

Lisnisky Limited

Annual report and financial statements

Registered number 02896335

31 December 2018

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Contents

Strategic report	1
Directors' report	4
Statement of directors' responsibilities in respect of the strategic report, directors' report and the financial statements	5
Independent auditor's report to the members of Lisnisky Limited	6
Profit and loss account and other comprehensive income	9
Balance sheet	10
Statement of changes in equity	11
Notes	12

Strategic report

Background and ownership structure

Lisnisky Limited is a care home operator within the Elli Acquisitions Limited group of companies.

As at 31 December 2018, the directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity.

Financial results

The Company made a loss before taxation of £437,000 (2017: loss of £1,169,000).

Principal activity

The principal activity of the Company is the operation of care homes.

Business review and KPIs

The results of the Company are consolidated in the group headed by Elli Acquisitions 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 the company's registered office.

On an individual company basis, the main financial and operational KPIs were as follows:

	2018	2017
Turnover	£1,945,000	£1,816,000
Operating loss	(£437,000)	(£1,169,000)
Average occupancy in the year	99.5%	93.6%

2018 is a 52 week period. 2017 is a 53 week period.

Principal risk and uncertainties

The Elli Acquisitions 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. Further details can be found in the financial statements of Elli Acquisitions Limited.

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. As detailed in Elli Acquisitions Limited's annual report for the year ended 31 December 2018, the directors of the group recognise that the funding structure is not appropriate for the long-term needs of the group and that there are leases in the group's estate where rent is above market. Advisors are currently engaged to conduct a review of the group's financing arrangements and leasehold estate. Further details of this review and the impact upon the Company are provided in notes 1 and 17.

- *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. 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.

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

Mitigation: The group is closely monitoring how matters develop and is taking steps to mitigate potential effects on its operations. Robust action plans, addressing areas such as infection control, 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.

Strategic report (*continued*)

Principal risk and uncertainties (*continued*)

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.

- *Britain's exit from the European Union ('Brexit')*

Brexit represents a significant economic event, and at the date of this report its effects are unknown.

Mitigation: A committee has been established in order to stay abreast of latest Brexit developments, identify and assess Brexit related risks and their impact upon the group, and develop and implement appropriate contingency planning.

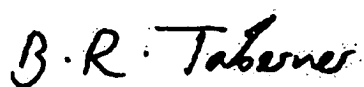
Employment policies

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. Further details can be found in the financial statements of Elli Acquisitions Limited.

Environmental policy

The Elli Acquisitions 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.

By order of the board



B R Taberner
Director

Norcliffe House
Station Road
Wilmslow
Cheshire
SK9 1BU

23 June 2020

Directors' report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2018.

Results and dividends

The results for the year are shown in the profit and loss account on page 9. The directors do not recommend the payment of a dividend (2017: £nil).

Directors

The directors who held office during the year were as follows:

T R W Hammond (resigned 18 November 2019)

M C Royston (resigned 30 April 2020)

B R Taberner

M W O Healy (appointed 18 November 2019, resigned 30 January 2020)

Going concern and liquidity management

At the time of approving the financial statements, as the Company operates a property leased from a third party landlord, and having considered the on-going leasehold estate review, the directors do not believe that it is appropriate to prepare the financial statements on a going concern basis. Further details are shown in the going-concern section of note 1 to the financial statements.

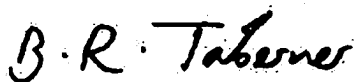
Disclosure of information to auditor

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.

Auditor

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

By order of the board



B R Taberner
Director

Norcliffe House
Station Road
Wilmslow
Cheshire
SK9 1BU

23 June 2020

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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG LLP
1 St Peter's Square
Manchester
United Kingdom
M2 3AE

Independent auditor's report to the members of Lisnisky Limited

Opinion

We have audited the financial statements of Lisnisky Limited ("the Company") for the year ended 31 December 2018 which comprise the Profit and loss account and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reason set out in that note. Our opinion is not modified in respect of this matter.

