FSHC (UK) Limited

Annual report and financial statements

Registered number 02032661

31 December 2020

Contents

Strategic report

Background and ownership structure

FSHC (UK) Limited is a holding company within the Mericourt Limited group of companies. The Mericourt Limited group of companies operates healthcare facilities under the Four Seasons and brighterkind brands.

As at 31 December 2020, the directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity.

Financial results

The Company made a profit before taxation of £nil (2019: profit of £nil).

Principal activity

The principal activity of the Company is that of a holding company.

Business review and KPIs

The results of the Company are consolidated in the group headed by Mericourt Limited, the consolidated financial statements of which contain a detailed business review and KPIs relating to the group. Copies of these financial statements can be obtained from Companies House. As the Company is a holding company there are no relevant KPI's.

Principal risk and uncertainties

The Mericourt Limited group has management structures and policies and procedures which 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. The Company operates within this group structure.

The material risks affecting the Company and other group companies and the means by which they are managed are shown below.

Strategic report *(continued)*

Principal risk and uncertainties *(continued)*

Financial risks

- *Liquidity and capital resources*

  Mitigation: Liquidity and financing arrangements are managed centrally within the group. Further details in respect of the liquidity and capital resources risks that affect the Company are included in the Going Concern section of note 1.

- *Reduction in demand for our services*

  Mitigation: The Company and other group companies continue to focus on their strong partnering relations 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.

- *Payroll pressures: increased reliance on agency staff and inflationary pressures on own staff costs*

  Mitigation: The Company and other group companies actively monitor agency usage, particularly in light of staffing pressures exacerbated a result of Brexit and Covid-19. Alternative sources of nurses are continually investigated both within the UK and internationally, together with the training and development of Care Home Assistant Practitioners to take on some of the tasks of nurses. The Group budgets carefully for National Minimum Wage and National Living Wage increases and the impact on its cash flow and profitability.

- *Seasonal death rate*

  Mitigation: The Company and other group companies aim to deliver very good care everywhere which should serve to minimise the impact on occupancy during a normal period of higher winter deaths. In addition, wherever possible, the Company works with local NHS hospitals to provide care home beds for patients who are able to leave hospital at a time when the NHS is under seasonal pressure.

- *Covid-19 - impact upon patients, employees and supply chain for goods and services*

  Mitigation: The group closely monitors the on-going impact of Covid-19 and continues to take steps to mitigate potential effects on its operations. Robust action plans, addressing areas such as infection control, resident and staff access to testing and vaccination programmes, employee welfare and access to personal protective equipment and other critical supplies, have been put in place to seek to reduce the risk that Covid-19 poses. The welfare and safety of the group's residents, patients and employees is always the top priority. The group will continue to monitor all government advice and, where appropriate, update its approach in accordance with the latest recommendations.

Operational risks

- *Regulatory and reputational risk*

  Mitigation: The Company and other group companies devote a considerable amount of time to the management of regulatory and reputational matters. Compliance with the on-going requirements of registration and changes arising from the evolving regulatory environment mean that significant attention by the wider group's senior management has been, and will continue to be, dedicated to regulatory compliance and assurance. The wider group has implemented rigorous clinical governance and risk assurance systems, carries out substantial employee training, employee inductions and employee reference procedures, including a criminal background check for all frontline staff.

Strategic report *(continued)*

Future developments

The company is part of a collection of entities formerly known as the Elli Investments Limited group (the EIL Group). EIL and an indirect subsidiary of EIL, Elli Finance (UK) Plc (EFUK) have unpaid debts and were put into administration on 30 April 2019. Following the administration, the EIL group is being restructured.

This includes potential sales of all or parts of the EIL group, internal reorganisation, the on-going leasehold estate restructuring, refinancing of the unpaid debt of EIL and EFUK (which may or may not include a debt for equity swap) and/or a combination of these. Given the range of possible options, the impact of any restructuring on the company is currently unknown. See note 1 for further details.

Employment policies

The Company and other group companies aim 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.

