

**Four Seasons Health Care Properties (Care Homes) Limited**

## **Annual report and financial statements**

**Registered number 03934732**

**31 December 2019**

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## Strategic report

### Background and ownership structure

Four Seasons Health Care Properties (Care Homes) Limited is a healthcare property holding company within the Rhyme (Jersey) Limited group of companies. All Investment Properties are leased to subsidiaries of a connected group, headed by Mericourt Limited.

As at 31 December 2019, 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 £6,697,000 (2018: loss of £1,958,000).

### Principal activity

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

### Business review and KPIs

The results of the Company are consolidated in the group headed by Rhyme (Jersey) 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.

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

	2019	2018
Rental income	£414,000	£364,000
Operating (loss)/profit	(£3,980,000)	£893,000

### Principal risk and uncertainties

The Rhyme (Jersey) Limited and the Mericourt Limited group have 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 they operate. The groups have 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 Mericourt Limited 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. 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 and the connected entities that the Company leases property to 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, 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 Rhyme (Jersey) 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

30 March 2021

## Directors' report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2019. 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 9. The directors do not recommend the payment of a dividend (2018: £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)

T R W Hammond (resigned 18 November 2019)

B R Taberner (resigned 30 June 2020)

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, 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 18.

### 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

RSM UK Audit LLP were appointed as auditor of the Company. 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  
30 March 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. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. 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 Four Seasons Health Care Properties (Care Homes) Limited**

### **Opinion**

We have audited the financial statements of Four Seasons Health Care Properties (Care Homes) Limited (the 'company') for the year ended 31 December 2019 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 2019 and of its loss 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 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 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 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.



## **Independent auditor's report to the members of Four Seasons Health Care Properties (Care Homes) 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. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 Four Seasons Health Care Properties (Care Homes) 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.

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.

### **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.

RSM UK AUDIT LLP

**Jacqui Baker (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

30 March 2021

**Profit and loss account and other comprehensive income**  
*for the year ended 31 December 2019*

	<i>Note</i>	<b>2019</b> <b>£000</b>	<b>2018</b> <b>£000</b>
<b>Rental income</b>	<b>2</b>	<b>414</b>	<b>364</b>
Administrative expenses		(175)	(395)
<b>Gross profit/(loss)</b>		<b>239</b>	<b>(31)</b>
Exceptional items #	<b>4</b>	<b>(4,219)</b>	<b>-</b>
Other operating income	<b>5</b>	<b>-</b>	<b>924</b>
<b>Operating (loss)/profit</b>		<b>(3,980)</b>	<b>893</b>
Interest payable and similar charges	<b>8</b>	<b>(2,717)</b>	<b>(2,851)</b>
<b>Loss before taxation</b>		<b>(6,697)</b>	<b>(1,958)</b>
Tax on loss	<b>9</b>	<b>-</b>	<b>3</b>
<b>Loss for the financial year</b>		<b>(6,697)</b>	<b>(1,955)</b>
<b>Other comprehensive income, net of tax</b>	<b>13</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the financial year</b>		<b>(6,697)</b>	<b>(1,955)</b>

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 28.

# Exceptional items includes a £4,219,000 increase (2018: £nil) in a non-cash provision against amounts due from group undertakings / connected parties.

**Balance sheet**  
*at 31 December 2019*

		2019		2018	
	Note	£000	£000	£000	£000
<b>Fixed assets</b>					
Investment property	10	<u>3,515</u>		<u>3,688</u>	
			3,515		3,688
<b>Current assets</b>					
Debtors	11	-		-	
<b>Creditors: amounts due within one year</b>	12	<u>(11,864)</u>		<u>(5,340)</u>	
<b>Net current liabilities</b>			(11,864)		(5,340)
<b>Total assets less current liabilities</b>			<u>(8,349)</u>		<u>(1,652)</u>
<b>Net liabilities</b>			<u><u>(8,349)</u></u>		<u><u>(1,652)</u></u>
<b>Capital and reserves</b>					
Called up share capital	13	3,922		3,922	
Profit and loss account		(12,271)		(5,574)	
<b>Shareholder's deficit</b>			<u><u>(8,349)</u></u>		<u><u>(1,652)</u></u>

The financial statements include the notes on pages 12 to 28.

