

Care UK Health & Social Care Investments Limited

Annual report and financial statements

Registered number 07158140

30 September 2019



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STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 30 September 2019.

Care UK Health & Social Care Investments Limited's ("Care UK" or "the group") ongoing strategy is to help older people live happier, healthier and more fulfilling lives. We aim to achieve this by:

- **Develop existing and new care homes.** Modern and well-maintained facilities are important to good quality care and Care UK will continue to update existing care homes and to build new homes through the most extensive programme in the sector. With 121 care homes providing over 8,000 beds, Care UK is one of the largest operators of care homes for older people in the United Kingdom measured by bed numbers. Our strategy successfully anticipated the growing importance in the market of self funded residents and as a result the proportion of revenue derived from this segment has grown from a base of less than 15% to over 50% at 30 September 2019. Whether our customers are publicly or self funded, Care UK will not compromise on meeting individual needs and currently achieves better quality ratings from UK regulators than other similar large providers.
- **Maintain organisational and financial resilience:**
 - **Strong asset backing.** As of 30 September 2019, the group's net book value of property, plant and equipment assets relating to continuing activities and before applying IFRIC 12, amounted to £196.2m.
 - **Re-financing successfully secured.** In January 2019 the Group completed a refinancing exercise which resulted in the repayment of the outstanding 2014 Notes which were replaced with a £250m five year term loan; and the revolving credit facility has been reduced from £65.0m to £37.5m. These arrangements ensure a stable and long term capital structure for the Group, increasing liquidity and allowing for continued investment to support growth aspirations of both our operating businesses.
 - **Strong support from principal shareholder.** Care UK benefits from the relationships, investment experience and knowledge of its shareholder, Bridgepoint, one of Europe's leading mid-market private equity managers with a longstanding track record of investing in European businesses.
 - **Experienced and proven management team.** Care UK has benefitted from a consistent and experienced senior management team for a number of years. Mike Parish and Philip Whitecross have moved from operational roles to Non-Executive director roles of the ultimate holding company. From an operational perspective, the continuing group will be led by Andrew Knight who is Chief Executive Officer of the Residential Care business. Andrew has previously held a number of senior positions across a number of industries, most recently as Managing Director of Weightwatchers (UK) Limited. Andrew previously held director and managing director roles within the UK leisure sector.

BUSINESS REVIEW

On 25th October 2019, the group sold its shares in Care UK Healthcare Holdings Limited to a new company Care UK Healthcare Bidco Ltd, whose equity ownership sits outside the group but continues to be managed by Bridgepoint.

STRATEGIC REPORT (continued)

CONTINUING ACTIVITIES

Care UK continues to occupy a position within the social care markets, as the largest developer of new residential and nursing care homes. The Care UK social care portfolio is focused on the continued development of residential care services, through its new home development programme. Care UK's portfolio is focused on patient, service user and customer expectations and choice. The main drivers affecting results of operations are:

Residential Care Business

- the number of beds and the occupancy rates at Care UK's care homes;
- the level of fee increases achievable for local authority spot rates and self funded residents;
- the level of operating expenses, particularly staff costs given the current labour shortages across the sector, the impact of the newly implemented National Living Wage, and any potential impact from Brexit on the labour market;
- CQC quality ratings and in particular potential embargoes; and
- the new care home development programme.

The table below summarises the key performance indicators by segment for 2019 and 2018.

| | 2019 | 2018 |
|--|-------|-------|
| Residential Care Services | | |
| Revenue £m | 352.7 | 324.6 |
| Adjusted EBITDA ¹ £m | 31.2 | 30.7 |
| Operating profit ¹ £m | 3.5 | 10.5 |
| Average quarterly financial occupancy ² | 87.6% | 86.4% |
| Self-funding residents % of annual revenue | 49.6% | 46.3% |
| Number of beds | 8,014 | 7,796 |
| Average weekly fee | 946 | 890 |

¹ For the definition of Adjusted EBITDA see note 2(w). This is after start-up losses on new homes

² Financial occupancy is defined as the total number of paid for beds as a percentage of total beds

Residential Care Services KPIs

The Residential Care Services division increased revenue by £28.1m year on year which represented an 8.7% increase. Excluding discontinued homes the underlying growth was 9.8%. The growth is largely from new homes with £24.9m additional revenue from this portfolio of homes and a remaining £6.7m from the Core estate. Revenue growth has been partly restricted by the performance of the new home portfolio (partly delayed home openings) but has benefited from stronger performance in the Core estate.

Adjusted EBITDA for Care UK's Residential Care Services division increased by £0.5m, from £30.7m for the year ended 30 September 2018 to £31.2m for the year ended 30 September 2019.

Average weekly fee (AWF) rates across all homes in the year ended 30 September 2019 averaged £946, an increase of 6.3% on the prior year.

Total financial occupancy across the entire care home portfolio averaged 87.6% in the year ended 30 September 2019 compared with 86.4% in the year ended 30 September 2018.

As at 30 September 2019 Care UK operated 8,014 beds across 121 care homes (30 September 2018, 7,796 beds; 118 homes) with the addition of five new homes during the year and some home closures.

STRATEGIC REPORT (continued)

Operating profit

Operating profit decreased by £7.0m from £10.5m in 2018 to £3.5m in 2019. In addition to the changes in Adjusted EBITDA explained above, this was driven by the following:

- £1.3m increase in depreciation reflecting the increase in new care home openings.
- Loss on disposal of non-core care homes was £2.2m compared to a £1.3m profit in 2018.
- Reduction in non-cash IAS17 lease expense from £2.4m in the prior year to £1.2m.
- Impairment of £3.5m recognised during the year on property, plant and equipment.

Non-recurring items

The group separately identifies and discloses certain items, referred to as non-recurring items, by virtue of size, nature or occurrence. This is consistent with the way that financial performance is measured by management (see note 2(W) Non-GAAP financial measures) and assists in providing a meaningful analysis of operating results by excluding items that may not be indicative of the operating results of the group's business. Non-recurring items incurred in the year ended 30 September 2019 amounted to a charge of £2.9m in aggregate (£4.4m in the prior year). The key elements of the charges for both years on a continuing basis are set out in the following table, see note 4 for further details:

| | Year ended 30 September | |
|------------------------------------|----------------------------|--------------|
| | 2019 | 2018 (i) |
| | £m | £m |
| Contract exit and transition costs | - | 0.4 |
| Property related costs | (1.2) | (0.8) |
| Restructuring | (0.3) | (0.9) |
| Procurement programme | - | (0.4) |
| Abortive transaction costs | (1.4) | (2.5) |
| Acquisition costs | - | (0.2) |
| Total | (2.9) | (4.4) |

(i) 2018 figures have been restated to exclude the impact of the Healthcare division which has been classified as discontinued.

Net financing expense

Care UK's net financing expenses increased by £2.6m during the year from £15.9m to £18.5m. This was driven by the repayment of the loans made to Silver Sea which led to a £2.2m reduction in interest receivable during the year. The majority of the financing expense of £20.2m comprises the interest payable on the group's borrowings, all of which have an underlying link to LIBOR. Other non-cash elements of the finance expense include the amortisation of loan arrangement fees including the unwind of the element relating to the old financing structure.

Taxation

Care UK's taxation charge reduced from a charge of £1.3m during the year ended 30 September 2018 to a charge of £0.6m during the year ended 30 September 2019.

Future Developments

Care UK expects further growth in the number of homes and beds in the coming years as Care UK continues with its new home strategy with 13 homes in the construction pipeline.

STRATEGIC REPORT (continued)

BUSINESS REVIEW OF DISCONTINUED ACTIVITIES

The main drivers affecting results of the Healthcare discontinued operations are:

- Care UK's ability to win new contracts and develop new innovative solutions aligned to key national policy and clinical priorities;
- its continued operation and organic growth of existing facilities and contracts;
- the level of patient volume and Care UK's ability to attract patients within the Secondary Care services market;
- the level of tariff received for clinical procedures as set by the NHS;
- the number of patients who choose or are directed to use Care UK's Primary and Urgent Care services;
- the level of operating expenses, particularly staff costs given the current labour shortages across the sector, and any potential impact from Brexit on the labour market.

| | 2019 | 2018 |
|---------------------------------|--------|--------|
| Health Care | | |
| Revenue £m | 381.3 | 360.1 |
| Adjusted EBITDA ¹ £m | 20.4 | 21.7 |
| Operating profit ¹ | 8.9 | 9.0 |
| Number of elective procedures | 85,679 | 79,709 |

¹ For the definition of Adjusted EBITDA see note 2(w)

Health Care revenue growth of £21.2m is spread across Primary and Secondary Care service lines (+£8.2m and +£11.6m respectively) with New Products revenue more than doubling to £2.7m for the year. Primary Care service line revenue has grown with Prisons adding £11.6m to £140.7m for the year, offset by a reduction in Urgent Care of £3.4m year-on-year due to Out of Hours contract exits in 2018. Secondary care did benefit from a stronger tariff in the second half of the year. When combined with strong referral levels, it provides a good base for 2019/20.

Adjusted EBITDA was £1.3m lower in the current year at £20.4m. The FY18 result was boosted by a one-off adjustment in Prisons relating to costs on new contracts taken on in 2016 and 2017 where a prudent approach was taken due to the significant increase in scale of the business and inherent uncertainty in transitioning and managing new services. On a like for like basis, Adjusted EBITDA has grown by £1.4m year on year, driven by both Prisons and Secondary Care with incremental EBITDA of £2.2m and £4.4m respectively on 2018 performances. Offsetting this, Urgent Care made an EBITDA loss of £2.1m in the year compared to profit of £1.3m in 2018.

Operating profit was broadly flat year on year, driven by the reduction in non-recurring items of £1.3m which offset the lower Adjusted EBITDA.

STRATEGIC REPORT (continued)

Net Debt & Cash Flow

The group manages its capital through focusing on its net debt which includes cash, and financial liabilities including Senior Secured Notes, Term Loan, Revolving Credit Facility and Loans from related parties. The net debt position is shown below:

| | 2019 | 2018 |
|---------------------------|----------------|----------------|
| | £m | £m |
| Cash | 24.3 | 13.1 |
| Senior Secured Notes | - | (267.6) |
| Revolving Credit Facility | - | (39.0) |
| Term Loan | (250.0) | - |
| Loan from related party | (13.7) | - |
| Arrangement fees | 6.8 | 1.0 |
| Group Net debt | (232.6) | (292.5) |

The Group benefitted from a reduction in net debt of £42.9m during the year. Operating cashflows increased from £22.5m to £51.3m, an increase of £28.8m, principally driven by strong working capital management. The re-financing exercise which occurred during the year saw the net repayment of amounts owed by related parties of £55.6m which has led to a reduction in the net debt position.

Policies

An explanation of Care UK's policies relating to employment and regulation are included in the Directors' report.

PRINCIPAL RISKS AND UNCERTAINTIES

The board has overall responsibility for the group's approach to assessing risk and recognises that creating value is the reward for taking, and accepting, risk. Executive management implement the board's policies on risk and control and present assurance on compliance with these policies. The divisional management teams are responsible for managing risk and maintaining appropriate control environments. Further information is provided on accounting estimates and judgements in the accounting policies section of these financial statements.

Impact of referendum on membership of the European Union

Care UK faces potential risks associated with the proposed exit by the UK from its membership of the European Union, and the potential uncertainty preceding that exit. The UK exiting the European Union could materially change both the fiscal and legal framework in which Care UK operates, and it could have a material impact on the UK's economy and its future economic growth. In addition, prolonged uncertainty regarding aspects of the UK economy due to the uncertainty around the proposed exit could damage customers' and investors' confidence. Management have considered the implications of various exit scenarios including a cliff edge scenario. Given the nature of the UK sector that Care operates within, management consider that: there is no exposure to EU customers; there are no material issues with the supply chain and the re-financing was successfully completed during the year. The main consequences and potential risks relate principally to the labour market for essential care workers. The likelihood of any adverse impact remains unclear, but the sector is working actively to ensure that measures to support ongoing recruitment and retention of necessary care and nursing staff are in place.

Competition and Markets Authority ("CMA")

In February 2019 the CMA issued a claim against Care UK under the Enterprise Act 2002. The claim relates to past conduct when Care UK used to charge a one off upfront admission fee. Care UK stopped charging this fee in August 2018. Care UK has taken advice from specialist legal counsel and believes that it is in a strong position to defend the claim and accordingly no provision has been made in the statutory accounts.

STRATEGIC REPORT (continued)

The principal risks and uncertainties which impacted the group during the current year are set out below in summary. Further detail can be found on Care UK's website, www.careukgroup.com.