Environmental policy

The Mericourt Limited group has an environmental commitment which includes compliance with existing environmental regulations, minimising the consumption of resources, a policy of "reduce, reuse and recycle" and providing awareness amongst staff of the environmental impact of travel.

On behalf of the Board

A J Hayward
Director

Norcliffe House
Station Road
Wilmslow
Cheshire
SK9 1BU

2 November 2021

Directors' report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2020. The company has chosen to disclose certain information required in the Director's report in the Strategic Report.

Results and dividends
The results for the year are shown in the profit and loss account on page 10. The directors do not recommend the payment of a dividend (2019: £nil).

Directors
The directors who held office during the year and up to the date of signing of the financial statements were as follows:
A J Hayward (appointed 30 June 2020)
M C Royston (resigned 30 April 2020)
B R Taberner (resigned 30 June 2020)
M W O Healy (resigned 30 January 2020)

Going concern and liquidity management
At the time of approving the financial statements, the ability of the EIL group to address unpaid debts and obtain sufficient and timely funding for the EIL group restructuring plan, its form and its successful implementation, as well as the ability to substantially achieve forecast cash flows, together with the potential impact of Covid-19 on future trading could result in the company ceasing to trade or being placed into administration. As detailed in note 1 to the financial statements, these factors indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. However, the directors consider there are realistic outcomes which would see the company continue to trade. 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 "Going concern" section of note 1 to the financial statements.

Post Balance Sheet Events
Further details in respect of Post Balance Sheet Events that affect the company and the wider group are included in note 15.

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

Third party indemnity provision for directors
Qualifying third party indemnity provision is in place for the benefit of all directors of the Company.

Auditor
Pursuant to Section 487 of the Companies Act 2006 the auditor will be deemed to be reappointed and RSM UK Audit LLP will therefore continue in office.

On behalf of the Board

A J Hayward
Director

Norcliffe House
Station Road
Wilmslow
Cheshire
SK9 1BU
2 November 2021

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom 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 Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and accounting estimates that are reasonable and prudent;
c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of FSHC (UK) Limited

Opinion

We have audited the financial statements of FSHC (UK) Limited (the 'company') for the year ended 31 December 2020 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that there are uncertainties over the ability of the EIL group to address unpaid debts, the form and successful implementation of any restructuring plan (including the funding thereof) as well as the substantial achievement of forecast cash flows, which, together with the potential impact of Covid-19 on future trading could result in the company ceasing to trade or being placed into administration. As stated in note 1, these events or conditions along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of FSHC (UK) Limited
(Continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of FSHC (UK) Limited
(Continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the company operates in and how the company is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are FRS 102, the Companies Act 2006 and tax compliance regulations. We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures, inspecting correspondence with local tax authorities and evaluating advice received from internal and external tax advisors.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and other adjustments and evaluating the business rationale in relation to significant, unusual transactions and transactions entered into outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of FSHC (UK) Limited

(Continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Rachel Fleming

Rachel Fleming (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants

1 St James Gate
Newcastle Upon Tyne
NE1 4AD

5 November 2021

Profit and loss account and other comprehensive income
for the year ended 31 December 2020

	Note	**2020**	2019
		£000	£000
Exceptional items #	*3*	**(5,090)**	(8,214)
Operating loss		**(5,090)**	(8,214)
Interest receivable and similar income	*6*	**5,090**	8,214
Loss before taxation		**-**	-
Tax on loss	*7*	**-**	-
Loss for the financial year		**-**	-
Other comprehensive income, net of tax	*10*	**-**	-
Total comprehensive loss for the financial year		**-**	-

The Company has no recognised gains or losses in the current or prior year other than those reported above.

All amounts relate to continuing operations.

The financial statements include the notes on pages 13 to 27.

Exceptional items includes a £5,090,000 increase (2019: £8,214,000 increase) in a non-cash provision against amounts due from group undertakings

Balance sheet
at 31 December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Investments	8	-		-	
			-		-
Current assets					
Debtors	9		-		-
Net liabilities			-		-
Capital and reserves					
Called up share capital	10		74,778		74,778
Profit and loss account			(74,778)		(74,778)
Shareholder's deficit			-		-

The financial statements include the notes on pages 13 to 27.

