefore £49.1m, £4.6m lower than the year to December 2017.

### Capital expenditure and disposals

Capital expenditure in Q1 2018 was £4.6m. Two care homes and a plot of land were sold during Q1 2018, realising £3.0m cash proceeds.

# **Four Seasons Health Care**

(Elli Investments Limited)

Financial results:

Quarter ended 31 March 2018

## **Commentary on the unaudited condensed consolidated financial statements**

### **Summary**

On 18 May 2018, Elli Investments Limited and certain of its subsidiaries signed a Restructuring Lock-up Agreement with certain investment funds affiliated with H/2 Capital Partners, as majority creditor in both the Senior Secured Notes (SSNs) and the Senior Notes (SNs), which documents their agreement to proceed with a restructuring of the group that will see ownership transfer to a new company controlled by creditors ("Newco"). The restructuring is targeted to complete on or before 31 July 2018. In preparation for the transfer to new ownership, the group will undertake an intra-group reorganisation, the details of which are yet to be finalised. The terms of the proposed restructuring stipulate that all of the companies and operations in the Elli Investments Limited group, other than Elli Investments Limited itself, will transfer to Newco. Whilst the directors expect that a successful restructuring will be implemented, there remain risks and uncertainties relating to its implementation as outlined in the Elli Investments Limited 2017 consolidated financial statements. However, notwithstanding the fact that Elli Investments Limited may or may not remain in operation for the 12 months following the date of these accounts, these condensed consolidated financial statements have been prepared on a going concern basis.

#### *Profit and loss account and other comprehensive income*

The consolidated profit and loss account and other comprehensive income of Elli Investments Limited is for the quarter ended 31 March 2018. The comparative period is for the quarter ended 31 March 2017.

#### *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 and other comprehensive income (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 £16.7m of accrued interest on the balances owed to parent and related party undertakings, £2.7m relating to the refinancing of the £40m term loan, £3.4m in respect of the amortisation of debt issue costs and £0.6m interest on the term loan.

#### *Tax*

The tax credit for the quarter was £0.6m, being a £0.1m tax charge, reflecting the current estimate of the full year charge, offset by a £0.7m credit for the 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, less amounts to reflect the subsequent disposal of assets.

#### *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)

### Balance sheet (continued)

#### Debtors

The following table presents the debtors at 31 March 2018 and 31 March 2017.

	<b>March 2018 £000</b>	March 2017 £000
Trade debtors	<b>24,063</b>	26,623
Prepayments, other debtors and accrued income	<b>16,182</b>	16,168
Amounts owed by related undertakings	<b>1,526</b>	3,112
	<b>41,771</b>	45,903

#### Creditors: amounts falling due within one year

The following table presents an extract of creditors falling due within one year at 31 March 2018 and 31 March 2017.

	<b>March 2018 £000</b>	March 2017 £000
<i>Extract</i>		
Term loan	<b>49,000</b>	40,000
High yield bonds	<b>525,000</b>	-
Trade creditors	<b>17,879</b>	24,329
Accruals and deferred income	<b>25,633</b>	27,754
Taxation and social security	<b>12,712</b>	8,453
Other creditors	<b>39,284</b>	36,384
Accrued interest and finance costs	<b>41,507</b>	15,396
	<b>711,015</b>	152,316

#### Provisions for liabilities and charges

As well as the group's deferred tax liability, provisions are held in respect of onerous leases on certain of the group's leasehold properties. In addition there is a provision of approximately £12.6m to reflect guaranteed increases in operating leases, other than those linked to RPI, on a straight line basis over the life of the lease.

#### Financial liabilities

At 31 March 2018 the group's financing arrangements comprised the following:

- Senior Secured Notes: £350m, at a fixed rate of 8.75%, due to be repaid in 2019
- Senior Notes: £175m, at a fixed rate of 12.25%, due to be repaid in 2020
- Term loan: £49m, at an interest rate of LIBOR + 3.75%, due to be repaid in March 2019. As at 24 May 2018, £58m of the £70m term loan has been drawn down
- Amounts owed to related and parent undertakings: £492.4m, being amounts owed to entities within the wider FSHC Group Holdings Limited group of companies
- Notwithstanding their respective maturing dates, in light of the interest default on the senior secured notes and senior notes on 15 December 2017 and the current debt restructuring process, they have been classified as due in less than one year



## **Commentary on the unaudited condensed consolidated financial statements (continued)**

### **Cash flow statement (page 13)**

#### *Cash flow and liquidity*

At 31 March 2018 the group's cash balance was £21.4m. Net cash utilised by operating activities, excluding interest payments, in the quarter ended 31 March 2018 was £6.7m. In the quarter ended 31 March 2017, the net cash generated from operating activities, excluding interest payments, was £6.3m.