- Care UK relies on providing services to publicly funded entities in the United Kingdom such as Local Authorities and the NHS, typically through Clinical Commissioning Groups and NHS England, for a substantial proportion of its revenue and any material reduction in the revenue earned from such services could adversely impact Care UK's business, results of operations and financial condition.
- Changes in public policy for health and social care and uncertainty as to the future of such policies, particularly given the UK Government's commitment to reducing public deficit spending, could have an adverse impact on Care UK and delay or prevent its ability to achieve its strategic goals or increase the costs of achieving them.
- Care UK's strategy is partly based on growth derived from increased levels of consumer demand for certain of its services or the increased influence of consumers in the choice of the provider of care to them and, as a result, its future growth is dependent on maintaining the quality of its services, consumer and patient perception of that quality and on its ability to market these services effectively.
- The risk of an extended recessionary period and weak macro-economic conditions generally may have an adverse effect on personal disposable income.
- Care UK earns revenue from long-term contracts and, as a result, a failure accurately to predict and account for future cost increases or to overestimate its ability to efficiently deliver the services that it contracts to provide could affect its profitability. Failure to perform its services in accordance with its contractual obligations could result in Care UK facing financial penalties or being required to continue operating unprofitable contracts.
- Future changes in the rate of the National Living Wage ("NLW") will have a significant impact on labour costs for the social care sector (including Care UK's residential care services business) and level of recovery through fee increases is uncertain. Failure to recover such costs would have a negative impact on margin.
- Care UK operates in a highly regulated business environment and failure to comply with regulations could lead to substantial penalties, including the loss of the registration certificates necessary to continue to trade.
- Care UK may fail to achieve anticipated contract or service volumes or it may reach those volumes over a longer period of time than originally anticipated under its contracts or service business plans, which could have a negative impact upon its results of operations and the financial performance of Care UK.
- Care UK's revenue is derived from contracts and if Care UK is unable to renew them or replace them with comparable contracts, it could suffer a substantial reduction in revenues.
- Negative publicity generally could adversely impact Care UK.
- Certain of Care UK's operations, particularly in social care, are capital intensive and require significant capital investment and planning to support successful organic growth.
- Care UK's growth plans require significant process and efficiency improvements to drive greater operating efficiency within the group's businesses. These initiatives exert competing pressures on the resources of the business, and may impact upon the speed of change the business can cope with in the short-term.
- Financing for the development of new facilities or modifications of existing facilities may not be available to Care UK on acceptable terms in the future or at all.
- Care UK's insurance may be inadequate or premiums may increase substantially.
- UK Government outsourcing of the provision of health care services to private providers is a relatively new development in the United Kingdom and the observed growth in this area may not be sustained or could be reversed.
- Care UK's activities are exposed to significant medical, clinical and health and safety risks and the risk of acute service failure.
- Care UK operates in a competitive environment and faces competition with other for-profit, public and not-for-profit entities for contracts, patients and service users as well as for appropriate sites on which to expand and build new facilities.
- The Competition and Markets Authority have undertaken a review of the residential care home market.

STRATEGIC REPORT (continued)

- The senior management team is critical to Care UK's continued performance.
- Care UK's business could be disrupted if its information systems fail or if its databases were destroyed or damaged.
- Care UK handles sensitive consumer data in the ordinary course of its business and any failure to maintain the confidentiality of that data could result in legal liability for, and reputational harm to, Care UK.
- Care UK's business is subject to laws and regulations relating to the environment and public health.
- Loss of Care UK's ability to use certain key properties subject to long-term leases through termination or frustration of the relevant lease, compulsory purchase or other events or circumstances outside its control could have a material adverse effect on its ability to operate its business and meet its financial obligations.
- Care UK may become involved in legal proceedings based on environmental, health and public liability and the duty of care it assumes for its service users.
- Care UK could be adversely affected by violations by its employees of anti-bribery laws and/or other government regulations.
- Care UK may have exposure to greater tax liabilities than anticipated.
- Care UK may incur substantially more debt in the future. Together with its current leverage, it may be difficult for Care UK to service its debt and impair its ability to operate its businesses.
- Care UK is subject to covenants under its Revolving Credit Facility and the Facility B Term Loan, which will limit its operating and financial flexibility and, if Care UK defaults under these covenants, it may not be able to meet its payment obligations.
- Care UK may not be able to generate sufficient cash to service its indebtedness, including due to factors outside its control, and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.
- Care UK's financing and debt arrangements are subject to an element of variable interest rates and any increases in interest rates in the future could significantly increase costs and reduce cash flow.
- Care UK is exposed to risks related to the UK's proposed termination of its membership of the European Union, in particular in respect of the impact on the labour market for care workers.
- Care UK depends on its ability to attract, retain and train experienced and/or qualified staff in a number of disciplines and any reduction in the number of such individuals or an increase in the wages and salaries necessary to attract and retain them could negatively impact Care UK.

This report was approved by order of the Board.



PHILIP WHITECROSS
DIRECTOR

Connaught House
850 The Crescent
Colchester Business Park
Colchester
Essex
CO4 9QB
30 January 2020

DIRECTORS' REPORT

The Directors present their Directors' report and Financial Statements for the year ended 30 September 2019.

Principal activities

The Care UK Health & Social Care Investments Limited Group's ('the Group' or 'Investments') principal activities comprise the provision of health and social care services, focused on the continued development of residential care services, through its new home development programme, and on its market leading provision of primary and secondary NHS health services.

Investments is a holding company, which indirectly holds 100% of Care UK Limited ('Care UK'). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and are presented in pounds sterling.

Post balance sheet event

On 23rd October 2019, the Company undertook a capital reduction through the cancellation of £0.12 on each issued fully paid up £1 ordinary share which reduced the nominal value to £0.88 per share. This resulted in a reduction of capital of £25.2m which was credited to reserves.

On 25th October 2019, the Group sold its shares in Care UK Healthcare Holdings Limited to a new company Care UK Healthcare Bidco Ltd, whose equity ownership sits outside the group but continues to be managed by Bridgepoint.

On 25th October 2019, the Company received and then subsequently paid a dividend of £159.8m.

Dividends

No interim dividend was paid and the directors do not recommend the payment of a final dividend. No dividends were paid either in or relating to the year ended 30 September 2019 (year ended 30 September 2018: nil).

Employment policies

Our aims:

At Care UK, we believe we thrive because our people love what they do and because they connect with our core value – to fulfil lives.

We want our people to flourish and be positive advocates of our organisation. We are committed to providing an engaging and inclusive environment for everyone who works with us regardless of their background, beliefs or personal context.

Our policies:

Our people policies reflect the changing needs of society, offering a range of family friendly opportunities and flexible ways of working to ensure those who choose to work with us can balance their commitments both in and out of work.

We regularly review and assess our policies with equality in mind and we are committed to making reasonable adjustments to both our policies and our processes where individual or group need arises.

It is group policy to give fair consideration to the employment needs of disabled people to comply with current legislation with regard to disabled persons and, wherever practicable, to continue to employ and promote the careers of existing employees, who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitude and abilities.

DIRECTORS' REPORT (continued)

Communicating:

We communicate with our people through a range of channels including face to face meetings and forums, newsletters and most importantly our intranet, which is available to colleagues both in the workplace and via their personal mobile devices. Each division delivers tailor made content to ensure it is relevant and meaningful to colleagues and to ensure employees are aware of the factors affecting the performance of the company.

Listening:

Our annual 'Over to you!' survey helps us to understand what's important to our people and develop business strategies that reflect what our people tell us. Action planning takes place at local and divisional level.

Supporting:

We provide all colleagues with a free employee assistance programme to help them deal with personal and domestic issues via telephone or face to face counselling. Support can range from simple advice and guidance right through to cognitive behavioural therapy. Online resources offer health quizzes and lifestyle advice.

Occupational Health Services help us keep our people well at work both physically and mentally. Occupational Health also helps us ensure that any health related risks at work are managed and our people kept safe from any potential work related sickness.

We ensure that throughout our business, we support our managers to deliver benchmark employment practices through the provision of a 24/7 employment advice helpline. The helpline provides prompt and timely advice to help managers deal with people issues effectively, fairly and consistently.

Other policies

Human rights:

We respect Human rights. We have a zero-tolerance approach to modern slavery and we are committed to acting ethically and with integrity in all our business dealings and relationships. We are also committed to ensuring there is transparency in our own business and in our approach to tackling modern slavery throughout our supply chains.

Anti-corruption and anti-bribery:

It is our policy to conduct all of our business in an honest and ethical way. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate.

The requirement to comply with Care UK's internal policies forms part of an individual's terms of employment and there are processes available to deal with instances of non-compliance. Care UK believes these policies operate effectively and also recognises the importance of robust processes to mitigate against both the likelihood and the impact of risks crystallising. See the Strategic report for further details on the risks that Care UK faces.

Regulation and governance

As outlined above the board has overall responsibility for the group's approach to assessing risk and the divisional management teams are responsible for managing risk and maintaining appropriate control environments.

In addition to Care UK's internal governance framework, Care UK's services operate within a robust, externally validated governance structure which provides a strong focus on clinical safety, transparency, learning and improvement as well as rigorous financial oversight. Care UK's external governance includes the following components:

DIRECTORS' REPORT (continued)

NHS Improvement

Care UK is regulated by NHS Improvement (formerly 'Monitor') when providing services to the NHS. NHS Improvement oversees the market for healthcare in the UK, including competition and procurement processes and the performance and sustainability of both providers and commissioners. NHS Improvement's regulatory duties include determining tariffs for key NHS services provided by Care UK.

The Care Act 2014

The 2014 Care Act provides an overarching piece of legislation addressing the way in which care is provided by local authorities and has significant implications for providers. The Act, the first part of which was implemented in April 2015, establishes a principle of wellbeing in law, sets requirements for assessment, eligibility, planning and safeguarding process, creates a market oversight process to manage provider failure, sets out future funding reforms and established a Duty of Candour with which providers must comply.

Implementation of the second part of the Act, principally addressing funding reforms, has been delayed from the planned April 2016 date.

Market oversight

The Care Quality Commission (CQC) is required by the Care Act to operate a statutory market oversight scheme in the social care sector, to assess the financial sustainability of those care organisations, including Care UK, that local authorities would find difficult to replace should they become unable to deliver services.

Care UK is included within the scheme because it meets eligibility criteria based on size, number of services and number of employees and as such provides CQC with appropriate financial and operational information.

Quality inspections in England, Scotland and Wales

Health and social care services are regulated in England by the Care Quality Commission (CQC), in Scotland by the Care Inspectorate and in Wales by the Care and Social Services Inspectorate Wales. The majority of Care UK's service are inspected by CQC.

In England, CQC has fully introduced new inspection models for health and social care services, asking five key questions of every provider or service: is it safe, is it effective, is it caring, is it responsive and is it well-led. Each question, as well as providing an overall rating for the home, is rated as one of inadequate, requires improvement, good or outstanding. There is little scope to appeal the judgement rating inherent in this system. The ratings are publicised by the CQC on their website in relation to each home that they regulate.

Care UK agrees with the principles underpinning the approach and believes that an effective inspection regime is an appropriate tool to drive and secure high quality, safe services.

CQC is able to impose conditions on services which fail to meet appropriate standards of care, including placing individual services in special measures, placing embargoes on admissions to particular services, requiring and monitoring action and improvement plans and, in extreme cases, suspending or revoking registration (which means in effect closing the home as it is a criminal offence to provide regulated services without registration).

CQC also have prosecution powers and are increasingly investigating care providers where they seem to have failed to provide safe care to residents.

In Scotland, similar functions are carried out by the Care Inspectorate. In Wales, responsibility is held by the Care and Social Services Inspectorate Wales.

DIRECTORS' REPORT (continued)

Gender diversity

The following table shows our current gender diversity relating to our continuing operations:

| | 2019 | | 2018 | |
|------------------------------------|--------|----------|--------|----------|
| | Male % | Female % | Male % | Female % |
| Board of directors | 100 | - | 100 | - |
| Senior managers ¹ | 60 | 40 | 63 | 37 |
| Other employees | 17 | 83 | 20 | 80 |

¹Senior managers are comprised of the members of the executive committee (unless already included within the board of directors) and members of the executive teams.

Financial risk management

Refer to note 24 for disclosure of the group's financial risk management policies and procedures.

Charitable and political donations

On an annual basis, the Group supports a number of charities and made charitable donations of £59,000 during the year (2018: £52,000). No political donations were made in the year (2018: £nil).

Directors

The names of the directors who held office on 30 September 2019 and those serving during the year, and up to the date of signing of this report are as follows:

Michael Parish (resigned 31 October 2019)

Philip Whitecross (resigned 31 October 2019 and re-appointed 6 December 2019)

Andrew Knight (appointed 31 October 2019)

Matthew Rosenberg (appointed 31 October 2019)

Jonathan Calow

Statement on payment of suppliers

The Group does not follow a specific code or statement on payment practice. However, it is the Group's policy to pay its suppliers in accordance with the payment terms agreed at the outset of the relationship providing the supplier adheres to its obligations.

Corporate social responsibilities

Care UK is committed to supporting research and investing in social initiatives and charitable organisations which support wellbeing. Care UK is also committed to developing skilled clinicians and carers and to managing all our care settings in an environmentally responsible way in order to benefit the local community.

Environmental policies

Care UK meet all reporting and submission requirements set by the Environment Agency's ESOS (Energy Savings Opportunities Scheme) and CRC Energy Efficiency Scheme, and have made appropriate carbon allowances based on our gas and electricity usage. Care UK are also committed to Project Green - an ambitious environmental commitment which covers the whole of our property portfolio, targeting a 10 percent reduction in carbon emissions per resident/patient and the Europe-wide target of recycling 50 percent of our general waste.