These financial statements were approved by the board of directors on 2 November 2021 and were signed on its behalf by:

A J Hayward
Director

Statement of changes in equity

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2019	(74,778)	74,778	-
Total comprehensive income for the period			
Loss for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	-	-
Balance at 31 December 2019	(74,778)	74,778	-

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2020	(74,778)	74,778	-
Total comprehensive income for the period			
Loss for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive loss for the period	-	-	-
Balance at 31 December 2020	(74,778)	74,778	-

The financial statements include the notes on pages 13 to 27.

Notes *(forming part of the financial statements)*

1 Accounting policies

FSHC (UK) Limited (the "Company") is a private company limited by shares and incorporated, domiciled, and registered in England in the United Kingdom.

The Company is exempt by virtue of Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's intermediate parent undertaking, Mericourt Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Mericourt Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Norcliffe House, Station Road, Wilmslow, SK9 1BU.

In these financial statements the Company is considered to be a qualifying entity (for the purpose of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 14.

Measurement convention

The financial statements are prepared on the historical cost basis.

The accounting reference date for the Company is 31 December 2020 (2019: 31 December 2019). The Company has opted to adopt the "seven day rule". The seven-day rule provides that a particular financial year need not end on the accounting reference date itself but on a date within not more than seven days of the date as the directors may determine. On this basis, the accounting period is for the 52 weeks ended 27 December 2020, with the comparative period being the 52 weeks ended 29 December 2019.

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

1 Accounting policies *(continued)*

Going concern

In considering whether it is appropriate to prepare these financial statements on a going concern basis the Directors have considered the requirements of FRS 102, which states that an entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. The matters that the Directors considered relevant in making this assessment are set out below.

The company is part of a group of companies headed by Mericourt Limited. Mericourt Limited and its subsidiaries are part of a collection of entities formerly known as the Elli Investments Limited group (the EIL group). EIL and an indirect subsidiary of EIL, Elli Finance (UK) Plc (EFUK) have unpaid debts and were put into administration on 30 April 2019. Following the administration of EIL and EFUK, Mericourt Limited and its subsidiaries continue to be legally owned by EIL but are no longer controlled by EIL. Furthermore, following the appointment of administrators, delegated authority for the EIL group's day to day operations has been transferred to Mericourt Limited.

The company and certain subsidiaries of the Mericourt Limited group have provided cross guarantees in respect of the debt of EIL and EFUK which is in default. Additionally, some of Mericourt Limited group's freehold operations are leased from a related group, Rhyme (Jersey) Limited, the subsidiaries of which have also provided guarantees for the EIL and EFUK debt.

In light of these cross guarantees and the operational and financial support provided by other entities within the EIL group, the going concern assessment of the company requires consideration of the EIL group as a whole.

Following the administration of EIL, the EIL group is being restructured. Discussions are on-going regarding the form, timing and cost of the restructuring, and whether any funding requirements, or changes to current financing arrangements, are required to complete the restructuring. If a change to financing arrangements and/or further funding is required to complete the restructuring and this cannot be obtained, then this entity, or other entities within the remaining EIL group, could cease to trade or be placed into administration. Further details on the group restructuring and cash flow forecasts for the EIL group are set out below.

Capital structure and debt guarantees

At the year ended 31 December 2020 the debt of EIL and EFUK included (i) £525m of high yield bonds (due for repayment in 2019 and 2020) (ii) £100m term loan facility (due for repayment in 2019) and (iii) accrued interest thereon of c£223m. Subsequent to the year-end, £44m of the £100m term loan has been repaid, however all other debt remains outstanding. As such, the debt and accrued interest is in default and, as indicated in note 11, the company has provided cross guarantees for this debt which may be called as a consequence of the debt default and subsequent appointment of administrators over EIL and EFUK.