Independent auditor's report to the members of Lisnisky Limited

(Continued)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they 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 Lisnisky Limited

(Continued)

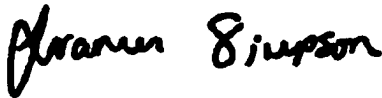
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 St Peter's Square
Manchester
M2 3AE

23 June 2020

Profit and loss account and other comprehensive income
for the year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Turnover	2	1,945	1,816
Cost of sales		(2,003)	(2,203)
Gross loss		<u>(58)</u>	<u>(387)</u>
Exceptional items #	4	(379)	(782)
Operating loss		<u>(437)</u>	<u>(1,169)</u>
Loss before taxation		<u>(437)</u>	<u>(1,169)</u>
Tax on loss	7	-	-
Loss for the financial year		<u><u>(437)</u></u>	<u><u>(1,169)</u></u>
Other comprehensive income, net of tax	13	-	-
Total comprehensive loss for the financial year		<u><u>(437)</u></u>	<u><u>(1,169)</u></u>

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 12 to 27.

2018 exceptional items includes a £214,000 non-cash provision against amounts due from group undertakings - see note 4 for more details.

Balance sheet
at 31 December 2018

		2018		2017	
	Note	£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	8	-	-	14	14
Current assets					
Debtors	9	50		23	
Creditors: amounts due within one year	10	(887)		(373)	
Net current liabilities			(837)		(350)
Total assets less current liabilities			(837)		(336)
Provision for liabilities					
Other provisions	11		(587)		(651)
Net liabilities			(1,424)		(987)
Capital and reserves					
Called up share capital	13		-		-
Profit and loss account			(1,424)		(987)
Shareholder's deficit			(1,424)		(987)

The financial statements include the notes on pages 12 to 27.

These financial statements were approved by the board of directors on 23 June 2020 and were signed on its behalf by:

B. R. Taberner

B R Taberner
Director

Statement of changes in equity

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2017	182	-	182
Total comprehensive income for the period			
Loss for the year	(1,169)	-	(1,169)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	(1,169)	-	(1,169)
Balance at 31 December 2017	(987)	-	(987)

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2018	(987)	-	(987)
Total comprehensive income for the period			
Loss for the year	(437)	-	(437)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	(437)	-	(437)
Balance at 31 December 2018	(1,424)	-	(1,424)

The financial statements include the notes on pages 12 to 27.

Notes (forming part of the financial statements)

1 Accounting policies

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

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, Elli Acquisitions Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Elli Acquisitions Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Ocorian Administration (Guernsey) Limited, Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

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 17.

Measurement convention

The financial statements are prepared on the historical cost basis.

The accounting reference date for the Company is 31 December 2018 (2017: 31 December 2017). 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 30 December 2018, with the comparative period being the 53 weeks ended 31 December 2017.

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

1 Accounting policies *(continued)*

Going concern

The company is part of the Elli Investments Limited (in Administration) group of companies (the "Elli Investments group"). The Elli Investments group is party to a number of financing arrangements under which certain of its subsidiaries have provided guarantees. The company meets its day-to-day working capital requirements from cash resources and intercompany balances with other Elli Investments group companies. Therefore, in light of the Elli Investments group's funding arrangements, the cross guarantees, and the operational and financial support provided by the Elli Investments group, the going concern assessment of the company is dependent on that of the Elli Investments group as a whole.

Capital structure

At 31 December 2018 the Elli Investments group's debt was comprised of: (i) £350m of senior secured notes ("SSNs"), plus £49.4m of accrued interest, which paid interest at 8.75% and were due for repayment in June 2019; (ii) £175m of senior notes ("SNs"), plus £35.2m of accrued interest, which paid interest at 12.25% and were due for repayment in June 2020; (iii) a £70m term loan, plus £0.1m of accrued interest, which paid interest at LIBOR plus 3.75% with a maturity date in March 2019 - following the year end, on 11 March 2019, the Elli Investments group increased the £70m term loan facility to £110m and extended its maturity date to 3 June 2019. As at the date of approval of these accounts, £100m of the £110m term loan facility had been drawn.