Reducing our carbon footprint is not an easy challenge as, by the very nature of care homes our properties are net consumers of energy resources. We are using a three-tier approach. The first, and in many ways the most important, is our people – our teams, colleagues and residents. By educating everyone across RCS about the importance of reducing, reusing and recycling, we are making a sustainable start to day-to-day environmental responsibility.

DIRECTORS' REPORT (continued)

Trained advisers visit our residential homes to explain how our carbon footprint can be reduced. They have recruited Eco Ambassadors among both colleagues and residents to act as drivers for change, questioning how things are done and, challenging people to improve their green habits.

The second tier focuses on process and looks at some of the more technical issues around how we run our buildings, such as building in seasonal flexibility to heating and lighting.

The final tier is technology, where we have made our largest financial commitment. This includes a programme to move to LED lighting across our homes, the installation of new-generation, fuel-efficient boilers, electrical control systems on heaters and the use of combined heat and power units solar panels on roofs in all new-build homes.

In addition to carbon reduction we have made a significant reduction in our consumption of mains water through the introduction of 'smart' water-meter technology to enable us rapidly identify and repair leaks.

Working with the Community:

Care UK colleagues regularly extend their care for others beyond their day job and out into their own communities through a range of fundraising activities. We are delighted to reward and acknowledge their efforts through our Working with the Community Fund. The Working with the Community Fund provides employee matched funding up to £1,000 per application. Each year, up to £25,000 of employee fundraising is matched, helping our colleagues support charities that operate in the communities where Care UK is active. To date, more than 100 different national and local charities have received match funding donations.

In addition to the matched funding for our colleagues, both Care UK's operating divisions partner with regional and national charities that are aligned to our values. We support these organisations through direct donations and fund raising activities throughout the year. Currently, our Health Care division is partnered with Bowel Cancer UK and our Residential Care business has been building on its relationship with the Care Workers Charity, a fund committed to helping care workers in times of need.

Guidelines for Disclosure and Transparency in Private Equity

The Directors consider that the annual report and Financial Statements have been prepared in accordance with the Guidelines for Disclosure and Transparency in Private Equity.

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.

Disclosure of information to Auditors

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 he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's Auditor is aware of that information.

This report was approved by order of the Board.



PHILIP WHITECROSS
DIRECTOR

Connaught House
850 The Crescent
Colchester Business Park
Colchester
Essex
CO4 9QB
30 January 2020

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT
AND THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent 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 group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE PERFORMANCE
For the year ended 30 September 2019

| | Notes | 2019 | 2018 ¹ |
|--|-------|----------------|-------------------|
| | | £m | £m |
| Revenue | 4 | 352.7 | 324.6 |
| Cost of sales | | (320.5) | (289.0) |
| Gross profit | | 32.2 | 35.6 |
| Administrative expenses | | (34.6) | (35.9) |
| Operating loss before financing expense | | (2.4) | (0.3) |

| | | | |
|---|------|--------------|--------|
| Adjusted EBITDA (earnings before interest, taxation, depreciation and amortisation) | | 27.1 | 24.9 |
| Depreciation of tangible assets | 8,11 | (15.6) | (15.7) |
| Adjusted operating profit | | 11.5 | 9.2 |
| Amortisation of intangible assets | 8,12 | (4.1) | (4.0) |
| (Loss)/ profit on disposal of tangible fixed assets | | (2.2) | 1.3 |
| Impairment of tangible assets | 11 | (3.5) | - |
| Non-recurring items | 5 | (2.9) | (4.4) |
| IAS 17 lease expense | | (1.2) | (2.4) |
| Operating loss before financing expense | | (2.4) | (0.3) |

| | | | |
|------------------------------------|---|---------------|--------|
| Financial income | | 1.7 | 4.0 |
| Financial expense | | (20.2) | (19.9) |
| Net financing expense | 6 | (18.5) | (15.9) |

| | | | |
|-----------------------------------|----|---------------|--------|
| Loss before taxation | 8 | (20.9) | (16.2) |
| Taxation | 10 | (0.6) | (1.3) |

| | | | |
|---|--|---------------|--------|
| Loss for the year from continuing operations | | (21.5) | (17.5) |
|---|--|---------------|--------|

| | | | |
|--|---|-----|-----|
| Profit for the year from discontinued operations | 9 | 8.3 | 7.5 |
|--|---|-----|-----|

| | | | |
|---|--|---------------|--------|
| Loss for the year attributable to equity holders of the parent | | (13.2) | (10.0) |
|---|--|---------------|--------|

| | | | |
|---|----|---------------|-------|
| Other comprehensive income | | | |
| Actuarial (loss)/gain on defined benefit pension plan | 26 | (2.9) | 1.4 |
| Deferred taxation credit/(charge) on actuarial (loss)/gain | 10 | 0.5 | (0.3) |
| Other comprehensive (loss)/ income for the year, net of taxation | | (2.4) | 1.1 |
| Total comprehensive loss for the year attributable to equity holders of the parent | | (15.6) | (8.9) |

¹ Restated to show the results of certain disposal groups in discontinued operations

The notes on pages 20 to 71 form an integral part of these financial statements.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

| | Notes | Group | | Company | |
|--|-------|----------------|------------|---------------|------------|
| | | 2019 £m | 2018 £m | 2019 £m | 2018 £m |
| Assets | | | | | |
| Property, plant and equipment..... | 11 | 153.9 | 184.2 | - | - |
| Intangible assets | 12 | 56.7 | 131.7 | - | - |
| Other financial assets | 13 | 15.2 | 16.2 | - | - |
| Amounts due from parent undertakings | 32 | - | 6.6 | - | - |
| Amounts due from related party undertakings..... | 32 | - | 35.1 | - | - |
| Investments in subsidiary undertakings..... | 14 | - | - | 226.4 | 226.4 |
| Other receivables..... | 16(a) | 10.8 | 11.1 | - | - |
| Deferred tax assets..... | 22 | 3.5 | 6.2 | - | - |
| Total non-current assets | | 240.1 | 391.1 | 226.4 | 226.4 |
| Other financial assets | 13 | 1.4 | 1.3 | - | - |
| Inventories | 15 | 0.5 | 2.0 | - | - |
| Trade and other receivables..... | 16(b) | 27.0 | 53.1 | - | 23.6 |
| Cash and cash equivalents..... | 17 | 20.9 | 13.1 | - | - |
| | | 49.8 | 69.5 | - | 23.6 |
| Assets held for sale | 9 | 139.8 | 15.8 | - | - |
| Total current assets | | 189.6 | 85.3 | - | 23.6 |
| Total assets | | 429.7 | 476.4 | 226.4 | 250.0 |
| Liabilities | | | | | |
| Trade and other payables..... | 19 | (88.1) | (143.7) | (13.5) | (0.1) |
| Financial liabilities..... | 18(a) | - | (268.2) | - | (38.9) |
| Current tax liabilities | | (1.8) | (3.1) | - | - |
| Provisions for other liabilities and charges | 21 | (0.6) | (0.9) | - | - |
| | | (90.5) | (415.9) | (13.5) | (39.0) |
| Liabilities of disposal group | 9 | (73.6) | - | - | - |
| Total current liabilities | | (164.1) | (415.9) | (13.5) | (39.0) |
| Financial liabilities..... | 18(b) | (256.9) | (37.4) | 0.8 | - |
| Other non-current liabilities..... | 20 | (12.3) | (10.6) | - | - |
| Amounts due to parent undertakings..... | 32 | - | (6.3) | - | - |
| Provisions for other liabilities and charges | 21 | (16.6) | (21.2) | - | - |
| Total non-current liabilities..... | | (285.8) | (75.5) | 0.8 | - |
| Total liabilities | | (449.9) | (491.4) | (12.7) | (39.0) |
| Net (liabilities)/assets | | (20.2) | (15.0) | 213.7 | 211.0 |

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION (continued)
As at 30 September 2019

| | Notes | Group | | Company | |
|--|-------|---------------|---------------|--------------|--------------|
| | | 2019 £m | 2018 £m | 2019 £m | 2018 £m |
| Equity | | | | | |
| Issued share capital..... | 23 | 210.7 | 210.7 | 210.7 | 210.7 |
| Share premium | 23 | 4.0 | - | 4.0 | - |
| Capital contribution reserve | 23 | 22.1 | 15.7 | 15.7 | 15.7 |
| Retained earnings..... | | (257.0) | (241.4) | (16.7) | (15.4) |
| Total (deficit)/equity attributable to equity holders of the parent | | (20.2) | (15.0) | 213.7 | 211.0 |

The notes on pages 20 to 71 form an integral part of these financial statements.

The Financial Statements of Care UK Health & Social Care Investments Ltd (registered number 07158140) on pages 2 to 71 were approved by the Board of Directors on 30 January 2020 and were signed on its behalf by:



PHILIP WHITECROSS
Director

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY
As at 30 September 2019

| Group | Attributable to equity holders of the parent | | | | |
|---|---|----------------------|-------------------------------------|--------------------------|---------------------------------------|
| | Issued share capital | Share premium | Capital contribution reserve | Retained earnings | Total parent equity /(deficit) |
| | £m | £m | £m | £m | £m |
| At 30 September 2017 | 210.7 | - | 15.7 | (232.5) | (6.1) |
| Total comprehensive loss for the year | - | - | - | (8.9) | (8.9) |
| At 30 September 2018 | 210.7 | - | 15.7 | (241.4) | (15.0) |
| Shares issued during the year ... | - | 4.0 | - | - | 4.0 |
| Capital injection from parent company | - | - | 6.4 | - | 6.4 |
| Total comprehensive loss for the year | - | - | - | (15.6) | (15.6) |
| At 30 September 2019 | 210.7 | 4.0 | 22.1 | (257.0) | (20.2) |

| Company | Attributable to equity holders of the parent | | | | |
|---|---|----------------------|-------------------------------------|--------------------------|----------------------------|
| | Issued share capital | Share premium | Capital contribution reserve | Retained earnings | Total parent equity |
| | £m | £m | £m | £m | £m |
| At 30 September 2017 | 210.7 | - | 15.7 | (13.6) | 212.8 |
| Total comprehensive loss for the year | - | - | - | (1.8) | (1.8) |
| At 30 September 2018 | 210.7 | - | 15.7 | (15.4) | 211.0 |
| Shares issued during the year | - | 4.0 | - | - | 4.0 |
| Total comprehensive loss for the year | - | - | - | (1.3) | (1.3) |
| At 30 September 2019 | 210.7 | 4.0 | 15.7 | (16.7) | 213.7 |

The notes on pages 20 to 71 form an integral part of these financial statements.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENT
For the year ended 30 September 2019

| | Notes | Group | | Company | |
|--|-------|---------------|------------|---------------|------------|
| | | 2019 £m | 2018 £m | 2019 £m | 2018 £m |
| Net cash flow from/(used in) operating activities | 28 | 51.3 | 22.5 | 36.1 | (33.3) |
| Cash flow from investing activities | | | | | |
| Payments to acquire property, plant and equipment | | (23.7) | (32.9) | - | - |
| Loans from/(to) related party undertakings.... | | 55.6 | (10.7) | - | - |
| Interest received | | 0.1 | 0.1 | - | - |
| Net proceeds from sales of property, plant and equipment | | 6.1 | 4.4 | - | - |
| Net cash flow from/(used in) investing activities | | 38.1 | (39.1) | - | - |
| Cash flow from financing activities | | | | | |
| Proceeds from borrowings | | 454.0 | 194.0 | 204.0 | 194.0 |
| Repayment of borrowings | | (510.6) | (159.0) | (243.0) | (159.0) |
| Issue of ordinary share capital | | 4.0 | - | 4.0 | - |
| Interest paid | | (25.6) | (17.3) | (1.1) | (1.7) |
| Net cash flow (used in)/from financing activities | | (78.2) | 17.7 | (36.1) | 33.3 |
| Net increase in cash and cash equivalents | | 11.2 | 1.1 | - | - |
| Cash and cash equivalents at the beginning of the year | | 13.1 | 12.0 | - | - |
| Cash and cash equivalents at the end of the year | 17 | 24.3 | 13.1 | - | - |

The notes on pages 20 to 71 form an integral part of these financial statements.

CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Care UK Health & Social Care Investments Limited ("the company") is a private company, limited by shares and is incorporated and domiciled in England and Wales.

The Consolidated Financial Statements of the company for the year ended 30 September 2019 comprise the company and its subsidiaries (together referred to as the "group"). See note 35 for a full list of subsidiaries.

The Financial Statements were authorised for issue by the directors on 30 January 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the group and parent company are set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1st October 2018 for the purposes of the transition to Adopted IFRSs. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative income statement has been re-presented so that the disclosures in relation to discontinued operations relate to all operations that have been discontinued by the balance sheet date (see note 9).