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

1 Accounting policies *(continued)*

Going concern (continued)

Developments post Administration:

Following the administration of EIL and EFUK on 30 April 2019, advisors and the Joint Administrators of EIL and EFUK have continued to review the group's financing arrangements and leasehold estate and to advise in respect of the EIL group's restructuring, which includes those companies that have provided cross guarantees for unpaid EIL and EFUK debts, specifically:

- *Disposals Processes and Leasehold Estate Restructuring:*

On 30 September 2019 EIL and EFUK announced that they intended to engage with the EIL group's landlords with a view to negotiating long-term sustainable market terms for the EIL group's leasehold estate (the "Leasehold Estate Restructuring" or "LER"). As part of the LER, the EIL group migrated a number of operating care homes to alternative operators, with 44 operating care homes (as well as 13 closed homes) migrated in December 2019, 58 operating care homes and specialist units (as well as 10 closed sites) migrated on 11 March 2020 and 12 March 2020, and an additional six care homes on 24 March 2020. In order to achieve these migrations in an orderly manner, administrators were appointed over certain subsidiary companies which either operated those portfolios or acted as guarantors to the leases. Since October 2019 further care homes have left the group through processes which did not involve the appointment of administrators.

The sale of the business and assets of 10 freehold/long leasehold sites and one leasehold site within a division of the EIL group, trading as The Huntercombe Group for an aggregate value of £35m completed on 5 March 2021. Net proceeds from the transaction were paid to the securities agent of the EIL and EFUK debt so are not available for use by the remaining EIL group.

A sale process of 14 freehold/long leasehold homes in Northern Ireland completed on 26 July 2021 for an aggregate value of £16m with net proceeds from the transaction also being paid to the securities agent of the EIL and EFUK debt.

Additionally, the group has retained a broker in relation to a sale process for 17 freehold/long leasehold sites (of which 14 are operational) in England and Scotland.

- *Liquidity and funding*

Liquidity and expenditure has been carefully managed, particularly in light of the on-going restructuring and Covid-19. During 2020 and 2021 the Group has benefitted financially from Covid-19 support from central and local Government and from commissioners of the Group's services.

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

1 Accounting policies *(continued)*

Going concern (continued)

Current status and anticipated developments:

At the date of approving these financial statements, the Joint Administrators, the EIL group and the majority lender remain in constructive discussions with a view to implementing a consensual restructuring of the EIL Group (including the ongoing Leasehold Estate Restructuring and progression of the disposal processes for certain parts of the EIL Group) and maintaining continuity of care throughout such process, specifically:

- As a consequence of the on-going LER the group anticipates that further migrations of care homes to alternative operators may be agreed in due course, or other arrangements may be agreed with landlords so that the leases that might be retained are on long-term sustainable market terms. For the remaining leasehold companies, the EIL group continues to consider all options.

- The Joint Administrators continue to consider all possible options for the EIL group's organisational and capital structure. This includes potential sales of all or parts of the EIL group, internal reorganisation, refinancing of the unpaid debt of EIL & EFUK (which may or may not include a debt for equity swap) and/or a combination of these.

- The EIL group continues to assess its cash flow forecast in light of the on-going restructuring, as well as the risk of downturn in trading as a result of Covid-19 and/or the challenges of the current operating environment.

Material risks and uncertainties – form of the restructuring

The directors understand that a number of potential options exist under the EIL group restructuring as a result of the administration of EIL and EFUK, as detailed above, and that no final decision has been made as to what action will be taken in respect of the company. Certain scenarios could result in the company ceasing to trade as the trade and assets of the company may transfer to an alternative entity (either by disposal or administration). However, there are a range of restructuring options, some of which would result in the company continuing to trade. As such, the directors believe that the going concern basis of preparation is appropriate for the company.

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

1 Accounting policies *(continued)*

Going concern (continued)

Material risks and uncertainties – restructuring

Whilst the directors expect that a successful EIL group restructuring will be implemented, to the extent it is not, the directors believe that the most likely alternative will be to place one or more of the EIL group companies into administration, which may or may not include the company. The principal uncertainties around a successful implementation of a EIL group restructuring include the following:

- Further Funding – following the administration of EIL, the EIL group is being restructured. Discussions are on-going regarding the form, timing and cost of the restructuring and whether any funding requirements, or changes to current financing arrangements, are required to complete the restructuring. If a change to financing arrangements and/or further funding is required to complete the restructuring and this cannot be obtained, then this entity, or other entities within the remaining EIL group, could cease to trade or be placed into administration.