Following the administration of Elli Finance (UK) Plc on 30 April 2019, the undrawn element of the term loan facility can no longer be drawn down. As at the date of signing these financial statements, neither the SSNs, the SNs nor the term loan have been repaid and all debt remains in default. On 28 February 2020 the Elli Investments group announced that it had secured additional committed funding of £10 million under its existing administration funding agreement ("AFA"). The group remains in discussion with the lenders under the AFA as to the conditionality attached to the availability of this funding. At the date of signing these accounts the Elli Investments group is not in a position to draw down under the AFA.

As detailed in previous annual reports of Elli Investments Limited, the directors recognise that the Elli Investments group's current funding structure is not appropriate for the long-term needs of the business and that there are leases in the estate where rent is above market levels. Since October 2015, various advisors have been appointed to review the Elli Investments group's financing arrangements and leasehold estate and advise in respect of their restructuring.

Developments to date

On 14 December 2017 the Elli Investments group and H/2 Capital Partners, on behalf of its affiliated investment funds ("H/2"), as the Majority Creditor in both the SSNs and SNs, announced that they had put in place a Standstill and Deferral Agreement ("SDA") in respect of the non-payment of interest on the SSNs and SNs which was due for payment on 15 December 2017. Notwithstanding the SDA, the non-payment of the group's interest on 15 December 2017, resulted in a default outstanding at the 2017 and 2018 year ends; the continued and subsequent non-payments of the Elli Investments group's interest and outstanding debt resulted in events of default outstanding at the date of signing these financial statements. The SDA provided the Majority Creditor's forbearance on these events of default until it expired in April 2019.

During 2018 the SDA was amended and extended on a number of occasions and on 10 December 2018 the group confirmed the appointment of new independent financial and legal advisors to support the Elli Investments group in finalising the necessary financial and business information to support a sale of the group.

On 30 April 2019 an Administration Order was made in relation to Elli Investments Limited, the issuer of the Elli Investments group's senior notes, pursuant to Section 374(1) of the Companies (Guernsey) Law, 2008 (as amended) and administrators were appointed to manage its affairs, business and property.

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

1 Accounting policies *(continued)*

Going concern (continued)

Developments to date (continued)

Also on 30 April 2019, the directors of Elli Finance (UK) Plc ("EFUK"), an indirect subsidiary of Elli Investments Limited, and the issuer of the Elli Investments group's senior secured notes, (pursuant to paragraph 22 of Schedule B1 to the Insolvency Act 1986) appointed administrators (together with Elli Investments Limited's administrators, "the Joint Administrators") to manage the affairs, business and property of Elli Finance (UK) Plc. The Group's operating companies were largely unaffected by the appointment of administrators to Elli Investments Limited and Elli Finance (UK) Plc and all businesses continued to trade and maintain continuity of care.

On 3 May 2019 the Elli Investments group announced the launch of an Independent Sales Process which was expected to complete by the year end.

On 10 October 2019 the Joint Administrators announced the expiry of the marketing and bid phase of the Independent Sales Process, and that a conditional sale and purchase agreement ("Conditional SPA") had been entered into with CUU Ltd., for and on behalf of investment funds managed by affiliates of H/2 Credit Manager LLC. However, on 24 October 2019 the Conditional SPA was terminated due to certain conditions under the Conditional SPA having not been met or waived.

During the Independent Sales Process, on 30 September 2019, as part of the ongoing restructuring, the group announced that it intended to engage with its landlords with a view to negotiating long-term sustainable market terms for the group's leasehold estate (the "Leasehold Estate Restructuring" or "LER"). In December 2019, as part of the LER, the group agreed with one of its largest landlords to migrate 44 operating care homes (as well as 13 closed homes) owned by that landlord to alternative operators. In order to achieve this migration in an orderly manner administrators were appointed over the 11 group companies which operated that portfolio of care homes. On 11 March 2020 and 12 March 2020, the group agreed with two further landlords to migrate 58 operating care homes and specialist units (as well as 10 closed sites) owned by those landlords to alternative operators and on 24 March 2020 an additional six care homes were migrated to alternative operators. In order to achieve these migrations, administrators were again appointed over the group companies which operated those portfolios. Since October 2019 ten care homes have left the group through consensual processes which did not involve the appointment of administrators.