(A) STATEMENT OF COMPLIANCE

The group's annual consolidated financial statements for the year ended 30 September 2019 are prepared in accordance with IFRS adopted for use within the EU ("adopted IFRS"), including International Financial Reporting Interpretations Committee ("IFRIC") interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The directors have elected to prepare the parent company's financial statements on the same basis.

(B) BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis or fair value as appropriate.

Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, 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, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note (D) in these Accounting Policies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out on the following pages have been applied consistently to all periods presented in the financial statements with the exception of the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, details of which are in section (C) of these Accounting Policies for new standards effective and applied in these financial statements.

(B) BASIS OF PREPARATION (continued)

During the current year, although the group incurred total comprehensive losses of £15.6m (2018: £8.9m), it generated positive cash flow from operations of £51.3m (2018: £22.5m).

- As at 30 September 2019 the group has undrawn borrowing facilities of £37.5m (2018: £26.0m) and cash of £24.3m (2018: £13.1m).
- The group has net liabilities of £20.2m at the 30 September 2019 (2018: £15.0m), however the group's forecasts for the forthcoming financial years demonstrate that the business has adequate financial resources and headroom within its credit facilities to continue to invest in growth and meet its future financial obligations as they fall due, including remaining compliant with its associated debt covenants.
- During the year, the group conducted a series of transactions that put in place a stable and long term financing structure that increases liquidity and reduces future debt service costs.

In applying the going concern concept, the directors have taken into account the key risks to which the group is exposed, as outlined in the Strategic Report, and believe the company is able to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

(C) NEW STANDARDS EFFECTIVE AND APPLIED IN THESE FINANCIAL STATEMENTS AND NEW STANDARDS NOT YET APPLIED

The Company has adopted the following new standards, amendments to standards and interpretations issued under IFRS, the adoption of which has had no material financial effect on the group for the current year:

- Multiple Annual Improvements to IFRSs 2014-2016 Cycle
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 2 Amendments- Classification and Measurement of Share based Payment Transactions
- IFRS 4 Amendments- Applying IFRS9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IAS 40 Amendments- Transfers of Investment Property

Initial adoption of IFRS 15 Revenue from Contracts with customers

The group has applied IFRS15 and elected to use the following expedients:

- In respect of completed contracts, the Group will not restate contracts that (i) begin and end within the same accounting period or (ii) are completed contracts at the beginning of the earliest period presented.
- In respect of completed contracts that have variable consideration, the Group will use the transaction price at the date the contract was completed rather than estimating variable consideration in the comparative period; and
- For all reporting periods presented before the date of initial application, the group will not disclose the transaction price allocated to remaining performance obligations.

There were no material changes arising from the implementation of either IFRS 15 or IFRS 9 and therefore there is no impact on the financial statements.

(C) NEW STANDARDS EFFECTIVE AND APPLIED IN THESE FINANCIAL STATEMENTS AND NEW STANDARDS NOT YET APPLIED (continued)

The International Accounting Standards Board (IASB) and International Financial Reporting Committee (IFRIC) have also issued the following Standards and Interpretations with an effective date after the date of these financial statements (and in some cases not yet adopted by EU):

| | | Effective for periods commencing after |
|----------------------------|--|---|
| • IFRS 9 | Amendments to IFRS 9: Prepayment Features with Negative Compensation | 1 January 2019 |
| • Multiple | Annual Improvements to IFRSs 2015-2017 Cycle | 1 January 2019 |
| • IFRS 16 | Leases | 1 January 2019 |
| • IFRIC 23 | Uncertainty over Income Tax Treatments | 1 January 2019 |
| • IAS 28 | Amendments to Long-Term interests in Associates and Joint Ventures | 1 January 2019 |
| • IAS 19 | Amendments to IAS19: Plan Amendment, Curtailment or Settlement | 1 January 2019 |
| • Conceptual Framework (*) | Amendments to References to the Conceptual Framework in IFRS | 1 January 2020 |
| • IFRS 3 (*) | Amendments to Business Combinations | 1 January 2020 |
| • IAS 1 & IAS 8 (*) | Amendments to Definition of Material | 1 January 2020 |
| • IFRS 17 (*) | Insurance Contracts | 1 January 2021 |

(*) Awaiting EU endorsement

The group intends to adopt these standards in the first accounting period after the effective date. IFRS 16 replaces IAS 17 and is mandatory for our financial year beginning on the 1st October 2019. IFRS 16 requires all leases other than short term leases or leases for low value assets to be recognised on the balance sheet in the form of a right-of-use asset with a corresponding financial liability. This will remove operating lease charges from our EBITDA and replace them with interest and depreciation costs. This is in contrast to the current accounting treatment where operating leases are reported off balance sheet with disclosure around future commitments as per note 29. The group intends to apply the modified retrospective approach from 1st October 2019 which does not require the restatement of comparative periods and to take the option to value assets at the same amount as liabilities on transition.

The Group has significant lease contracts relating to the rental of property including both rental of care home and commercial property sites used to provide healthcare services. Our initial impact assessment indicates that application of IFRS16 is expected to gross up pre-tax assets and liabilities by circa £759m at transition. IFRS16 is expected to reduce continuing pre-tax net profit by £13m including an increase in EBITDA of c£45m in year 1 with an increase in depreciation of c£31m and an increase in finance costs of c£27m. The annualised impact on profit relating to discontinued activities is c £1m.

(C) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ends.

(ii) Joint ventures

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's share of the profits less losses of joint ventures in the consolidated statement of comprehensive performance and its interest in their net assets in the consolidated statement of financial position in accordance with the equity method of accounting.

(D) SIGNIFICANT SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

(iii) Transactions eliminated upon consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The preparation of the Financial Statements in conformity with adopted IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenue and expenses during the year then ended. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

Estimates are used in accounting for allowances for uncollectible receivables, depreciation, amortisation and impairment, pensions, taxes, provisions, and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the Financial Statements in the year that an adjustment is determined to be required.

Management regularly discusses with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates. Significant accounting judgements in applying the group's accounting policies have been applied by the group in order to prepare the consolidated financial statements with respect to the value of tangible assets (note 11), intangible assets including goodwill (note 12), provisions (note 21), and pensions (note 26), and are described below.

Property, plant and equipment

The group assesses the recoverable amount of tangible fixed assets where there are indications that the assets could be impaired. Indicators of impairment include factors internal and external to the organisation that suggest the asset's value may have declined. Where indicators suggest that the value of the asset may have declined, the group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. Recoverable amount is the higher of fair value less costs of disposal and value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Further details are given in note 11.

Intangible assets

The group uses forecast cash flow information and estimates of future growth to initially value other intangible assets recognised as part of business combinations, to assess whether goodwill and other intangible assets are impaired, and to determine the useful economic lives of its intangible assets. If the results of operations in a future period are adverse to the estimates used for impairment testing, an impairment charge may be triggered at that point, or a reduction in useful economic life may be required.

Provision for onerous contracts

The group provides for onerous contracts to the extent that the unavoidable costs of fulfilling the contractual obligation exceeded the estimated economic benefit expected from the contract. The calculation of the provision requires an estimate of the future cash flows expected to arise from the asset and a suitable risk-adjusted discount rate in order to calculate present value. The carrying amount of the provision relating to onerous care home leases as at 30 September 2019 was £10.1m (2018: £10.2m) and is expected to be realised over a period from 2020 to 2037. See note 21 for further details.

(D) SIGNIFICANT SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (continued)

Provision for dilapidations

The group has recognised provisions for the cost of dilapidations on leasehold properties based on estimates of the likely cash out flow at the end of the lease, discounted using an appropriate discount rate. The carrying amount of the provision for the year ended 30 September 2019 was £7.1m (2018: £11.9m). This provision is expected to be utilised over a period from 2020 to 2057. See note 21 for further details.

Defined benefit pension schemes

The defined benefit pension deficits are calculated by independent qualified actuaries using actual payroll data and actuarial assumptions to model the future costs and expected benefits. These assumptions cover discount rate, life expectancy, mortality, inflation, and expected retirement age. These assumptions are updated on an annual basis and change with current market data which may necessitate material adjustments to this liability in the future. Details of the principal actuarial assumptions used in calculating the recognised liability for the defined benefit plans are given in note 26.

(E) FOREIGN CURRENCY TRANSACTIONS

The functional currency of all the group entities is sterling. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the foreign exchange rate ruling at the year-end date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive performance.

(F) FINANCIAL INSTRUMENTS

(i) Recognition and initial measurement

Trade receivables and debt liabilities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the underlying contract. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified and measured at either amortised cost, fair value through other comprehensive income ("FVOCI") or at fair value through the income statement ("FVTPL"). Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets.

- A financial asset is measured at amortised cost if it is held for the purpose of collecting contractual cashflows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A debt investment is measured at FVOCI if the business model relates to both collecting contractual cashflows and selling financial assets and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A company may designate an equity investment that is not held for trading as FVOCI and can choose to make that designation on an investment by investment basis.

(F) FINANCIAL INSTRUMENTS continued

- Any financial asset not held at either amortised cost or FVOCI are held at FVTPL which includes all derivative financial assets.

All financial assets within the group are currently held at amortised cost.

Subsequent measurement

- Financial assets at FVTPL- these are subsequently measured at fair value unless hedge accounting is applied. Net gains and losses, including any interest or dividend income are recognised in profit or loss.
- Financial assets at amortised cost- these are subsequently measured at amortised cost using the effective interest method, with carrying value reduced by any impairment losses. Interest income, foreign exchange gains and losses, impairment and any gains or losses on de-recognition are recognised in profit or loss.
- Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
- Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they include no contractual obligations upon the company to deliver or exchange either cash or other financial assets and where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

(F) FINANCIAL INSTRUMENTS continued

(iii) Impairment

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets. The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(G) PROPERTY, PLANT AND EQUIPMENT

(i) Owned assets

Items of property, plant and equipment are included at historic cost or deemed cost, less accumulated depreciation and impairment losses. Certain items of property that had been revalued to fair value prior to 1 October 2004, the date of transition to adopted IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation less any subsequent depreciation and impairments. The fair value adjustments recorded by the group on the acquisition of Care UK Limited in 2010 include uplifts in the valuation of certain tangible assets, as valued independently at the time of the acquisition of Care UK Limited.

The cost of land and buildings includes both the costs of financing assets in the course of construction and other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Capitalisation of finance and other costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

(G) PROPERTY, PLANT AND EQUIPMENT (continued)

Assets in the course of construction are carried in the Financial Statements at cost, less any provision for impairment, and are transferred to the appropriate tangible asset balance when the asset is ready for use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is classified as a finance lease. An asset acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Future instalments under such leases, net of finance charges, are included within creditors. All other leases are accounted for as operating leases.

The group is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term. Provision for such costs is made where a legal obligation is identified and the liability can be reasonably quantified. See note 20 for further details.

(iii) Subsequent costs

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of comprehensive performance, as an expense, as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated statement of comprehensive performance to write off the cost, less estimated residual values, of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

| | |
|--|---|
| Freehold land..... | — no depreciation provided |
| Freehold buildings | — 25 to 50 years |
| Long leasehold buildings | — 50 years or, if shorter, the period of the lease or the associated contract |
| Short leasehold buildings..... | — the shorter of the period of the lease or the associated contract |
| Plant and machinery (as an integral part of property assets) | — 25 years or, if shorter, the period of the lease |
| Motor vehicles..... | — four years |
| Furniture, fittings, medical equipment and office equipment | — three to ten years |

Depreciation methods and useful economic lives are reviewed at each year-end date. The residual value, if not insignificant, is reassessed annually.

(v) Pre-contract costs

Pre-contract costs include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is considered as the point at which it is probable that the contract has been secured, although contracts are individually reviewed in order to apply the most appropriate treatment. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

(G) PROPERTY, PLANT AND EQUIPMENT (continued)

(vi) Commissioning costs

Certain pre-opening expenditure is incurred to ensure a residential care home is able to operate in the safe and secure manner intended by management with the necessary regulatory and compliance measures in place. Certain directly attributable costs incurred before commencement of a new business operation, where no underlying customer contract exists, are expensed immediately. When costs incurred are directly attributable to an existing customer contract, they are capitalised within the cost of the building.

(H) INTANGIBLE ASSETS

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates and joint ventures, being the excess of the fair value of the purchase consideration over the fair values attributable to the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on acquisitions before the date of transition to adopted IFRS has been retained at the previous UK GAAP amounts. Goodwill is allocated to cash-generating units and is not subject to periodic amortisation but is tested annually for impairment. As permitted under IFRS 3 "Business Combinations", the fair value of the assets acquired may be reassessed in the instance of further information arising within twelve months from the date of acquisition, provided the initial fair values were determined as provisional.

Negative goodwill arising on an acquisition is recognised directly in the consolidated statement of comprehensive performance.

(ii) Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. Intangible assets that are recognised as part of a business combination are initially recognised at fair value.

Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of comprehensive performance, as an expense, as incurred.

(iii) Amortisation

Amortisation is charged to the consolidated statement of comprehensive performance on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Customer contracts are amortised over their estimated useful economic lives, which do not exceed ten years. Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. Intangible assets are amortised from the date they are available for use over their estimated useful lives.