- Execution – it is likely that the implementation of a successful EIL group restructuring will require the agreement of various stakeholders of the EIL group. This agreement cannot be guaranteed.

Material risks and uncertainties – liquidity

Discussions are on-going regarding the form, timing and cost of the restructuring and whether any funding requirements, or changes to current financing arrangements, are required to complete the restructuring. However, the EIL group's latest cash flow forecasts, including current assumptions regarding the impact of Covid-19 and the costs to progress and complete a group restructuring, indicate that the EIL group has sufficient liquidity for the EIL group to continue operations for the 12 month period following the date of signing these financial statements, although headroom is limited and may require mitigating actions to be taken by management.

This cash flow forecast takes into account the current operating environment and material risks and uncertainties to trading (outlined below) and assume (i) no payment of the outstanding EIL and EFUK debt, or related interest noted above (ii) non payment of certain accrued and on-going rents (iii) and the impact of Covid-19 based on current KPIs and their expected development (as set out below).

To the extent there is a deterioration in cash generation compared to the EIL group's latest cash flow forecasts there may be a funding requirement to continue operating and complete the group restructuring.

Material risks and uncertainties - Covid 19 and future trading

The adverse impact of Covid-19 globally, nationally and across the healthcare sector has been, and continues to be, unprecedented. There remains significant uncertainty as to both the duration and quantum of Covid-19's effects on the EIL group's businesses and the extent to which the EIL group may continue to benefit financially from Covid-19 support from central and local government and from commissioners of the group's services. As such, there is a wide range of potential outcomes for the EIL group's cash flows from the impact from Covid-19. The directors have considered the group's current key performance indicators and their expected development to identify and quantify the potential impact of Covid-19 on the group's cash flows (as set out below), although the actual impact could be materially different. Additionally, even without the impact of Covid-19, the operating environment presents a number of challenges which could contribute to the EIL group failing to achieve its operational cash flow forecasts.

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

1 Accounting policies *(continued)*

Going concern (continued)

Material risks and uncertainties - Covid 19 and future trading (continued)

- Occupancy decline – by way of illustration, the cash flow impact of a one-percentage point reduction in occupancy within the care home business, based on the fee and cost structures assumed in the forecasts, is up to £3m per annum.

  Average occupancy had declined from a high point of 88% at the end of March 2020 to 79% during May 2020, predominantly as a result of the death rate within the care home business increasing to approximately twice the seasonal average during the first wave of Covid-19. Recent admission and death rates have reverted back to pre Covid-19 levels and occupancy levels have been in the range of 80% to 81%.

- Staffing – payroll costs, including agency staff, represent the group's largest cost, with payroll costs representing approximately two thirds of income. Appropriate staffing levels are required to ensure that the correct level of care is provided and the shortage of qualified nursing staff has resulted in staffing pressures across the sector. Staffing pressures were further exacerbated by Covid-19 as shielding and self-isolation pushed staff absenteeism up to c11%, although this had reduced by September 2020 and has remained well controlled since. Agency usage has been well controlled, however restrictions on staff movements mean that trading remains sensitive to higher levels of agency usage. As a result, the group's own staff costs may be higher than forecast or the group may require higher than forecast levels of agency staff. By way of illustration, the cash flow impact of a 0.5 percentage point increase in the group's agency usage is approximately £1m per annum.

- Local Authority and CCG Covid-19 support - the group has received support from Local Authorities, CCGs and central Government in respect of Covid-19. Whilst a proportion of Covid-19 exceptional costs may ultimately be covered in one form or another, reimbursement of these costs does not fully compensate for the occupancy decline. Further Covid-19 support funding cannot be guaranteed, but would provide upside to the forecast should it be granted.

Conclusion

The directors have considered the requirements of FRS 102 which states that an entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. After making enquiries and considering the group restructuring plan and the uncertainties described above, the directors consider there are realistic outcomes which would see the company continue to trade. The directors therefore believe that it is appropriate to prepare these financial statements on a going concern basis.