For certain leasehold companies remaining in the group, the expectation of the Elli Investments group is to migrate the care homes and specialist units to alternative operators. For the remaining leasehold companies the Elli Investments group continues to consider all options. The Elli Investments group anticipates that further migrations of care homes and specialist units to alternative operators may be agreed in due course, or other arrangements may be agreed with landlords so that the leases that might be continued are on long-term sustainable market terms.

At the date of approving the financial statements, the Joint Administrators, the Elli Investments group and the Majority Creditor remain in constructive discussions with a view to implementing a consensual restructuring of the Elli Investments group (including the ongoing Leasehold Estate Restructuring) and maintaining continuity of care throughout such process.

Material risks and uncertainties – form of the restructuring

The directors understand that a number of potential restructuring options exist and no decision has been made as to the continuance of the company. In addition, the company is an operator of one of the group's leasehold properties and is therefore subject to the on-going Leasehold Estate Restructuring. Whilst the directors are hopeful of a successful outcome would enable the company to continue to trade, the current expectation is that the company's operations will be transferred to one or more alternative operators, and therefore that the company will cease to be a going concern. As such, the directors do not 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 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 group companies into administration, which may or may not include the company. The principal uncertainties around a successful implementation of a restructuring include the following:

- Funding – the group's base case cash flow forecasts indicate that the costs to progress and complete a group restructuring will require an injection of further funding. These costs could increase, requiring further additional funding, should the restructuring process either increase in complexity, requiring additional advisers, or extend beyond the timeframe forecast by the business. The injection of further funding cannot be guaranteed, without which a complete group restructuring cannot be completed; and
- Execution risk – it is likely that the implementation of a successful restructuring will require the agreement of various stakeholders of the group. This agreement cannot be guaranteed.

Material risks and uncertainties – liquidity

The Elli Investments group's latest base case cash flow forecasts, including current assumptions regarding the impact of Covid-19 (see below) but excluding costs to progress and complete a group restructuring, for the 12 month period following the date of signing these financial statements, indicate that the Elli Investments group has sufficient liquidity for the group to continue operations, though headroom is limited. Based on those forecasts, costs to progress and complete a group restructuring will require an injection of further funding. These base case cash flow forecasts take into account the current operating environment and material risks and uncertainties to trading (outlined below) and assume (i) no payment of the outstanding debt, or related interest, (ii) a, yet to be agreed, Time to Pay arrangement to extend the group's current deferral of c£18m of PAYE and national insurance liabilities to late 2020 and early 2021 and (iii) limited incremental local authority and CCG funding that is yet to be agreed.

To the extent there is a deterioration in cash generation compared to the group's latest base case cash flow forecasts, the additional funding required to continue operating and complete the group restructuring would be increased.

Material risks and uncertainties – Covid-19

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 group's businesses and the extent to which the group may benefit financially from 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 group's cash flows from the impact from Covid-19. The directors have considered the group's current key performance indicators to identify and quantify the potential impact of Covid-19 on the group's cash flows, although the actual impact could be materially different:

- Occupancy decline - the death rate across the group increased to approximately twice the seasonal average during April and the first half of May. Whilst the current levels have reduced towards the seasonal average, admission rates remain low, partially as a result of a lower level of hospital discharges and partially as a consequence of admissions decisions being carefully considered. Overall, recent average occupancy in the group's care homes has declined from a high point of c88% at the end of March to c80% at the date of signing these accounts. The Covid-19 cash flow forecast assumes a further occupancy decline of c2% by the end of July 2020;