(iv) Impairment of assets

At each year-end date, the group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, or when annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

(H) INTANGIBLE ASSETS continued

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 which the estimates of future cash flows have been adjusted. Recoverable amounts are calculated for either individual assets, or cash generating units (CGU) for assets which do not generate largely independent cash flows.

If the recoverable amount of an individual asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. For assets carried at cost, any reversals of impairments are recognised in the consolidated statement of comprehensive financial performance but only to the net book value at which the asset would have been carried prior to any impairment. Goodwill impairment losses cannot be subsequently reversed.

(I) INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated at cost less any provision for impairment.

(J) BALANCES RELATING TO CONTRACTS WITH CUSTOMERS

The timing of billings, revenue recognition and cash collections results in unbilled but accrued income (contract assets), billed accounts receivable and customer deposits/advances (contract liabilities).

(i) Accrued income

Accrued income represents contract assets and relates to our conditional right to consideration for our completed performance under the contract.

(ii) Accounts receivable

Trade and other receivables are stated at their fair value less impairment losses. Accounts receivable are recognised when the right to consideration becomes unconditional. Contract liability relates to payments received in advance of performance under the contract.

(iii) Deferred income

Deferred income are contract liabilities relates to payments received in advance under the contract. Contract liabilities are recognised as revenue as (or when) we perform under the contract.

(K) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventories is based on a first-in first-out cost formula.

(L) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management strategy are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(M) SHARE CAPITAL

(i) Dividends

Final dividends are recognised as a liability in the period in which they are approved by the company's shareholders. Interim dividends are recorded in the period in which they are paid.

(N) INTEREST BEARING BORROWINGS

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of comprehensive performance over the period of the borrowings on an effective interest basis.

(O) EMPLOYEE BENEFITS

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated statement of comprehensive performance as incurred. The assets of defined contribution pension plans are held separately from those of the group, in independently administered managed funds.

(ii) Defined benefit plans

The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair values of plan assets are deducted. The discount rates applied are the yields at the year-end date on AA credit rated corporate bonds that have maturity obligations approximating to the terms of the group's obligations. The calculations are performed by qualified actuaries using the projected unit credit method. Any pension scheme surpluses are limited to the present value of economic benefits available in the form of refunds from the schemes or reductions in the future contributions into the schemes. The group recognises all actuarial gains and losses in the consolidated statement of comprehensive performance. The assets of defined benefit pension plans are held separately from those of the group, in independently administered managed funds. See note 25 for further details.

(iii) Share based payments

Some employees are entitled to purchase shares in the parent company and also in the companies in which they are employed as part of an incentive plan. The nature of any such arrangements are assessed to consider whether they meet the definition of share based payments and whether any share based payments are equity settled or cash settled. The Group currently has equity-settled share based payments and no cash-settled share-based payments.

Equity-settled share based payments are measured at the fair value of the equity instruments on the grant date. See note 27 for further details regarding the determination of the fair value. The resulting fair value is expensed on a straight-line basis over the vesting period.

For cash-settled-share based payments, a liability is recognised for the goods or services acquired, initially measured at the fair value of the liability. The fair value of the liability is re-measured at each balance sheet date, with any changes in fair value recognised in profit or loss for the year.

(P) TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

(Q) SERVICE CONCESSION ARRANGEMENTS

IFRIC 12 "Service Concession Arrangements" (the 'interpretation') addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator. Rather, depending on the terms of the arrangement, the operator recognises:

- a financial asset – where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement; or
- an intangible asset – where the operator's future cash flows are not specified (e.g. where they will vary according to the usage of the infrastructure asset); or
- both a financial asset and an intangible asset where the operator's return is provided partially by a financial asset and partially by an intangible asset.

As a consequence of this treatment the operator recognises investment income in respect of the financial asset on an effective interest basis and amortisation of any intangible asset arising. In addition, the timing of profit recognition changes over the life of the contract with no change in the overall project cash flows arising therein.

(R) REVENUE

(i) Services rendered

The group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services.

In order to determine what revenue should be recognised, the group applies the five step model. The five step model includes identifying whether an agreement exists which creates enforceable rights and obligations; identifying what performance obligations there are in the contract, determining the transaction price, allocating the transaction price between the performance obligations and then determining what revenue needs to be recognised when a performance obligation is completed.

Identifying contracts

In order to identify whether a contract exists, the group considers whether collection of consideration is probable, whether rights to good and services can be identified, whether it has commercial substance and whether it is approved and both parties are committed to their obligations.

Identifying performance obligations

Performance obligations represent either distinct services that the group has promised to transfer, or a series of distinct services. Whether services are distinct is determined based on whether the customer can benefit from the service on its own and whether the promise to transfer the benefit is separately identifiable from the other promises in the contract.

Determine transaction price

The transaction price needs to consider variable consideration, whether there is a financing component, whether the proceeds are considered to be recoverable, whether there is any non-cash consideration or consideration payable to a customer.

Variable consideration is estimated using either the expected value based on a range of possible outcomes, or the most likely amount based on two possible outcomes. Variable consideration is subject to the revenue constraint i.e. variable consideration is only recognised to the extent that it is highly probable that it will not reverse, when experience and external factors are taken into account.

(R) REVENUE continued

Allocate the transaction price

The transaction price is allocated to performance obligations based on either an observable price or an estimated price which is based on either an adjusted market assessment approach, expected cost plus a margin or residual approach.

Recognising the revenue

Distinct performance obligations in a contract are reviewed individually to determine whether they are satisfied over time or at a point in time in order to determine the profile of revenue recognition. Any cash received in advance of a performance obligation being performed is determined. Revenue is accrued for any performance obligation which is performed in advance of the customer being invoiced.

Costs of fulfilling a contract

Costs of fulfilling a contract include the costs attributable to a contract for the period from the date of securing the contract to the date at which financial close is achieved. The award of preferred bidder status is considered as the point at which it is probable that the contract has been secured, although contracts are individually reviewed in order to apply the most appropriate treatment. Costs that relate directly to a contract and which are incurred in this period are included as part of pre-contract costs where they can be separately identified and reliably measured. Such amounts are held within other debtors until such time as financial close of the contract is achieved, at which time they are transferred to assets in the course of construction.

Certain pre-opening expenditure is incurred to ensure a residential care home is able to operate in the safe and secure manner intended by management with the necessary regulatory and compliance measures in place. Certain directly attributable costs incurred before commencement of a new business operation, where no underlying customer contract exists, are expensed immediately.

When costs incurred are directly attributable to an existing customer contract, they are capitalised within the cost of the building.

Residential Care

The group operates two principal types of contracts with customers:

Residential long-term contracts — revenue is recognised on a time-elapsed basis as the principal performance obligation is to provide bed capacity. Units of care under these contracts are typically provided on a daily basis and there is no obligation to carry forward any non-utilised capacity.

Residential spot purchase contracts — revenue is recognised when the group's principal performance obligation is fulfilled, that is typically when a service user has received care services from the group, which are usually provided on a daily basis.

(ii) Land pass through

In the normal course of business the group enters into forward agreements with institutional funders for the development of new residential care homes. Where these funding arrangements include the pass through of land from Care UK's customer to the institutional provider, who ultimately bear the risks and rewards of ownership of the property during construction and on legal completion, Care UK makes a nil gain or loss from the pass through transaction.

Care UK recognises the fair value of non-cash deferred income and operating lease charges, being equal and opposite values, within liabilities and assets respectively upon the legal transfer of land. The subsequent amortisation of both the deferred income and lease charge are released to the consolidated statement of comprehensive performance over the life of the underlying contract and lease relationships. There is no impact on cash flow or total profit or loss that will ultimately be recognised in the consolidated statement of comprehensive performance over the life of the operating leases or service contracts.

(R) REVENUE continued

(iii) Government grants

Capital based Government grants are included within trade and other payables in the consolidated statement of financial position and credited to the consolidated statement of comprehensive performance over the estimated useful economic lives of the assets to which they relate. Grants that compensate the group for expenses incurred are recognised as revenue in the consolidated statement of comprehensive performance on a systematic basis in the same periods in which the expenses are incurred.

(S) EXPENSES

(i) Operating lease payments

Payments made under operating leases are recognised in the consolidated statement of comprehensive performance on a straight-line basis over the term of the lease. Lease incentives received are recognised in the consolidated statement of comprehensive performance as an integral part of the total lease expense.

The amortisation of the fair value of non-cash operating lease charges arising on the pass through of land to institutional funders as outlined in accounting policy (G)(ii) above are recognised in the consolidated statement of comprehensive performance on a straight-line basis over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, net pension interest, foreign exchange gains and losses, unwinding of discount on provisions, and gains and losses on hedging instruments that are recognised in the consolidated statement of comprehensive performance. The interest expense component of finance lease payments is recognised in the consolidated statement of comprehensive performance using the effective interest rate method.

Interest income is recognised in the consolidated statement of comprehensive performance as it accrues, using the effective interest method.

(T) TAXATION

The charge for taxation is based on the profit or loss for the year and comprises current and deferred taxation. Income tax is recognised as an income or expense in the consolidated statement of comprehensive performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year-end date, together with any adjustment to tax payable in respect of previous periods.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill not deductible for taxation purposes, and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the year-end date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(U) SEGMENT REPORTING

Care UK Health & Social Care Investments Limited operates solely within the UK, hence no geographical segment disclosures are presented.

Segmental information is presented in respect of business segments which are regularly reviewed by the Chief Operating Decision Maker ("CODM") and the disclosure of the measure of profit and revenue used by the CODM. The segments reviewed by the CODM are Residential Care, Health Care, and Other, which includes the group's central functions. The measure of profit used is "adjusted" operating profit as defined below in non-GAAP performance measures.

(V) NON-CURRENT ASSETS HELD FOR SALE

Assets held for sale are non-current assets whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Immediately before their classification as being held for sale, any such assets (and all assets and liabilities in a disposal group) are measured at fair value in accordance with applicable adopted IFRS. On their ensuing initial classification as being held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs of disposal.

Impairment losses on the initial classification of non-current assets as being held for sale are included in the consolidated statement of comprehensive performance, including where there has been any revaluation of the asset. The same also applies to gains and losses on subsequent measurement.

(W) NON-GAAP PERFORMANCE MEASURES

The board believe that the measure Adjusted EBITDA provides additional useful information for the shareholders and other stakeholders on the underlying performance of the business. These measures are consistent with how business performance is monitored internally. The Adjusted EBITDA is not a recognised profit measure under adopted IFRS and may not be directly comparable with "adjusted" profit measures used by other companies.

Adjusted EBITDA is defined as operating profit before net financing expenses adjusted to exclude depreciation of tangible assets, amortisation of intangible assets, impairment charges and non-recurring items and excluding the impact of applying IAS 17 in respect of lease incentives.

3. SEGMENT REPORTING

Segmental information is presented in respect of the group's business segments. The primary business segments are based on the group's management and internal reporting structure. The Care UK group operates solely within the UK hence no geographical segment disclosures are presented. Inter-segment pricing, where applicable, is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise net financing expense, and taxation.

On 25th October 2019, the group sold its shares in Care UK Healthcare Holdings Limited to a new company Care UK Healthcare Bidco Ltd, whose equity ownership sits outside the group but continues to be managed by Bridgepoint.