However, the directors have concluded that the uncertainties over the ability of the EIL group to address unpaid debts, the form and successful implementation of any restructuring plan (including the funding thereof), as well as the substantial achievement of forecast cash flows, which, together with the potential impact of Covid-19 and the other circumstances outlined above, give rise to a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to continue to realise its assets and discharge its liabilities in the normal course of business. Whilst the directors expect that a restructuring option will be identified that will result in the company continuing to trade and that its implementation will be successful, in the event that such a restructuring does not occur, it is likely that the company may cease to trade or be placed into administration. The financial statements do not include any adjustments that would be necessary were the going concern assumption deemed to be inappropriate.

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

1 Accounting policies *(continued)*

Basic financial instruments

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

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

Investments in preference shares and ordinary shares
Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition, investments that can be measured reliably are measured at fair value with changes recognises in profit or loss. Other investments are measured at cost less impairments in profit or loss.

Investments in subsidiaries
These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Provisions and Contingent Liabilities
A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability in its individual financial statements until such time as it becomes probable that the Company will be required to make a payment under the guarantee. Further details are shown in note 14 - Accounting Estimates and Judgements, the "Going concern" section of note 1 to these financial statements, and note 11 - Contingent Liabilities.

Expenses

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

Interest payable and interest receivable
Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

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

1 Accounting policies *(continued)*

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the Company 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 Company's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gain or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

2 Expenses and auditor's remuneration

The auditor's remuneration of £2,700 (2019: £2,700) for audit services was borne by another group undertaking.

No additional services, other than the audit of the Company's financial statements, have been provided by the Company's auditor during the current or preceeding year.

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

3 Exceptional items

Exceptional items in the current and prior year relate to a non-cash provision against amounts due from group undertakings.

4 Staff numbers and costs

The Company had no employees during the current year and preceding financial year other than directors.

5 Directors' remuneration

	2020	2019
	£000	£000
Directors' remuneration	61	136
Compensation for loss of office	54	-
Pension costs	1	1
	116	137

The remuneration above relates to each director's qualifying services to the Company and any subsidiaries, and was paid by another group undertaking during the current and prior year.

The total remuneration, including any bonus payments and compensation for loss of office, in respect of the company and any subsidiaries of the highest paid director was £52,000 (2019: £80,000) and includes pension contributions of £nil (2019: £1,000).

Pension contributions arise in respect of one (2019: one) directors. There were no pension contributions outstanding at the year end (2019: £nil).

6 Net interest and similar charges/income

	2020	2019
	£000	£000
Interest receivable and similar income:		
Interest income from group undertakings or connected entities	5,090	8,214
Total interest receivable and similar income	5,090	8,214

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

7 Taxation

	2020	2019
	£000	£000
Total tax expense recognised in the profit and loss account, other comprehensive income and equity		
UK corporation tax		
Current tax on loss for period	-	-
Total current tax	-	-
Deferred tax charge		
Total deferred tax	-	-
Total tax	-	-

Reconciliation of effective tax rate

	2020	2019
Loss for period	-	-
Total tax expense	-	-
Loss excluding taxation	-	-
Tax using the UK corporation tax rate of 19.0% (2019: 19.00%)	-	-
Effects of:		
Expenses not deductible/(credits) not taxable for tax purposes	967	1,561
Group relief for nil consideration	(967)	(1,561)
Total tax expense included in profit and loss	-	-

Factors that may affect future, current and total tax (credit)/charge:

On 17 March 2020 the Finance Bill 2020 was substantively enacted which confirmed that the UK corporation tax rate would remain at 19%. The deferred tax recognised within these accounts has therefore been calculated at a rate of 19% to account for this. In the Budget on 3 March 2021, the UK government announced an increase in the main UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The change in rate was substantively enacted on 24 May 2021. Deferred tax has been calculated at 19% which was the tax rate substantively enacted at 31 March 2021.