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

1 Accounting policies *(continued)*

Going concern (continued)

Material risks and uncertainties – Covid-19 (continued)

- Increase in care costs - the increase in care costs is predominantly linked to the purchase of personal protective equipment ('PPE'). From the beginning of March to the end of April, the care home business spent c£2.5m on PPE, which compares to c£200k in an average year, with a further c£4m forecast to be spent by the end of 2020;
- Payroll costs - shielding and self-isolation has pushed staff absenteeism up to c11%, which has driven the need for agency payroll. The current estimate is that Covid-19 will increase the care home business' agency payroll costs by in excess of c£1m over the course of 2020; and
- Local Authority and CCG funding - the group has started to receive offers of support from Local Authorities and CCGs in respect of exceptional costs incurred. The offers are varied in scale and nature and the group is currently assessing them all. Whilst a proportion of Covid-19 exceptional costs may ultimately be covered in one form or another, reimbursement of these costs does not currently compensate for the occupancy decline.

Material risks and uncertainties – trading

The company is dependent on the group's liquidity forecast, and whilst the Elli Investments group's operational and cash flow forecasts have been prepared using current trading assumptions, as outlined in the group's Strategic Report, the operating environment presents a number of challenges which could contribute to the group failing to achieve its operational and cash flow forecasts. These risks and uncertainties include, but are not limited to, the following:

- Occupancy – even without the potential impact of Covid-19, there is a risk that the group does not achieve the levels of occupancy assumed in its forecasts as a result of, for example, a possible negative reaction to the on-going restructuring process by regulators or commissioners of the group's services or a number of embargoes across the group. To illustrate the sensitivity of the forecasts to this key financial driver, the earnings before interest, tax, depreciation and amortisation (EBITDA) impact from a one percentage point reduction in care home occupancy across the group in the 12 months from the date of signing these accounts is approximately £3m, based on the fee and cost structures assumed in the forecasts; and
- Agency costs – appropriate staffing levels are required to ensure that the correct level of care is provided. With a shortage of qualified nursing staff across the sector, even before the impact of Covid-19, the group may be required to use higher than forecast levels of agency staff. In general, agency staff are considerably more expensive than the group's own employees. By way of illustration, a 0.5 percentage point increase in the group's agency usage as a percentage of payroll has a negative EBITDA impact of approximately £1m-£2m in the 12 months from the date of signing these accounts.

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.

Whilst the directors expect that a restructuring option will be identified for many of the companies in the Elli Investments group and that its implementation will be successful, based on the circumstances of the company, the directors have not identified a realistic alternative to the cessation of trade/liquidation. The directors therefore do not believe that it is appropriate to prepare these financial statements on a going concern basis.

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

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.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as a separate item 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.

The Company assesses at each reporting date whether tangible fixed assets are impaired.

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:

- Equipment and fixtures - 3 to 5 years
- Freehold buildings - 45 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.

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

Impairment excluding investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Where relevant, the goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the units on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

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

Provisions

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.

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.

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.

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

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 Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the Company's ordinary activities, stated net of value added tax.

All turnover arises from operations in the United Kingdom and is attributable to the company's principal activity.

3 Expenses and auditor's remuneration

The auditor's remuneration of £3,100 (2017: £2,000) for audit services was borne by another group undertaking.

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as information is required instead to be disclosed on a consolidated basis.

4 Exceptional items

Exceptional items relate to an onerous lease provision of £115,000 (2017: £507,000), impairment of tangible fixed assets of £50,000 (2017: £240,000), a historical balance write off of £nil (2017: £35,000) and a £214,000 (2017:£nil) non-cash provision against amounts due from group undertakings..

5 Staff numbers and costs

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

	Number of employees	
	2018	2017
Administration	2	6
Healthcare facilities	69	53
	<u>71</u>	<u>59</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	1,066	1,048
Social security costs	78	73
Pension costs	11	6
	<u>1,155</u>	<u>1,127</u>

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

6 Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	23	19
Pension costs	-	-
	<u>23</u>	<u>19</u>

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 bonus payments, in respect of the company and any subsidiaries of the highest paid director was £11,000 (2017: £10,000) and includes pension contributions of £nil (2017: £nil).