Business Segments

As a result of the classification of certain disposal groups as discontinued operations outlined above the group's operating segments are as follows:

- Residential Care Services: operates care homes for older people;
- Other: comprising the group's central support functions.

| 2019 | Continuing Operations | | | Discontinued | Group |
|---|---------------------------------|-------|--------|--------------|--------|
| | Residential Care Services | Other | Total | | |
| | £m | £m | £m | £m | £m |
| Group revenue | 352.7 | - | 352.7 | 381.3 | 734.0 |
| Adjusted EBITDA | 31.2 | (4.1) | 27.1 | 20.4 | 47.5 |
| Depreciation of tangible assets | (15.5) | (0.1) | (15.6) | (9.7) | (25.3) |
| Adjusted operating profit/(loss) | 15.7 | (4.2) | 11.5 | 10.7 | 22.2 |
| Amortisation of intangible assets | (4.1) | - | (4.1) | (1.8) | (5.9) |
| (Loss) on disposal of tangible assets | (2.2) | - | (2.2) | - | (2.2) |
| Impairment of tangible assets | (3.5) | - | (3.5) | - | (3.5) |
| Non-recurring items | (1.2) | (1.7) | (2.9) | - | (2.9) |
| IAS 17 lease expense | (1.2) | - | (1.2) | - | (1.2) |
| Profit/(loss) before financing expense and taxation | 3.5 | (5.9) | (2.4) | 8.9 | 6.5 |
| Net financing expense | | | (18.5) | - | (18.5) |
| Taxation | | | (0.6) | (0.6) | (1.2) |
| Loss for the year | | | (21.5) | 8.3 | (13.2) |
| Operating lease charges: (excluding IAS 17 lease expense) | (40.6) | - | (40.6) | (10.6) | (51.2) |

| 2019 | Continuing Operations | | | Discontinued | Group |
|--|---------------------------------|-------|-------|--------------|-------|
| | Residential Care Services | Other | Total | | |
| | £m | £m | £m | £m | £m |
| Tangible assets: | | | | | |
| Property, plant and equipment- additions.... | 17.2 | - | 17.2 | 7.2 | 24.4 |

3. SEGMENT REPORTING (continued)

| 2018 | Continuing Operations | | | Discontinued | Group |
|---|---------------------------------|--------|--------|--------------|--------|
| | Residential Care Services | Other | Total | | |
| | £m | £m | £m | £m | £m |
| Group revenue | 324.6 | - | 324.6 | 360.1 | 684.7 |
| Adjusted EBITDA | 30.7 | (5.8) | 24.9 | 21.7 | 46.6 |
| Depreciation of tangible assets | (14.1) | (1.6) | (15.7) | (9.0) | (24.7) |
| Adjusted operating profit/(loss) | 16.6 | (7.4) | 9.2 | 12.7 | 21.9 |
| Amortisation of intangible assets | (4.0) | - | (4.0) | (2.5) | (6.5) |
| Profit on disposal of tangible assets | 1.3 | - | 1.3 | - | 1.3 |
| Non-recurring items | (1.0) | (3.4) | (4.4) | (1.2) | (5.6) |
| IAS 17 lease expense | (2.4) | - | (2.4) | - | (2.4) |
| Profit/(loss) before financing expense and taxation | 10.5 | (10.8) | (0.3) | 9.0 | 8.7 |
| Net financing expense | | | (15.9) | - | (15.9) |
| Taxation | | | (1.3) | (1.5) | (2.8) |
| Loss for the year | | | (17.5) | 7.5 | (10.0) |
| Operating lease charges: (excluding IAS 17 lease expense) | (33.9) | (0.3) | (34.2) | (10.3) | (44.5) |

| 2018 | Continuing Operations | | | Discontinued | Group |
|--|---------------------------------|-------|-------|--------------|-------|
| | Residential Care Services | Other | Total | | |
| | £m | £m | £m | £m | £m |
| Tangible assets: | | | | | |
| Property, plant and equipment- additions.... | 21.9 | - | 21.9 | 10.9 | 32.8 |

4. REVENUE

The Group derives revenue from the transfer of services over time. The following table disaggregates our continuing revenue by type.

| Disaggregation of revenue | Contract | Non- contract | Other | Total Residential Care Services |
|---------------------------|----------|------------------|-------|--|
| | £m | £m | £m | £m |
| 2019 | 75.7 | 267.3 | 9.7 | 352.7 |

The following table details contracted revenue for our continuing operations as at 30 September which is expected to be recognised in future periods.

| | 2019 £m |
|--------------------------|------------|
| Less than one year | 71.2 |
| Two to five years | 244.7 |
| Over five years | 331.8 |
| | 647.7 |

4. REVENUE continued

The following table details shows a reconciliation of the movements in accrued income and deferred income during the year:

| | Accrued income |
|--|---------------------------|
| | £m |
| Balance at 1st October 2018 | 14.8 |
| Billed during the year | (13.5) |
| Work performed in year not billed | 9.4 |
| Transferred to assets held in disposal group | (8.8) |
| Balance at 30th September 2019 | 1.9 |

| | Deferred income |
|--|----------------------------|
| | £m |
| Balance at 1st October 2018 | (27.6) |
| Recognised in income during the year | 16.4 |
| Additional cash consideration received from customer | (20.1) |
| Movement in provision | (0.8) |
| Balance returned to customer | 0.3 |
| Transferred to liabilities held in disposal group | 6.1 |
| Balance at 30th September 2019 | (25.7) |

5. NON-RECURRING ITEMS

The group separately identifies and discloses certain items, referred to as non-recurring items, by virtue of size, nature or occurrence. This is consistent with the way that financial performance is measured by management (see note 2(V) Non-GAAP performance measures) and assists in providing a meaningful analysis of operating results by excluding items that may not be indicative of the operating results of the group's business.

The following table details non-recurring items including the amounts relating to continuing operations.

| | Note | 2019 | 2018 (i) |
|--|-------------|--------------|-----------------|
| | | £m | £m |
| Non-recurring items: | | | |
| — Contract exit and transition costs | (a) | - | 0.4 |
| — Property related costs | (b) | (1.2) | (0.8) |
| — Restructuring | (c) | (0.3) | (0.9) |
| — Procurement programme | (d) | - | (0.4) |
| — Abortive transaction costs | (e) | (1.4) | (2.5) |
| — Acquisition costs | (f) | - | (0.2) |
| | | (2.9) | (4.4) |

(i) 2018 figures have been restated to exclude the impact of the Healthcare division which has been classified as discontinued.

5. NON-RECURRING ITEMS (continued)

(a) *Contract exit and transition costs*

During the year ended 30 September 2018 a £0.4m credit was recognised in respect of a surplus onerous contract provision that was no longer required.

(b) *Property related costs*

A residential care home operated by Care UK under a long-term operating lease closed in January 2018 after suffering from building defects. Care UK is conducting ongoing investigations to determine the best course of action in respect of rectification or rebuild of the property. During the year ended 30 September 2018 costs of £0.8m have been incurred in respect of staff redundancy, legal costs and ongoing site maintenance and security, with £0.8m having been incurred during the current year. In addition, the 2019 expense includes £0.4m of costs relating to the closure of two care homes for the purposes of refurbishment.

(c) *Restructuring*

As a part of a long-term initiative that commenced in 2015 to establish the Health Care and Residential Care operating divisions as self-sufficient organisations an information technology and systems separation project was conducted during the year incurring £0.3m of non-recurring costs set-up and transition costs (£0.9m in the year ended 30 September 2018).

(e) *Procurement programme*

During the year ended 30 September 2018, Care UK's Health Care division commenced a comprehensive review of its procurement practices with a view to driving operational and clinical efficiency without compromising the quality of patient care. The programme is being supported by an external specialist and has brought significant commercial benefit to the business. Implementation costs of £0.4m were incurred in the year ended 30 September 2018.

(f) *Abortive transaction costs*

During the early part of 2018 Care UK conducted an evaluation of strategic options for the long term future and continued growth of both the Health care and Residential Care businesses. A range of options were explored with potential investors which ultimately did not result in the progression or completion of any transaction during either current or prior year. Associated advisor and legal and professional costs of £1.4m were incurred in the current year and £2.5m in the year ended 30 September 2018.

(g) *Acquisition costs*

During the year ended 30 September 2018 Care UK incurred costs of £0.2m in relation to the acquisition of a company containing the leasehold interest of a 69 bed self pay focused care home located in Knebworth. In accordance with IFRS 3, such costs cannot be included in the cost of business combination and therefore cannot be capitalised.

6. NET FINANCING EXPENSE

| Continuing operations | 2019 £m | 2018 £m |
|---|------------|------------|
| Financial income: | | |
| Interest receivable | 1.0 | 3.2 |
| IFRIC-12 interest | 0.7 | 0.8 |
| Financial income | 1.7 | 4.0 |
| Financial expense: | | |
| - Interest payable on borrowings | (17.2) | (17.4) |
| - Amortisation of deferred financing costs | (2.0) | (1.3) |
| - Interest payable on loans with parent undertaking | (0.1) | (0.4) |
| - Interest payable on loans with other related parties | (0.7) | - |
| - Interest capitalised to assets in the course of construction at an annual rate of 7.5% (2018: 7.5%) | 0.1 | 0.1 |
| - Other interest expense | (0.3) | (0.9) |
| Financial expense | (20.2) | (19.9) |
| Net financing expense | (18.5) | (15.9) |

7. EMPLOYEES AND REMUNERATION OF DIRECTORS

(a) Employees

| Continuing operations | Group | |
|--|------------|----------------|
| | 2019 £m | 2018 (i) £m |
| Staff costs for all employees consists of: | | |
| — wages and salaries | 180.1 | 168.7 |
| — social security costs | 14.5 | 13.3 |
| — pension costs | 3.2 | 2.2 |
| | 197.8 | 184.2 |

(i) 2018 figures have been restated to exclude the impact of the Healthcare division which has been classified as discontinued.

Pension costs represent contributions to the group's defined contribution pension schemes, contributions to NHS pension schemes, and the service cost relating to the group's defined benefit pension schemes.

The average monthly number of employees of the group during the year, including executive directors, was as follows:

| | Group | | Company | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2019 Number | 2018 Number | 2019 Number | 2018 Number |
| Nursing, care and support staff | 14,285 | 13,729 | - | - |
| Management and administration | 2,003 | 2,170 | - | - |
| | 16,288 | 15,899 | - | - |

In common with other providers in the health and social care sector, Care UK's employed staff base is supplemented by agency staff and, on certain contracts within the Health Care division, both by staff seconded from the NHS and by self-employed medical professionals. These are no direct employees of Care UK and hence are excluded from the figures above.

7. EMPLOYEES AND REMUNERATION OF DIRECTORS continued

(b) Remuneration of directors

| | 2019 | 2018 |
|---|------------|------------|
| | £m | £m |
| Directors' emoluments | 1.6 | 1.7 |
| Company contributions to money purchase pension plans | 0.1 | 0.1 |
| | <u>1.7</u> | <u>1.8</u> |

The aggregate of emoluments of the highest paid director was £0.9m (2018: £0.8m) including contributions in lieu of pension payments totalling £0.1m (2018: £0.1m).

| | Number of directors | |
|--|---------------------|----------|
| | 2019 | 2018 |
| In the year, retirement benefits were accruing to the following number of directors under: | | |
| Money purchase schemes | <u>1</u> | <u>1</u> |

8. LOSS BEFORE TAXATION

The following items have been charged/(credited) in arriving at loss before taxation:

| | 2019 | | 2018 | |
|--|------------|--------------|------------|--------------|
| | Continuing | Discontinued | Continuing | Discontinued |
| | | | £m | £m |
| Depreciation of owned assets (note 11) | 15.6 | 9.7 | 15.7 | 9.0 |
| Amortisation of intangible assets (note 12) | 4.1 | 1.8 | 4.0 | 2.5 |
| Profit/(loss) on disposal of tangible fixed assets | (2.2) | - | 1.3 | - |
| Impairment of trade receivables | (0.2) | - | (0.2) | - |
| Land and buildings - operating leases ... | 41.9 | 10.6 | 36.6 | 10.3 |
| Hire of other assets - operating leases .. | 0.3 | - | 0.2 | 0.2 |
| Government grants | (0.1) | - | (0.1) | - |
| IFRIC 12 infrastructure costs expensed in the year | 1.6 | - | 2.4 | - |
| Amounts receivable by the auditor in respect of : | | | | |
| - audit of subsidiaries' Financial Statements | 0.2 | 0.2 | 0.2 | 0.2 |
| - other services | 0.9 | - | 0.8 | - |

Of the auditor's remuneration £10,000 (2018: £10,000) was in respect of the audit of the company. The table below shows the breakdown of non-audit fees

| | 2019 | | 2018 | |
|-------------------------|------------|--------------|------------|--------------|
| | Continuing | Discontinued | Continuing | Discontinued |
| £m | | | £m | £m |
| Pensions advisory | - | - | 0.1 | - |
| Taxation | 0.1 | - | - | - |
| Corporate Finance | 0.8 | - | 0.7 | - |
| | <u>0.9</u> | <u>-</u> | <u>0.8</u> | <u>-</u> |

9. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

i) Discontinued operations

In order to determine the results for the discontinued operations, revenues and costs have been allocated to the disposal groups only to the extent that the group is no longer entitled to receive revenues or incur expenses. The effect of discontinued operations on segmental results is disclosed in note 3.

The results of discontinued operations which have been included in the consolidated statement of comprehensive performance are as follows:

| | 2019 | 2018 |
|--|-------|-------|
| | £m | £m |
| Group revenue | 381.3 | 360.1 |
| Adjusted EBITDA | 20.4 | 21.7 |
| Depreciation of tangible assets | (9.7) | (9.0) |
| Adjusted operating profit | 10.7 | 12.7 |
| Amortisation of intangible assets | (1.8) | (2.5) |
| Non-recurring items | - | (1.2) |
| Profit before financing expense and taxation | 8.9 | 9.0 |
| Net financing expense | - | - |
| Taxation | (0.6) | (1.5) |
| Profit for the year | 8.3 | 7.5 |

Net cash flows from discontinued operations are as follows:

| | 2019 | 2018 |
|---|-------------|------------|
| | £m | £m |
| Net cash flows from operating activities | 23.7 | 14.2 |
| Net cash flows used in investing activities | (7.4) | (11.1) |
| Net cash flow from discontinued operations | 16.3 | 3.1 |

The financing of the group is managed on a centralised basis and as such finance income or expense and net cash flow from financing activity comprises items incurred directly by the disposal groups.

9. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS continued

The Healthcare division is measured at the lower of cost and fair value less costs to sell, being £53.6m at 30 September 2019. The aggregate net assets of the Healthcare division at 30 September 2019 was as follows:

| | Assets and liabilities at 30 September 2019 |
|--------------------------------------|--|
| | £m |
| Property, plant and equipment | 21.1 |
| Intangible assets | 69.1 |
| Deferred tax asset | 3.3 |
| Inventories | 1.8 |
| Trade and other receivables | 28.5 |
| Cash | 3.4 |
| Assets in disposal group | 127.2 |
| Trade and other payables | (67.5) |
| Current tax liabilities | (0.6) |
| Provisions | (5.5) |
| Liabilities in disposal group | (73.6) |

ii) Non-current assets held for sale

As at 30 September 2019 the Residential Care division has five (2018: four) properties that have been classified as being held for sale. The properties are measured at the lower of cost and fair value less costs to sell, being £12.6m at 30 September 2019 (2018: £15.8m).

10. TAXATION ON CONTINUING ACTIVITIES

| | 2019 £m | 2018 (i) £m |
|---|------------|----------------|
| UK corporation tax payable at 19.0% (2018: 19.0%) | (0.7) | (1.3) |
| Adjustment relating to previous years | - | - |
| Total current taxation recognised in consolidated statement of comprehensive performance..... | (0.7) | (1.3) |
| Deferred taxation: | | |
| — origination and reversal of temporary differences..... | (0.1) | - |
| — adjustment relating to previous years | 0.2 | - |
| Total deferred taxation credit/(charge) recognised in consolidated statement of comprehensive performance..... | 0.1 | - |
| Total income tax charge recognised in consolidated statement of comprehensive performance..... | (0.6) | (1.3) |

The taxation credit/(charge) for the year represents an effective tax rate of 2.9% (2018: (8.0%)) which is lower than (2018: lower than) the average standard rate of corporation tax in the UK applied during the year of 19.0% (2018: 19.0%). The differences are explained below:

| | 2019 £m | 2018 (i) £m |
|---|------------|----------------|
| Loss before taxation | (20.9) | (16.2) |
| Expected tax credit at 19.0% (2018: 19.0%) | 4.0 | 3.1 |
| Effects of: | | |
| Expenses not deductible for taxation purposes..... | (3.7) | (1.9) |
| Group relief received | (1.2) | (1.4) |
| Adjustments relating to prior years | 0.2 | - |
| Deferred tax change in rate | 0.1 | - |
| Movement in provisions and other adjustments | - | (1.1) |
| Total income tax credit/(charge) recognised in consolidated statement of comprehensive performance | (0.6) | (1.3) |

(i) 2018 figures have been restated to exclude the impact of the Healthcare division which has been classified as discontinued.

Deferred tax recognised directly in equity

| | 2019 £m | 2018 £m |
|---|------------|------------|
| Deferred tax credit/(charge) on pension liability | 0.5 | (0.3) |
| Total deferred tax credit/(charge) recognised directly in equity..... | 0.5 | (0.3) |
| Total tax credit/(charge) recognised in equity..... | 0.5 | (0.3) |

Total tax

| | 2019 £m | 2018 £m |
|--|------------|------------|
| Total current tax (charge)/credit..... | (0.7) | (1.3) |
| Total deferred tax credit/(charge) | 0.6 | (0.3) |

For factors that may affect future tax charges see note 22.

11. PROPERTY, PLANT AND EQUIPMENT

| Group | Land and buildings | Furniture, fittings and equipment | Assets in course of construction | Total |
|---|-----------------------|---|--|--------------|
| | £m | £m | £m | £m |
| Cost or valuation | | | | |
| At 30 September 2017 | 179.7 | 82.3 | 2.7 | 264.7 |
| Additions | 4.9 | 20.2 | 7.7 | 32.8 |
| Transfers | 3.5 | 4.1 | (7.6) | - |
| Transfers to assets held for sale | (20.2) | (1.7) | - | (21.9) |
| Disposals | (5.4) | (10.3) | - | (15.7) |
| At 30 September 2018 | 162.5 | 94.6 | 2.8 | 259.9 |
| Additions | 2.5 | 16.0 | 6.0 | 24.5 |
| Transfers | 3.7 | 2.6 | (6.3) | - |
| Transfers to assets held for sale | (32.6) | (43.2) | (1.6) | (77.4) |
| Disposals | (0.7) | (8.2) | - | (8.9) |
| At 30 September 2019 | 135.4 | 61.8 | 0.9 | 198.1 |
| Depreciation and impairment | | | | |
| At 30 September 2017 | 36.9 | 36.9 | - | 73.8 |
| Charge for year | 8.5 | 16.2 | - | 24.7 |
| Transfer to assets held for sale | (6.4) | (1.0) | - | (7.4) |
| Disposals | (5.3) | (10.1) | - | (15.4) |
| At 30 September 2018 | 33.7 | 42.0 | - | 75.7 |
| Charge for year | 8.5 | 16.8 | - | 25.3 |
| Transfer to assets held for sale | (21.7) | (29.3) | - | (51.0) |
| Impairment | 1.8 | 1.7 | - | 3.5 |
| Disposals | (0.7) | (8.6) | - | (9.3) |
| At 30 September 2019 | 21.6 | 22.6 | - | 44.2 |
| Net book value | | | | |
| At 30 September 2019 | 113.8 | 39.2 | 0.9 | 153.9 |
| At 30 September 2018 | 128.8 | 52.6 | 2.8 | 184.2 |

Refer to note 30 for contractual commitments for the acquisition of property, plant and equipment.

(a) Valuation of land and buildings

The carrying value of certain tangible assets above are based on a valuation conducted by an external independent valuer in 2010 at the time of the acquisition of Care UK Limited, less accumulated depreciation and impairments. The fair value of the valuation was used as deemed cost.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Impairment

The Residential Care Services division of the Care UK group operates residential care homes across the UK. The group considers each individual care home as a CGU, except in circumstances where certain care homes operate under contractual arrangements with a single local authority, in which case the assets are grouped together to form a larger CGU for the purposes of impairment assessment in accordance with IAS 36 'impairment of assets'.

Impairment assessments are conducted at this level when indicators of impairment are considered to exist. During the year ended 30 September 2019 impairment assessments were conducted and no further impairment of asset carrying values were required and no significant reversal of previous impairments were deemed necessary based on prevailing market conditions.

Significant assumptions used in the value in use assessments are summarised below:

Post-tax discount rate: 8.3% (2018: 8.1%)

Long term growth rate: 3.25% (2018: 2.4%)

The above assumptions are subject to sensitivity analysis and the impairment review performed is predominantly dependent upon the judgements made in arriving at the future growth rates and discount rates applied in the cash flow projections that are extrapolated over the useful economic life of the respective asset.

The impact on the impairment charge of applying a 1% reduction to the long term growth rate would impact on the impairment charge of £1.4m and a 1% increase in the discount rate would impact upon the impairment charge by £1.5m.

(c) Capitalised interest

The net book value of accumulated interest included within property, plant and equipment is £0.6m (2018: £0.9m). Assets in the course of construction include capitalised interest of £nil (2018: £0.1m).

12. INTANGIBLE ASSETS

| Group | Goodwill | Intangible assets | Total |
|---|-------------|-------------------|--------------|
| | £m | £m | £m |
| Cost | | | |
| At 30 September 2017 and at 30 September 2018 | 118.9 | 128.5 | 247.4 |
| Transfer to assets held for sale | (68.5) | (39.8) | (108.3) |
| At 30 September 2019 | 50.4 | 88.7 | 139.1 |
| Amortisation and impairment | | | |
| At 30 September 2017 | 1.8 | 107.4 | 109.2 |
| Amortisation charge for year | - | 6.5 | 6.5 |
| At 30 September 2018 | 1.8 | 113.9 | 115.7 |
| Amortisation charge for year | - | 5.9 | 5.9 |
| Transfer to assets held for sale | - | (39.2) | (39.2) |
| At 30 September 2019 | 1.8 | 80.6 | 82.4 |
| Net book value | | | |
| At 30 September 2019 | 48.6 | 8.1 | 56.7 |
| At 30 September 2018 | 117.1 | 14.6 | 131.7 |

The amortisation of intangible assets of £5.9m (2018: £6.5m) is recognised within administrative expenses in the consolidated statement of comprehensive performance.

Intangible assets comprise the value attributed to ongoing customer relationships within acquired businesses and are amortised over their estimated useful economic lives, which do not exceed ten years. The useful economic life is determined by reference to the life of the associated contract.

Management believes that goodwill represents value to the group for which the recognition of a discrete intangible asset is not permitted.

Impairment testing of intangible assets

(a) Method of impairment testing

The recoverable amount of goodwill and intangible assets allocated to the cash generating units has been determined based on the higher of fair value less costs of disposal and the calculation of the value in use.

For the purposes of calculating the value in use of cash generating units containing goodwill, cash flow projections based on actual operating results and the budget and forecast business plan for the five years ending 30 September 2024 have been used. A terminal value is placed on the value of the annual cash flows in year five. No growth has been assumed after the first five years. No adjustment is made for the projected terminal value of the net assets of the individual cash-generating unit. Cash flows associated with post acquisition investment are included within the calculation.

For the purposes of calculating value in use of cash generating units containing other intangible assets, cash flow projections over the remaining life of the underlying contracts, together with extensions based on management's probability weighted expectation of contract renewal where appropriate have been used.

All cash flow projections are based on financial budgets and projections prepared by senior management and approved by the board of directors.

Where recoverable amount has been determined using fair value, fair value has been determined using external sources including comparable transactions using profitability/revenue multiples.

12. INTANGIBLE ASSETS (continued)

The group has considered the impact of the current economic and market conditions in determining the appropriate discount rate to use in impairment testing.

Key assumptions used in value in use calculation

The budget and forecast business plans include assumptions of the level of certain key drivers that are assumed to be met to achieve revenue and EBITDA projections as follows:

| | Key Driver |
|---------------------------|---|
| Residential Care Services | Occupancy, bed fee rates, staff costs and capital expenditure |

Whilst management is confident that its assumptions are appropriate in light of circumstances at the time of the review, it is possible that circumstances may change. The recoverable amounts calculated on the above basis significantly exceed the carrying values of the cash generating units that include goodwill to the extent that the assumptions made would need to change by a significant amount to eliminate the surplus.

The following discount rates have been used in each value in use calculation:

| | Goodwill impairment testing | | Other impairment testing | |
|---------------|------------------------------------|-------------|---------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Discount rate | 8.3% | 8.6% - 9.6% | 8.3% - 9.3% | 8.6% - 9.6% |

(b) Impairment tests for cash-generating units containing goodwill

The following segments have significant cash-generating units that have the following goodwill carrying values:

| | 2019 | 2018 |
|---|--------------|--------------|
| | £m | £m |
| Residential Care Services..... | 48.6 | 48.6 |
| Health Care (included within assets held for sale)..... | 68.5 | 68.5 |
| | 117.1 | 117.1 |

During the year ended 30 September 2019, the group reviewed all cash generating units that contain goodwill for impairment in accordance with IAS 36 with no impairment losses being recognised. The recoverable amount of Residential Care Services was determined using value in use, and for Healthcare was determined using fair value less costs to sell given the division was sold in October 2019.

(c) Impairment tests for other intangible assets

Intangible assets other than goodwill comprise customer contracts acquired. These intangible assets have been allocated useful economic lives upon recognition of varying length depending on the length of the underlying contract and a management assumption in respect of contract renewal. Typically a contract within the Health Care division is awarded for 3 to 5 years duration and a block contract within the Residential Care Services division is typically awarded for 20 to 25 years.

During the year ended 30 September 2019 the group reviewed all cash generating units that contained intangible assets to determine whether there is any indication that those assets have suffered an impairment loss in accordance with IAS 36. Recoverable amount was determined using a combination of value in use and fair value less costs of disposal. No impairments were recognised.

13. OTHER FINANCIAL ASSETS

| Non-current | Group | |
|--------------------------------|-------------|-------------|
| | 2019 | 2018 |
| | £m | £m |
| IFRIC-12 financial asset | 15.2 | 16.2 |
| | <u>15.2</u> | <u>16.2</u> |

| Current | Group | |
|--------------------------------|------------|------------|
| | 2019 | 2018 |
| | £m | £m |
| IFRIC-12 financial asset | 1.4 | 1.3 |
| | <u>1.4</u> | <u>1.3</u> |

| IFRIC-12 financial asset | Group | |
|---|-------------|-------------|
| | 2019 | 2018 |
| | £m | £m |
| IFRIC-12 financial asset: brought forward | 17.5 | 18.8 |
| Released in the year | (0.9) | (1.3) |
| IFRIC-12 financial asset: carried forward | <u>16.6</u> | <u>17.5</u> |

These financial assets are recognised upon adoption of IFRIC 12 "Service Concession Arrangements" (this interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services). For all arrangements falling within the scope of the interpretation, the infrastructure assets are not recognised as property, plant and equipment of the operator, Care UK. Rather, depending on the terms of the arrangement, the operator recognises a financial asset where the operator has an unconditional right to receive a specified amount of cash or other financial assets over the life of the arrangement. IFRIC 12 only applies to the group consolidated financial statements.