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

8 Fixed asset investments

	Shares in group undertakings £000
Cost	
Balance at 1 January 2020 and 31 December 2020	353
Provisions	
Balance at 1 January 2020 and 31 December 2020	353
Net book value	
At 1 January 2020	-
At 31 December 2020	-

A list of the Company's subsidiary undertakings at 31 December 2020 is provided below. All of the companies are wholly owned and companies marked with # are direct subsidiaries. Companies marked with + are in administration.

The United Kingdom incorporated entities are registered at Norcliffe House, Station Road, Wilmslow, Cheshire, SK9 1BU (England entities), Burlington Court Regional Office, 3 Stepps Road, Glasgow, United Kingdom, G33 3NH (Scottish entities), and First Floor, Clandeboye Care Homes, 35a Cardy Close, Bangor, BT19 1AT (N. Ireland entities)

The Isle of Man incorporated entities are registered at Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW.

Company	*Nature of Business*	*Place of incorporation*
Four Seasons Health Care (England) Limited	Operator of healthcare facilities	Isle of Man
Four Seasons Health Care (Isle of Man) Limited	Operator of healthcare facilities	Isle of Man
Four Seasons Health Care (Northern Ireland) Limited	Operator of healthcare facilities	Isle of Man
FSHC Management Services (Galashiels) Limited	Management of retirement village	UK (England)
FSHC Management Services (CM) Limited #	Management of retirement village	UK (N. Ireland)

9 Debtors

	2020 £000	2019 £000
Amounts due from group undertakings	**184,305**	179,215
Non-cash provision against amounts due from group / related undertakings	**(184,305)**	(179,215)
	-	-

The amounts due from group / related undertakings are unsecured and repayable on demand. Where applicable, interest is charged at 5.00%.

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

10 Share capital, reserves and other comprehensive income

	2020	2020	2019	2019
	No. of shares	£000	No. of shares	£000
Allotted, called up and fully paid:				
Ordinary shares of £1 each	62,673,449	62,673	62,673,449	62,673
Allotted and unpaid				
Ordinary shares of £1 each	12,103,955	12,104	12,103,955	12,104
		74,777		74,777
Shares classified as liabilities	-	-	-	-
Shares classified as equity	74,777,404	74,777	74,777,404	74,777
Total		74,777		74,777

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Other comprehensive income
The company has no recognised gains or losses in the current or prior year other than those reported in the profit or loss account.

11 Contingent liabilities and group financing arrangements

The Company, together with other group and connected companies, is party to a number of financing arrangements. Under the terms of those financing arrangements, the trade and assets of the Company are security for debt facilities of connected entities. This debt is in default and those entities were placed into Administration on 30 April 2019. At the 31 December 2020 no claims had been made in respect of this guarantee. At 31 December 2019 and 31 December 2020 the directors considered it possible, but not yet probable, that claims will be made. See note 1 and note 14 for further details of the impact of these guarantees on the company's ability to continue as a going concern and key estimates and judgements made in assessing the probability of claims under the guarantees.

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

12 Related parties

The directors have taken advantage of the exemption in FRS 102 Section 33.1A and, as the Company is a wholly owned subsidiary of Mericourt Limited, have not disclosed related party transactions with the Company's parent and fellow subsidiary undertakings.

As detailed in note 1, from 30 April 2019 the Mericourt Group, which was previously part of the Group headed by Elli Investments Limited (EIL), ceased to be controlled by EIL. Group entities continue to have transactions with the Group headed by Rhyme (Jersey) Limited, which was also controlled by EIL until 30 April 2019. Transactions between the Mericourt Group and Rhyme (Jersey) Group during the years ended 31 December 2020 and 31 December 2019 include rental of property from Rhyme (Jersey) Group, the recharging of central operational costs to Rhyme (Jersey) Group, and interest on loan balances due to / from Rhyme (Jersey) Group. The exemption in FRS 102 Chapter 33.1 A applies to these transactions up to 30 April 2019. Due to the cessation of control by EIL, Mericourt Group and Rhyme (Jersey) Group ceased to be 'related parties' from 30 April 2019.