These financial statements were approved by the board of directors on 30 March 2021 and were signed on its behalf by:



**A J Hayward**  
Director

## Statement of changes in equity

	<b>Profit &amp; Loss account £000</b>	<b>Called up share capital £000</b>	<b>Total equity £000</b>
Balance at 1 January 2018	(3,619)	3,922	303
<b>Total comprehensive income for the period</b>			
Loss for the year	(1,955)	-	(1,955)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	(1,955)	-	(1,955)
<b>Balance at 31 December 2018</b>	<b>(5,574)</b>	<b>3,922</b>	<b>(1,652)</b>

	<b>Profit &amp; Loss account £000</b>	<b>Called up share capital £000</b>	<b>Total equity £000</b>
Balance at 1 January 2019	(5,574)	3,922	(1,652)
<b>Total comprehensive income for the period</b>			
Loss for the year	(6,697)	-	(6,697)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	(6,697)	-	(6,697)
<b>Balance at 31 December 2019</b>	<b>(12,271)</b>	<b>3,922</b>	<b>(8,349)</b>

The financial statements include the notes on pages 12 to 28.

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

### **1 Accounting policies**

Four Seasons Health Care Properties (Care Homes) 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, Rhyme (Jersey) Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Rhyme (Jersey) Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from Intertrust Corporate Services (Jersey) Limited, 44 Esplanade, St Helier, Jersey JE4 9WG.

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, except investment properties which are stated at their fair value.

The accounting reference date for the Company is 31 December 2019 (2018: 31 December 2018). 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 29 December 2019, with the comparative period being the 52 weeks ended 30 December 2018.

## 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 Rhyme (Jersey) Limited. The Rhyme (Jersey) Limited group's principal activity is the ownership and leasing of healthcare properties. Some properties are leased to subsidiaries of a connected group, headed by Mericourt Limited. Rhyme (Jersey) Limited and its subsidiaries, as well as the group headed by 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, Rhyme (Jersey) Limited, Mericourt Limited, and their subsidiaries continue to be legally owned by EIL, but are no longer controlled by EIL.

Certain other subsidiaries of the Rhyme (Jersey) Limited group and the Mericourt Limited group have provided cross guarantees in respect of the debt of EIL and EFUK which is in default. Additionally, as stated above, some of Rhyme (Jersey) Limited group's property is leased to subsidiaries of a related group, Mericourt Limited. Certain subsidiaries of the Mericourt Limited group have also provided guarantees in respect of the EIL and EFUK debt.

In light of these cross guarantees, the operational and financial support provided by other entities within the EIL group, and the lease arrangements, 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 and is forecasting that additional funding will be required within 12 months of the signing of these financial statements based on planned restructuring activities. The EIL group will seek to address this funding requirement once the timing and the amount of funding requirement is more certain. If sufficient funding is not obtained in a timely manner or as part of the restructuring then the restructuring may not be completed and this entity or other entities within the remaining EIL group could 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 date of signing these accounts 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£235m, none of which have been re-paid. As such, the debt and accrued interest is in default and, whilst the Company itself does not act as a guarantor of this debt, the cross guarantee provided by other entities within the EIL group that the company may be reliant upon for operational and/or financial support could be called as a result 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 3 May 2019 EIL and EFUK announced the launch of an Independent Sales Process for the EIL group which was expected to complete by the end of 2019. 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 had been entered into for the sale of certain subsidiaries, businesses and other assets comprising the EIL group's freehold estate, as well as a number of leasehold homes headed by Mericourt Limited. However, on 24 October 2019 this conditional sale and purchase agreement was terminated due to certain conditions having not been met or waived.

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") headed by Mericourt Limited. 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 post year-end 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.