Pension contributions arise in respect of one (2017: two) directors. There were no pension contributions outstanding at the year end (2017: £nil).

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

7 Taxation

	2018 £000	2017 £000
Total tax expense recognised in the profit and loss account, other comprehensive income and equity		
<i>UK corporation tax</i>		
Current tax on loss for period	-	-
Total current tax	<u>-</u>	<u>-</u>
<i>Deferred tax charge</i>		
Total deferred tax	<u>-</u>	<u>-</u>
Total tax	<u>-</u>	<u>-</u>
	2018	2017
	£000	£000
<i>Reconciliation of effective tax rate</i>		
Loss for period	(437)	(1,169)
Total tax expense	-	-
Loss excluding taxation	<u>(437)</u>	<u>(1,169)</u>
Tax using the UK corporation tax rate of 19.0% (2017: 19.25%)	(83)	(225)
<i>Effects of:</i>		
Expenses not deductible/(credits) not taxable for tax purposes	57	9
Group relief for nil consideration	36	61
Current year movement in unrecognised deferred tax assets	(10)	155
Total tax expense included in profit and loss	<u>-</u>	<u>-</u>

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

A reduction in the UK corporation tax rate to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. However, as announced in budget 2020, the UK corporation tax rate will be maintained at 19% from April 2020. Where applicable, the deferred tax balance at 31 December 2018 has been calculated based on these rates.

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

8 Tangible fixed assets

	Equipment & fixtures £000	Land & Buildings £000	Total £000
Cost			
Balance at 1 January 2018	1,146	53	1,199
Additions	36	-	36
Balance at 31 December 2018	<u>1,182</u>	<u>53</u>	<u>1,235</u>
Depreciation			
Balance at 1 January 2018	1,132	53	1,185
Depreciation charge for the year	-	-	-
Impairment charge for the year	50	-	50
Balance at 31 December 2018	<u>1,182</u>	<u>53</u>	<u>1,235</u>
Net book value:			
At 1 January 2018	<u>14</u>	<u>-</u>	<u>14</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>

9 Debtors

	2018 £000	2017 £000
Trade debtors	9	18
Amounts owed by group undertakings	215	-
Non-cash provision against amounts due from group undertakings	(215)	-
Prepayments	40	5
	<u>50</u>	<u>23</u>

10 Creditors: amounts due within one year

	2018 £000	2017 £000
Trade creditors	58	15
Other taxation and social security	33	26
Amounts due to group undertakings	666	154
Accruals	36	23
Other creditors	94	155
	<u>887</u>	<u>373</u>

The amounts owed due to undertakings are unsecured and repayable on demand. No interest is charged.

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

11 Other provisions

	Onerous leases £000	Operating leases £000	Total £000
Balance at 1 January 2018	507	144	651
Provisions created during the year	115	-	115
Provisions used during the year	(133)	(46)	(179)
Provisions released during the year	-	-	-
Balance at 31 December 2018	489	98	587

The provision for onerous leases is expected to unwind over the period of operating loss for the relevant lease.
The provision for operating leases will unwind over the period of the relevant leases.

12 Employee benefits

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

The total cost charged to the profit and loss account during the year was £11,000 (2017: £6,000). At the year end £nil (2017: £nil) of pension contributions were outstanding.

13 Share capital, reserves and other comprehensive income

	2018 No. of shares	2018 £000	2017 No. of shares	2017 £000
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of £1 each	2	-	2	-
Total		-		-
Shares classified as liabilities	-	-	-	-
Shares classified as shareholder's deficit	2	-	2	-
Total		-		-

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.

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

14 Operating leases

Leases as lessee

Non cancellable operating lease rentals are payable as follows:

	2018	2017
	£000	£000
Less than one year	400	391
Between one and five years	200	587
More than five years	-	-
	<u>600</u>	<u>978</u>

During the year £211,000 was recognised as a charge in the profit and loss account in respect of operating leases (2017: £349,000 charge).