#### *Working capital*

The cash outflow from working capital was £5.5m in the quarter, compared to a £0.5m inflow in Q1 2017.

#### *Interest paid*

No interest has been paid on the £525m high yield bonds during the quarter as interest is payable in June and December. £1.1m of interest has been paid on the previous term loan during Q1 2018.

# **Elli Investments Limited**

Condensed consolidated financial statements -  
unaudited

Quarter ended 31 March 2018

## Contents

Consolidated profit and loss account and other comprehensive income (unaudited)	10
Consolidated balance sheet (unaudited)	11
Consolidated statement of changes in equity (unaudited)	12
Consolidated cash flow statement (unaudited)	13
Notes	14

## Consolidated profit and loss account and other comprehensive income (unaudited)

for the quarter ended 31 March 2018

	<i>Note</i>	<b>Quarter ended March 2018 £000</b>	Quarter ended March 2017 £000
<b>Turnover</b>	5	<b>155,563</b>	163,850
Cost of sales		<b>(144,557)</b>	(148,076)
<b>Gross profit</b>		<b>11,006</b>	15,774
Administrative expenses – ordinary		<b>(11,915)</b>	(11,768)
Administrative expenses – exceptional	6	<b>(6,795)</b>	(4,999)
Other operating income – exceptional	4, 6	<b>275</b>	-
		<b>(18,435)</b>	(16,767)
<b>Operating loss</b>		<b>(7,429)</b>	(993)
Ordinary activities		<b>(909)</b>	4,006
Exceptional activities		<b>(6,520)</b>	(4,999)
		<b>(7,429)</b>	(993)
Interest payable and similar charges		<b>(36,516)</b>	(30,224)
Interest receivable and other income		<b>24</b>	10
Net interest payable and similar charges		<b>(36,492)</b>	(30,214)
<b>Loss on ordinary activities before taxation</b>		<b>(43,921)</b>	(31,207)
Tax on loss on ordinary activities	7	<b>592</b>	363
<b>Retained loss for the financial period</b>		<b>(43,329)</b>	(30,844)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the financial period</b>		<b>(43,329)</b>	(30,844)

<b>Non-GAAP measure: pre-exceptional Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA)</b>		
<i>Analysed as:</i>		
Operating (loss) / profit before exceptional items as analysed above	<b>(909)</b>	4,006
Add back: depreciation of tangible fixed assets and amortisation of capital grants	<b>8,555</b>	8,379
Deduct: amortisation of negative goodwill	<b>(372)</b>	(549)
<b>EBITDA before exceptional items</b>	<b>7,274</b>	11,836

All amounts relate to continuing operations.

## Consolidated balance sheet (unaudited)

at 31 March 2018

	<i>Note</i>	<b>March 2018 £000</b>	March 2017 £000
<b>Fixed assets</b>			
Negative goodwill	<i>8</i>	<b>(21,247)</b>	(33,564)
Tangible assets	<i>9</i>	<b>483,468</b>	532,711
		<b>462,221</b>	499,147
<b>Current assets</b>			
Debtors	<i>10</i>	<b>41,771</b>	45,903
Cash at bank and in hand		<b>21,432</b>	44,780
		<b>63,203</b>	90,683
<b>Creditors: amounts falling due within one year</b>	<i>11</i>	<b>(708,474)</b>	(153,160)
<b>Net current liabilities</b>		<b>(645,271)</b>	(62,477)
<b>Total assets less current liabilities</b>		<b>(183,050)</b>	436,670
<b>Creditors: amounts falling due after more than one year</b>	<i>12</i>	<b>(492,235)</b>	(943,685)
<b>Provisions for liabilities and charges</b>			
Deferred tax liabilities	<i>13</i>	<b>(5,087)</b>	(5,092)
Other provisions	<i>14</i>	<b>(28,565)</b>	(40,598)
		<b>(33,652)</b>	(45,690)
<b>Net liabilities</b>		<b>(708,937)</b>	(552,705)
<b>Capital and reserves</b>			
Called up share capital	<i>15</i>	<b>174,368</b>	174,368
Profit and loss account		<b>(883,305)</b>	(727,073)
<b>Shareholder's deficit</b>		<b>(708,937)</b>	(552,705)

## Consolidated statement of changes in equity (unaudited)

	Called up share capital £000	Profit and loss account £000	<b>Total £000</b>
<b>Balance at 1 January 2017</b>	174,368	(696,229)	<b>(521,861)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	-	(30,844)	<b>(30,844)</b>
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(30,844)	<b>(30,844)</b>
<b>Balance at 31 March 2017</b>	174,368	(727,073)	<b>(552,705)</b>
<b>Balance at 1 January 2018</b>	174,368	(839,976)	<b>(665,608)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	-	(43,329)	<b>(43,329)</b>
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	(43,329)	<b>(43,329)</b>
<b>Balance at 31 March 2018</b>	174,368	(883,305)	<b>(708,937)</b>