On 2 November 2020 EIL and EFUK announced that a conditional sale and purchase agreement had been entered into relating to the sale of the business and assets of 10 freehold/long leasehold sites and one leasehold site within a division of the EIL group headed by Mericourt Limited and trading as The Huntercombe Group for an aggregate value of £35m. This sale completed on 5 March 2021. Net proceeds from the transaction were paid directly to the securities agent of the EIL and EFUK debt so are not available for use by the remaining EIL group.

In late 2020 the EIL group commenced a sale process in relation to its 43 freehold and long leasehold homes in Northern Ireland. The sale process is currently on-going.

- *Liquidity and funding*

Liquidity and expenditure has been carefully managed, particularly in light of the on-going restructuring and Covid-19. During 2020 the group entered into a Time To Pay arrangement, which is expected to be fully repaid by the end of March 2021, and received Covid-19 support from Local Authorities and CCGs.



## 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 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 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 Covid-19 and the on-going restructuring process. The current cash flow forecasts indicate an additional funding requirement within 12 months of the signing of these financial statements, although the timing and the amount of any funding requirement is dependent upon the form of the restructuring.

##### *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 or entities that it leases property to. Certain scenarios could result in the company, or the entities that it leases property to, ceasing to trade as the trade and assets of the company, or the entities that it leases property to, 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 – the EIL group's cash flow forecasts indicate that the costs to progress and complete a EIL group restructuring will require an injection of further funding within 12 months of the signing of these financial statements based on planned restructuring activities. The EIL group will seek to address this funding requirement once the timing and the amount of the funding requirement is more certain. 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 in a timely manner cannot be guaranteed, without which the group restructuring cannot be completed; and
- 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

The EIL group's latest cash flow forecasts, including current assumptions regarding the impact of Covid-19 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 EIL group has sufficient liquidity for the EIL group to continue operations, though headroom is limited and may require mitigating actions to be taken by management. Based on those forecasts, costs to progress and complete a group restructuring will require an injection of further funding within 12 months of the signing of these financial statements based on planned restructuring activities. 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) the impact of Covid-19 based on current KPIs and their expected development (as set out below), and (iv) limited incremental local authority and CCG Covid-19 support that is yet to be agreed.

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

##### 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 £3.5m 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. From June 2020 onwards the death rate reduced back to levels at or below the seasonal average and occupancy levels stabilised, ranging between 78% and 80%. However, admission rates have remained low as a consequence of admissions decisions being carefully considered, especially due to Covid-19. Recent occupancy levels have been in the range of 78% to 79%.

- 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 have been further exacerbated by Covid-19 as shielding and self-isolation has pushed staff absenteeism up to c11%, although this had reduced by September 2020. Agency usage has been well controlled, however restrictions on staff movements mean that a higher level of agency usage may be required going forward. 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 support of c£2m is assumed in the cash flow forecast based on recent announcements of support measures. 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 ability of the EIL group to address unpaid debts and obtain funding for any group restructuring plan, its form and its successful implementation, as well as the substantial achievement of forecast cash flows, 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.

***Investment property***

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition:

- i) Investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and
- ii) No depreciation is provided in respect of investment properties applying the fair value model.

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

### 1 Accounting policies (continued)

#### *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.

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

### 1 Accounting policies *(continued)*

#### **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.

#### **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)*

**1 Accounting policies (continued)**

**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 Rental income**

	2019	2018
	£000	£000
Gross rental income	<u>414</u>	<u>364</u>

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.

Rents are credited gross in the period to which they relate.

**3 Expenses and auditor's remuneration**

The auditor's remuneration of £5,300 (2018: £3,100) 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 in the current and prior year predominantly relate to a non-cash provision against amounts due from group undertakings / connected parties.

**5 Other operating income**

	2019	2018
	£000	£000
Fair value adjustment for investment properties	<u>-</u>	<u>924</u>
	<u>-</u>	<u>924</u>

**6 Staff numbers and costs**

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

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

**7 Directors' remuneration**

	2019	2018
	£000	£000
Directors' remuneration	33	28
Pension costs	-	-
	<u>33</u>	<u>28</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 £15,000 (2018: £11,000) and includes pension contributions of £nil (2018: £nil).