Where balances remain outstanding between the Mericourt Group and Rhyme (Jersey) Group at 31 December 2020 or 31 December 2019, these have been disclosed within the debtors and creditors notes as amounts due to / from connected parties along with any provisions against debtor balances.

13 Ultimate parent

As at 31 December 2020, the Company's immediate parent company is Four Seasons Group Holdings Limited, a company incorporated in the United Kingdom. Its registered address is Norcliffe House, Station Road, Wilmslow, SK9 1BU.

As at 31 December 2020, the ultimate parent undertaking is Terra Firma Holdings Limited, an entity incorporated in Guernsey.

The smallest and largest group in which the results of the Company are consolidated into the group headed by Mericourt Limited, the financial statements of which will be available to the public and may be obtained from its registered address: Norcliffe House, Station Road, Wilmslow, SK9 1BU.

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

14 Accounting estimates and judgements

Key sources of estimation uncertainty

The preparation of financial statements requires the directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Going concern basis of preparation

The directors have considered the basis of preparation of these financial statements and whether it is appropriate to prepare them on a going concern basis. In making this assessment they took account of the current progress to address the EIL group's capital structure and considered possible restructuring mechanisms available to the EIL group, including progression of disposal processes for certain parts of the group, as well as the progress of the ongoing LER. They also considered the current cash flow forecasts for the EIL group and the sensitivities of these to changes in trading performance, likely costs and working capital movements. These assessments are detailed in note 1.

Contingent liabilities and provisions

In determining whether a contingent liability disclosure or provision is required in respect of financial guarantee contracts, which the Company is party to in respect of guaranteeing the unpaid debts of EIL and EFUK, the Directors have to assess the likelihood that the Company will be required to make payments to settle their obligations in respect of this arrangement. When assessing the probability of payment, management have considered the circumstances around the EIL Group restructure (see note 1). The outcome of this assessment at 31 December 2020 was that it was not considered probable that the Company would be required to make a payment under this guarantee given the range of possible options available to the EIL Group including disposal of shares in investments with funds paid directly to the securities agent and possible refinancing options. The Directors acknowledge that given the financial position of the Group and the fact that the Debt Holders are in administration that assessing the likelihood of a payment being made is a subjective given the final format and outcome of restructuring is uncertain. It is possible that payments will be made by the entity in respect of these guarantees under certain options which are currently being considered.

Recoverability of amounts owed by related undertakings

An estimate is made in respect of the recoverability of amounts owed by group undertakings. In making this assessment, the directors have considered the ability of the relevant group undertakings to pay the amount owed. Due to the complex group structure this requires consideration of the way in which all intercompany balances would be settled and the asset value available to settle those balances, both of which are impacted by the circumstances around the EIL Group restructure (see note 1).

Treatment of items as exceptional

The Company has presented items as exceptional within the profit and loss account and other comprehensive income. These are items of income and expense which the directors believe are material in size and non-recurring in nature, and this disclosure helps to provide clarity over the business' underlying performance. These items may include the profit or loss on disposal of properties, fixed asset impairments and reversal of impairments, movements on onerous lease provisions, costs relating to the balance sheet restructuring exercise, credits on disposal of negative goodwill and certain project costs. Judgement is required in ensuring that only items that meet the definition in the accounting policy are separately presented as exceptional items. See note 3 for details of the exceptional items.

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

15 Post balance sheet events

Group Restructuring

During 2020 and up to the date of approval of these financial statements, a number of activities have been ongoing as part of the EIL Group Restructuring. These have included the continuation of the leasehold estate review, the sale and purchase agreement in respect of the business and assets of certain sites within a different division of the EIL group, trading as Huntercombe, which completed on 5 March 2021, and the sales process in respect of 14 freehold/long leasehold Care Home sites in Northern Ireland which completed on 26 July 2021, as well as the retention of a broker in relation to a sales process for 17 freehold/long leaseholdsites (of which 14 are operational) in England and Scotland. Whilst these processes have no direct impact on the Company, they are relevant to the overall financial position of the EIL Group which indirectly impacts the company as cash is managed on a central basis. See note 1 for further details on the potential impact of the EIL Group restructuring on the company's ability to continue as a going concern.