## Consolidated cash flow statement (unaudited)

for the quarter ended 31 March 2018

	Quarter ended March 2018 £000	Quarter ended March 2017 £000
<b>Cash flows from operating activities</b>		
Loss for the period	(43,329)	(30,844)
Adjustments for:		
Depreciation, amortisation and impairment losses	8,183	7,830
Net interest payable and similar charges	36,492	30,214
(Gain)/loss on sale of tangible fixed assets	(288)	745
Taxation	(592)	(363)
	466	7,582
(Decrease)/increase in cash arising from working capital movement	(5,524)	481
Decrease in provisions	(2,248)	(1,437)
	(7,306)	6,626
Interest received	24	10
Tax received/(paid)	541	(380)
<b>Net cash from operating activities</b>	<b>(6,741)</b>	6,256
<b>Cash flows from investing activities</b>		
Proceeds from sale of tangible fixed assets	3,020	10,823
Acquisition of tangible fixed assets	(4,575)	(5,331)
<b>Net cash from investing activities</b>	<b>(1,555)</b>	5,492
<b>Cash flows from financing activities</b>		
Interest paid	(1,167)	-
Repayment of term loan	(40,000)	-
Drawdown of new term loan	49,000	-
Debt refinance and exit related costs	(4,100)	-
<b>Net cash from financing activities</b>	<b>3,733</b>	-
(Decrease)/increase in cash and cash equivalents	(4,563)	11,748
Cash and cash equivalents at 1 January	25,995	33,032
<b>Cash and cash equivalents at 31 March</b>	<b>21,432</b>	44,780

## 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 2018.

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 Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. 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 2017 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 2017 annual report and accounts of Elli Investments Limited.

#### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of tangible fixed assets that had been revalued to fair value on or prior to the date of transition to FRS 102, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 45 years
- Equipment and fixtures – 3 to 5 years
- Motor vehicles – 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### *Operating leases*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.



## **Notes (continued)**

*(forming part of the financial statements)*

### **3 Accounting policies (continued)**

#### *Goodwill*

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

#### *Negative goodwill*

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired is recognised in profit or loss in the periods expected to benefit. Where the assets which gave rise to the negative goodwill are subsequently closed or sold, the associated negative goodwill balance is included with the net disposals charge recognised in the exceptional administrative expenses line in the profit and loss account.

#### *Taxation*

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### *Exceptional items*

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gains or losses on the disposal or impairment of assets and other significant non-recurring gains or losses. Where exceptional items are reversed, the reversal is debited or credited to exceptional items.

#### *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 Other operating income

	<b>Quarter ended March 2018</b>	Quarter ended March 2017
	<b>£000</b>	£000
Net profit on sale of tangible fixed assets	<b>275</b>	-

### 5 Segmental information

Quarter ended 31 March 2018					
	Four Seasons Health Care £000	brighterkind £000	The Huntercombe Group £000	Unallocated £000	Total £000
Turnover	105,627	25,032	24,904	-	155,563
EBITDARM before exceptional items	17,541	7,328	3,508	-	28,377
Rent				(10,720)	(10,720)
Central costs				(10,383)	(10,383)
EBITDA					7,274

  

Quarter ended 31 March 2017					
	Four Seasons Health Care £000	brighterkind £000	The Huntercombe Group £000	Unallocated £000	Total £000
Turnover	113,179	23,333	27,338	-	163,850
EBITDARM before exceptional items	22,443	6,601	4,441	-	33,485
Rent				(11,364)	(11,364)
Central costs				(10,285)	(10,285)
EBITDA					11,836

The above disclosure of financial information correlates with the information presented to the board.

No analysis of individual business assets and liabilities is presented to the board on a monthly basis and therefore no measure of business assets and liabilities is disclosed above. The total group assets and liabilities are as presented in the consolidated balance sheet.

### 6 Exceptional items

	<b>Quarter ended March 2018</b>	Quarter ended March 2017
	<b>£000</b>	£000
Administrative expenses – exceptional	<b>(6,795)</b>	(4,999)
Net profit on sale of tangible fixed assets	<b>275</b>	-
	<b>(6,520)</b>	(4,999)

The operating loss during the quarter includes exceptional costs of £6.5m. Within this total are closed home and redundancy costs totalling £1.3m, project costs of £0.5m and £4.6m relating to the restructuring.