Pension contributions arise in respect of no (2018: no) directors. There were no pension contributions outstanding at the year end (2018: £nil).

**8 Net interest and similar charges/income**

	2019	2018
	£000	£000
<i>Interest payable and similar charges:</i>		
Interest expense from group undertakings or connected entities	(2,717)	(2,851)
Total interest payable and similar charges	<u>(2,717)</u>	<u>(2,851)</u>



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

**9 Taxation**

	2019 £000	2018 £000
<b>Total tax expense recognised in the profit and loss account, other comprehensive income and equity</b>		
<i>UK corporation tax</i>		
Current tax on loss for period	-	-
Total current tax	-	-
<i>Deferred tax charge</i>		
Origination/reversal of timing differences	-	(3)
Total deferred tax	-	(3)
Total tax	-	(3)
<b>Reconciliation of effective tax rate</b>		
Loss for period	(6,697)	(1,955)
Total tax expense	-	(3)
Loss excluding taxation	(6,697)	(1,958)
Tax using the UK corporation tax rate of 19.0% (2018: 19.00%)	(1,272)	(372)
<i>Effects of:</i>		
Expenses not deductible/(credits) not taxable for tax purposes	1,288	(101)
Group relief for nil consideration	(16)	473
Current year movement in recognised deferred tax	-	(3)
Total tax expense included in profit and loss	-	(3)

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

The finance act which was substantively enacted on 26 October 2015 included legislation to reduce the main rate of corporation tax of 20% to 19% from 1 April 2017. Further changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). These included reductions to the main rate of corporation tax to 17% from 1 April 2020. The most recent changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2020 (on 11 March 2020). These included maintaining the main rate of corporation tax at 19% from 1 April 2020.

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

**10 Investment property**

	2019 £000
Balance at 1 January 2019	3,688
Losses from fair value adjustments	(173)
Balance at 31 December 2019	<u>3,515</u>
<b>Historical cost net book value</b>	<u><u>2,487</u></u>

As at 31 December 2019 the directors reviewed the property portfolio in line with the requirements of FRS 102 Chapter 16 Investment Property guided by a valuation carried out by an independent valuer in June 2019 and having regard to the current and expected trading in individual care homes and specialist units with particular focus on occupancy levels, fee rates and payroll costs, or, where applicable, based on actual or expected disposal proceeds following the year end (see note 17 Accounting Estimates and Judgements). As a result of this review and the independent external valuation, the value of the Company's investment property has decreased by £173,000 with the gain from fair value adjustments included in operating profit for the year and disclosed within other operating income, and losses from fair value adjustments included in operating profit for the year and disclosed within administrative expenses.

**Security**

The term loan facility and senior secured notes are secured on the trade and assets of this and other group companies. See note 1 and 14 for further details.

**11 Debtors**

	2019 £000	2018 £000
Amounts due from connected parties	4,218	-
Non-cash provision against amounts due from connected parties	<u>(4,218)</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The amounts due from group undertakings / connected parties are unsecured and repayable on demand. Where applicable, interest is charged at between 4.70% and 6.70%.

**12 Creditors: amounts due within one year**

	2019 £000	2018 £000
Amounts due to group undertakings	-	5,340
Amounts due to connected parties	<u>11,864</u>	<u>-</u>
	<u>11,864</u>	<u>5,340</u>

The amounts due to group undertakings / connected parties are unsecured and repayable on demand. Where applicable, interest is charged at between 4.70% and 6.70%.

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

**13 Share capital, reserves and other comprehensive income**

	2019	2019	2018	2018
	No. of shares	£000	No. of shares	£000
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of £1 each	3,922,000	3,922	3,922,000	3,922
Total		<u>3,922</u>		<u>3,922</u>
Shares classified as liabilities	-	-	-	-
Shares classified as equity	3,922,000	3,922	3,922,000	3,922
Total		<u>3,922</u>		<u>3,922</u>

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.