15 Related parties

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

16 Ultimate parent

As at 31 December 2018, the Company's immediate parent company is Four Seasons Health Care Group Limited, a company incorporated in the United Kingdom. Its registered address is Norcliffe House, Station Road, Wilmslow, SK9 1BU.

As at 31 December 2018, 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 Elli Acquisitions Limited, the financial statements of which will be available to the public and may be obtained from its registered address: Ocorian Administration (Guernsey) Limited, Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

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

17 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 as to 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 groups capital structure and considered possible restructuring mechanisms available to the group, as well as the progress of the ongoing LER. They also considered the current cash flow forecasts for the group and the sensitivities of these to changes in trading performance, likely costs and working capital movements. Details of these assessments are detailed in note 1.

Recoverability of trade debtors

The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors, the value of security held over the debtor, the reason for the ageing and historical experience.

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. To the extent that an amount is receivable from a counterparty which is in administration or is assessed as a non-going concern, the receivable amount is provided for in full as irrecoverable. In respect of other amounts due to and receivable from group companies, 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.

Impairment of tangible fixed assets

The directors have reviewed the carrying value of the Company's tangible fixed assets and assessed whether there is any indication that assets may be impaired. There are a number of key judgements in determining the appropriate method to identify assets to be considered for impairment and to estimate the value of the impairment.

Leasehold assets

In respect of tangible fixed assets utilised by leasehold sites, the estimate of impairment has assumed that assets continue to be utilised in the business over their remaining useful economic life, however this is subjective as the format and outcome of any leasehold estate restructuring is not currently certain.

Closed or held for disposal

For properties which are held for disposal, the carrying value of equipment and fixtures is generally written down to nil.

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

17 Accounting estimates and judgements (continued)

Onerous lease provisions

The Company makes an estimate of onerous lease provisions. These provisions represent the best estimate of the amount an entity would rationally pay to settle the obligation at the balance sheet date. The onerous lease provision includes a provision for costs associated with both closed leasehold homes and a number of open homes where the unavoidable costs of the lease exceed the economic benefits expected to be received under it.

For closed homes the provision requires an estimate of the time required to exit the lease, the expected cost to exit, including any surrender premia, and dilapidation costs. When assessing the quantum of the provision for open homes the factors for consideration include the minimum operating loss under the lease and the time required to address that loss, either operationally or via exiting the lease.

Estimates will be revised each period until the actual liability arises, with any differences accounted for in the period in which the revision is made.

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 4 for details of the exceptional items.

18 Post balance sheet events

Debt facilities

On 11 March 2019, the Elli Investments group increased its £70m term loan facility to £110m and extended its maturity date to 3 June 2019. As at the date of approval of these accounts, £100m of the £110m term loan facility had been drawn. Following the administration of Elli Finance (UK) Plc on 30 April 2019, the undrawn element of the term loan facility can no longer be drawn down. On 28 February 2020 the Elli Investments group announced that it had secured additional committed funding of £10m under its existing administration funding agreement ("AFA"). The group remains in discussion with the lenders under the AFA as to the conditionality attached to the availability of this funding. At the date of signing these accounts the Elli Investments group is not in a position to draw down under the AFA.

Covid-19

The existence of a new coronavirus, Covid-19, was confirmed in early 2020 and on 11 March 2020 the World Health Organization made the assessment that it could be characterised as a global pandemic. Covid-19 has been treated as a non-adjusting post balance sheet event and its potential impact on the company is outlined in note 1.

Leasehold Estate Review

On 30 September 2019, as part of the ongoing restructuring, the group announced that it intended to engage with its landlords with a view to negotiating long-term sustainable market terms for the group's leasehold estate (the "Leasehold Estate Restructuring" or "LER") (see note 1). Where applicable, note 1 outlines the impact of the LER on the company.