## Notes (continued)

(forming part of the financial statements)

### 7 Taxation

	Quarter ended March 2018 £000	Quarter ended March 2017 £000
<b>Total expense recognised in the profit and loss account and other comprehensive income and equity</b>		
<i>UK corporation tax</i>		
Current tax on loss for the period	(720)	(668)
<i>UK income tax</i>		
Current tax on loss for the period	117	285
<i>Foreign tax</i>		
Current tax on income for the period	-	10
Total current tax	(603)	(373)
<i>Deferred tax (see note 13)</i>		
Origination and reversal of timing differences	11	10
Total deferred tax	11	10
Total tax	(592)	(363)

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 £117,000. This has been offset by a £720,000 credit for the utilisation of group relief by a related group.

### 8 Negative goodwill

	Negative goodwill £000
<b>Net book value</b>	
At beginning of period	(21,619)
Amortisation	372
<b>At 31 March 2018</b>	<b>(21,247)</b>
At 31 March 2017	(33,564)

Negative goodwill is being amortised over 20 years.

**Notes (continued)**

(forming part of the financial statements)

**9 Tangible fixed assets**

	<b>Total £000</b>
<b>Net book value</b>	
At beginning of period	<b>490,202</b>
Additions	<b>4,575</b>
Disposals	<b>(2,732)</b>
Depreciation	<b>(8,577)</b>
<b>At 31 March 2018</b>	<b>483,468</b>
At 31 March 2017	532,711

**10 Debtors**

	<b>March 2018 £000</b>	March 2017 £000
Trade debtors	<b>24,063</b>	26,623
Prepayments, other debtors and accrued income	<b>16,182</b>	16,168
Amounts owed by related undertakings	<b>1,526</b>	3,112
	<b>41,771</b>	45,903

## Notes (continued)

(forming part of the financial statements)

### 11 Creditors: amounts falling due within one year

	<b>March 2018 £000</b>	March 2017 £000
Term loan	<b>49,000</b>	40,000
High yield bonds	<b>525,000</b>	-
Debt issue costs	<b>(3,059)</b>	-
Trade creditors	<b>17,879</b>	24,329
Amounts due to related undertakings	<b>189</b>	70
Amounts due to parent undertakings	<b>92</b>	201
Accruals and deferred income	<b>25,633</b>	27,754
Taxation and social security	<b>12,712</b>	8,453
Other creditors	<b>39,284</b>	36,384
Corporation tax	<b>237</b>	573
Accrued interest and finance costs	<b>41,507</b>	15,396
	<b>708,474</b>	153,160

### 12 Creditors: amounts falling due after more than one year

	<b>March 2018 £000</b>	March 2017 £000
High yield bonds	-	525,000
Debt issue costs	-	(9,346)
External debt net of debt issue costs	-	515,654
Amounts owed to related undertakings	<b>490,000</b>	426,088
Amounts owed to parent undertakings	<b>2,235</b>	1,943
	<b>492,235</b>	943,685

### 13 Deferred tax liabilities

	<b>March 2018 £000</b>	March 2017 £000
<i>Deferred tax liabilities are attributable to the following:</i>		
Accelerated capital allowances	<b>5,087</b>	5,092

## Notes (continued)

(forming part of the financial statements)

### 14 Other provisions

	Provision for operating leases £000	Provision for onerous leases £000	Total £000
Balance at beginning of period	12,662	18,069	30,731
Provisions made during the period	145	-	145
Provisions used during the period	(248)	(2,083)	(2,331)
Provisions released to exceptional items during the period	-	(62)	(62)
Unwinding of discounted amounts	-	82	82
<b>Balance at end of period</b>	<b>12,559</b>	<b>16,006</b>	<b>28,565</b>

£5.0m of the provision for onerous leases will unwind over the period of the relevant contracts, with the balance expected to unwind in the 9 month period following the balance sheet date.

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

### 15 Share capital and other comprehensive income

	March 2018		March 2017	
	No.	£000	No.	£000
<b>Ordinary shares of £1 each</b> - allotted, called up and fully paid	<b>174,367,500</b>	<b>174,368</b>	174,367,500	174,368

#### *Other comprehensive income*

The group has no recognised gains or losses in the current or prior period other than those reported in the consolidated profit and loss account.

### 16 Post balance sheet events

#### *Restructuring proposal*

On 18 May 2018 Elli Investments Limited and certain of its subsidiaries signed a Restructuring Lock-up Agreement with certain investment funds affiliated with H/2 Capital Partners, as majority creditor in both the Senior Secured Notes and the Senior Notes, which documents their agreement to proceed with a restructuring of the group that will see ownership transfer to a new company controlled by creditors ("Newco"). The restructuring is targeted to complete on or before 31 July 2018. In preparation for the transfer to new ownership, the group will undertake an intra-group reorganisation, the details of which are yet to be finalised. The terms of the proposed restructuring stipulate that all of the companies and operations in the Elli Investments Limited group, other than Elli Investments Limited itself, will transfer to Newco.