**14 Operating leases**

*Leases as lessor*

The investment properties are let under operating leases. The future minimum lease payments receivable under non cancellable

	2019	2018
	£000	£000
Less than one year	421	409
Between one and five years	1,683	1,636
More than five years	5,260	5,521
	<u>7,364</u>	<u>7,566</u>

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

### **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 Rhyme (Jersey) 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 Rhyme (Jersey) Limited 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 Mericourt 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 2019 and 31 December 2018 include rental of property to the Mericourt Limited Group, the recharging of central operational costs from Mericourt Limited Group, and interest on loan balances due to / from Mericourt Limited companies. 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 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. Balances at 31 December 2018 between Mericourt Group and Rhyme (Jersey) Group are disclosed within amounts due to / from group undertakings.

### **16 Ultimate parent**

As at 31 December 2019, the Company's immediate parent company is Four Seasons Health Care Properties Limited, a company incorporated in the Isle of Man. Its registered address is Millennium House, Victoria Road, Douglas, Isle of Man, IM2 4RW.

As at 31 December 2019, 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 Rhyme (Jersey) Limited, the financial statements of which will be available to the public and may be obtained from its registered address: Intertrust Corporate Services (Jersey) Limited, 44 Esplanade, St Helier, Jersey JE4 9WG.

### **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 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.

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

### 17 Accounting estimates and judgements *(continued)*

#### ***Recoverability of amounts owed by related undertakings / connected parties***

An estimate is made in respect of the recoverability of amounts owed by group undertakings / connected parties. In making this assessment, the directors have considered the ability of the relevant undertakings to pay the amount owed. Due to the complex group structure this requires consideration of the way in which all 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 4 for details of the exceptional items.

#### ***Investment Properties***

The directors have reviewed the fair value of the Company's Investment Properties. There are a number of key judgements in estimating the fair value of the Investment Properties. In calculating the fair value less costs to sell for each property the directors have been guided by a valuation carried out by an independent valuer in June 2019 in accordance with RICS. The fair value less costs to sell has been calculated on a property-by-property basis on the estimated cash flows/profits that could be achieved by a reasonably efficient operator from each asset, with particular focus on occupancy levels, fee rates and payroll costs, referred to as the "fair maintainable trade". The fair maintainable trade is then multiplied by an appropriate property specific multiple which takes account of each asset's circumstances including its quality, location and market factors.

The Directors have made an adjustment to the third party valuation to allow for a reasonable level of central cost overheads that would be required to operate the assets. This is on the basis that the most likely disposal of the assets would be in groups rather than individually and therefore a level of central cost overhead should be factored into the valuation when based on a fair value less costs to sell methodology.

If the adjusted fair maintainable trade valuation is lower than the valuer's assessment of the vacant possession value for the property, the vacant possession value is used as the fair value in the impairment assessment.

The directors have further considered:

- Whether there is any indication of significant movements in the assets values between the date of the independent valuation and year-end. Given the proximity of the valuation date to the year-end and that market conditions were stable during the period, the Directors have not considered it necessary to adjust the fair maintainable trade or multiples used in the third party valuation
- The impact of Covid-19 on carrying values. Covid-19 has been identified as a post balance sheet event and assessed in line with the requirements of FRS 102 Section 32. As Covid-19 was not reflective of conditions that existed at the year-end it has been assessed as a non-adjusting post balance sheet event and therefore the carrying amount of Investment Properties has not been adjusted.

For properties which were held for disposal, the fair value was estimated by reference to discussions with agents, offers received or prices agreed for the relevant properties.

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

**18 Post balance sheet events**

*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's ability to continue as a going concern is outlined in note 1.

*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 announced sales process in respect of certain Care Home sites in Northern Ireland. 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. The Company could also be affected by the future form and implementation of the EIL Group restructuring. 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.