14. INVESTMENTS

| Company | Shares in subsidiary undertakings |
|---|-----------------------------------|
| | £m |
| Cost and net book value | |
| At 30 September 2018 and at 30 September 2019 | <u>226.4</u> |

Care UK Health & Social Care Investments Limited owns 100% of the issued ordinary share capital of Care UK Health & Social Care Plc (re-designated as a limited liability company in October 2019), its only direct investment. See note 35 for further details of subsidiary and joint venture undertakings.

15. INVENTORIES

| | Group | | Company | |
|---------------------------------|-------|------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Materials and consumables | 0.5 | 2.0 | - | - |

16. TRADE AND OTHER RECEIVABLES

(a) Non-current

| | Group | | Company | |
|-------------------------|-------|------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Other receivables | 10.8 | 11.1 | - | - |

(b) Current

| | Group | | Company | |
|---|-------|-------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Trade receivables | 9.6 | 20.5 | - | - |
| Accrued income (see note 4) | 1.9 | 14.8 | - | - |
| Less: provision for impairment of receivables | (1.2) | (1.3) | - | - |
| Trade receivables — net | 10.3 | 34.0 | - | - |
| Other receivables | 5.1 | 4.7 | - | - |
| Amounts owed by subsidiary undertakings | - | - | - | 23.6 |
| Prepayments and other debtors | 11.6 | 14.4 | - | - |
| | 27.0 | 53.1 | - | 23.6 |

Non-current and current other receivables includes non-cash deferred lease charges recognised at fair value to reflect land passed through to institutional funding partners as outlined in the group's accounting policies.

The group's exposure to credit risk from its trading operations is considered to be minimal in view of its customer base, which primarily comprises public sector entities such as Local Authorities, CCGs and other NHS Trusts.

16. TRADE AND OTHER RECEIVABLES (continued)

(c) Overdue receivables

The group has £6.0m (2018: £7.1m) of trade and other receivables that are past due but not impaired. These relate primarily to Local Authorities, CCGs and other NHS Trusts for whom there is no history of default. These have not been provided for as there has not been a significant change in the credit quality of the customers concerned and the amounts are still considered recoverable. The group does not hold any collateral over these balances. The ageing analysis of these receivables is as follows:

| | 2019 | 2018 |
|--------------------|------------|------------|
| | £m | £m |
| 0–30 days | 4.6 | 5.4 |
| 31–60 days | 0.9 | 1.3 |
| 61–90 days | 0.5 | 0.4 |
| Over 90 days | - | - |
| | <u>6.0</u> | <u>7.1</u> |

The group has trade and other receivables of £1.2m (2018: £1.3m) which have been provided for. The ageing of these receivables is as follows:

| | 2019 | 2018 |
|--------------------|------------|------------|
| | £m | £m |
| 0–30 days | - | - |
| 31–60 days | - | 0.2 |
| 61–90 days | - | 0.2 |
| Over 90 days | 1.2 | 0.9 |
| | <u>1.2</u> | <u>1.3</u> |

The group's bad debt provision has been calculated based upon the expected credit loss method, taking into account the ageing profile of the receivables and any history of default with particular customers. Concentrations of credit risk with respect to trade and current other receivables are limited due to the nature of the group's customer base.

17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|--|-------------|-------------|----------|----------|
| | 2019 | 2018 | 2018 | 2017 |
| | £m | £m | £m | £m |
| Cash at bank and in hand | 20.9 | 13.1 | - | - |
| Cash held within disposal group | 3.4 | - | - | - |
| Cash and cash equivalents as shown in the consolidated statement of cash flows | <u>24.3</u> | <u>13.1</u> | <u>-</u> | <u>-</u> |

18. FINANCIAL LIABILITIES

(a) Current liabilities

| | Group | | Company | |
|---------------------------------|-------|-------|---------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Senior Secured Notes | - | 230.0 | - | - |
| Revolving Credit Facility | - | 39.0 | - | 39.0 |
| Loan arrangement fees | - | (0.8) | - | (0.1) |
| | - | 268.2 | - | 38.9 |

(b) Non-current liabilities

| | Group | | Company | |
|-------------------------------|-------|-------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Senior Secured Notes | - | 37.6 | - | - |
| Term Loan | 250.0 | - | - | - |
| Loan arrangement fees | (6.8) | (0.2) | (0.8) | - |
| Loan from related party | 13.7 | - | - | - |
| | 256.9 | 37.4 | (0.8) | - |

(c) Changes in financing liabilities

| | Group | Company |
|--|---------|---------|
| | £m | £m |
| At 1 October 2017 | 269.4 | 3.8 |
| Proceeds from loans and borrowings | 194.0 | 194.0 |
| Repayment of loans and borrowings | (159.0) | (159.0) |
| Other non-cash changes | 1.2 | 0.1 |
| At 30 September 2018 | 305.6 | 38.9 |
| Proceeds from loans and borrowings | 467.0 | 204.0 |
| Issue costs relating to new financing arrangements | (7.0) | (0.8) |
| Repayment of loans and borrowings | (510.6) | (243.0) |
| Rolled up interest on loan from related party | 0.7 | - |
| Other non-cash changes | 1.2 | 0.1 |
| At 30 September 2019 | 256.9 | (0.8) |

As at 30 September 2019 accrued interest of £3.6m (30 September 2018: £3.4m) is included in 'Trade and Other payables', disclosed within current liabilities in the balance sheet, and excluded from this note.

18. FINANCIAL LIABILITIES (continued)

(d) Maturity profile of financial liabilities

| | Group | | Company | |
|--|--------------|--------------|--------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Debt can be analysed as falling due | | | | |
| In one year or less, or on demand | - | 268.2 | - | 38.9 |
| In more than one year but not more than two years..... | - | 37.4 | - | - |
| In more than two years but not more than five years..... | 256.9 | - | (0.8) | - |
| In five years or more..... | - | - | - | - |
| | 256.9 | 305.6 | (0.8) | 38.9 |

(e) Terms and conditions

This note details the terms and conditions attached to the Facility B Term Loan Revolving Credit Facility and the loan from related party which were all put in place with effect from January 2019 as part of the re-financing exercise. As part of the re-financing exercise, the Senior Secured Notes totalling £230.0m and the Second Lien Notes totalling £42.6m were fully settled.

(i) Facility B Term Loan

On 25th January 2019, the group successfully completed the refinancing of its 2014 Senior Secured Loan Notes and 2014 Second Lien Notes through a £250m utilisation under a new Facility B Term Loan which was put in place on the same date. The margin payable on any loan utilisation is in the range of 5.0% to 5.5% above LIBOR depending on the total net leverage of the group which is paid in arrears based on agreed utilisation period. At 30 September 2019, the £250m loan had been issued under a 3 month utilisation period. The termination date of Facility B is 25th July 2024.

(ii) Revolving Credit Facility

The Revolving Credit Facility of £65.0m which was due to terminate in May 2019 was replaced with effect from the 25th January by a new revolving credit facility totalling £37.5m. The margin payable on any loan utilisation under the amended RCF is in the range of 2.25% to 3.25% above LIBOR depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 25 January 2024.

(iii) Loan from related party

Silver Sea Holdings S.A. made a loan of £13m to the group with effect from 25th January 2019. Silver Sea has a similar ownership structure to the group- see note 32 for further details. The loan bears interest at a rate of 8% and is repayable on 25 July 2025 with early redemption possible with five business days notice from the Group.

19. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|-------------|--------------|-------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Accrued Senior Secured Notes interest..... | 2.9 | 3.4 | - | - |
| Trade payables | 13.7 | 31.0 | - | - |
| Other tax and social security..... | 3.7 | 7.7 | - | - |
| Deferred Government grant income (see note 4) | 0.1 | 0.1 | - | - |
| Accruals | 50.2 | 82.4 | - | 0.1 |
| Deferred income (see note 4) | 17.5 | 19.1 | - | - |
| Amounts owed to subsidiary undertakings | - | - | 13.5 | - |
| | 88.1 | 143.7 | 13.5 | 0.1 |

Trade and other payables are expected to be settled within twelve months. Amounts owed to subsidiary undertakings are repayable on demand and attract no interest.

20. OTHER NON-CURRENT LIABILITIES

| | Group | | Company | |
|---|-------------|-------------|----------|----------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Retirement benefit obligations (note 26)..... | 4.1 | 2.0 | - | - |
| Deferred Government grant income (see note 4) | 1.3 | 1.4 | - | - |
| Deferred income (see note 4) | 6.9 | 7.2 | - | - |
| | 12.3 | 10.6 | - | - |

Non-current and current accruals and deferred income include non-cash deferred revenue recognised at fair value to reflect land passed through to institutional funding partners as outlined in the group's accounting policies.

The group has a number of Government grants that relate to capital contributions towards the development of residential homes. The total amount of Government grants recognised in the consolidated statement of comprehensive performance during the year was £0.1m (2018: £0.1m) and the total of Government grants held in the consolidated statement of financial position at 30 September 2019 was £1.4m (2018: £1.5m).

21. PROVISIONS

| | Group | | |
|---|---------------|---------------|-------------|
| | Onerous lease | Dilapidations | Total |
| | £m | £m | £m |
| Balance at 1 October 2018 | 10.2 | 11.9 | 22.1 |
| Provision created in the year | - | 1.0 | 1.0 |
| Provision released in the year | - | (0.4) | (0.4) |
| Provision utilised in the year | (0.3) | (0.2) | (0.5) |
| Provision movement due to unwind of discounting | 0.2 | 0.3 | 0.5 |
| Transferred to liabilities held for sale | - | (5.5) | (5.5) |
| Balance at 30 September 2019 | <u>10.1</u> | <u>7.1</u> | <u>17.2</u> |
| Current | - | 0.6 | 0.6 |
| Non-current | <u>10.1</u> | <u>6.5</u> | <u>16.6</u> |
| | <u>10.1</u> | <u>7.1</u> | <u>17.2</u> |

(a) Onerous lease

In 2015 Care UK made significant provisions for both onerous contracts and leases relating to certain residential care homes whereby, based on management's assessment, the unavoidable costs of fulfilling the obligations on these care homes exceeds, to various degrees, the economic benefits expected from operating the care homes. The provision is reviewed annually on a home by home basis.

(b) Dilapidations

The dilapidations provision relates to the expected cost of dilapidations on leasehold properties based on estimates of the likely cash out flow at the end of the lease, discounted using an appropriate discount rate. This provision will be utilised over the remaining lease terms from 2020 to 2057.

22. DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using tax rates of 19% (2018: 17% and 19%). The company has no deferred tax balances.

(a) Recognised deferred tax assets

Deferred tax assets have been recognised in respect of tax losses and other deductible temporary differences where it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

| Group | Assets | | Liabilities | | Net | |
|---|--------|-------|-------------|-------|-------|-------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m | £m | £m |
| Deferred taxation | | | | | | |
| Property, plant and equipment | 1.0 | 4.6 | - | - | 1.0 | 4.6 |
| Employee benefits | 0.7 | 0.3 | - | - | 0.7 | 0.3 |
| Acquired intangible assets | - | - | (0.5) | (1.5) | (0.5) | (1.5) |
| Unutilised losses carried forward | 1.6 | 1.6 | - | - | 1.6 | 1.6 |
| Other items | 0.7 | 1.2 | - | - | 0.7 | 1.2 |
| Net deferred tax assets/(liabilities) | 4.0 | 7.7 | (0.5) | (1.5) | 3.5 | 6.2 |
| Offset of tax | (0.5) | (1.5) | 0.5 | 1.5 | - | - |
| Net deferred tax assets | 3.5 | 6.2 | - | - | 3.5 | 6.2 |

The net deferred tax assets are due after more than one year:

| | Group | |
|-------------------------------|-------|------|
| | 2019 | 2018 |
| | £m | £m |
| Net deferred tax assets | 3.5 | 6.2 |

(b) Unrecognised deferred tax assets

The total amount of unrecognised deferred tax assets is as follows:

| | Group | |
|--|-------|------|
| | 2019 | 2018 |
| | £m | £m |
| Unrecognised deferred tax assets | 7.6 | 8.3 |

22. DEFERRED TAXATION (continued)

(c) Movement in temporary differences during the year

The movement on the group deferred taxation account is as follows:

| Group | Balance 1 October 2018 | Recognised in income | Recognised in equity | Transferred to assets held for sale | Balance 30 September 2019 |
|---------------------------------|------------------------------|-------------------------|-------------------------|--|---------------------------------|
| | £m | £m | £m | £m | £m |
| Property, plant and equipment | 4.6 | (0.8) | - | (2.8) | 1.0 |
| Employee benefits | 0.3 | (0.1) | 0.5 | - | 0.7 |
| Acquired intangible asset | (1.5) | 1.0 | - | - | (0.5) |
| Unutilised losses | 1.6 | - | - | - | 1.6 |
| Other items | 1.2 | - | - | (0.5) | 0.7 |
| | <u>6.2</u> | <u>0.1</u> | <u>0.5</u> | <u>(3.3)</u> | <u>3.5</u> |

| Group | Balance 1 October 2017 | Recognised in income | Recognised in equity | Disposals | Balance 30 September 2018 |
|---------------------------------|------------------------------|-------------------------|-------------------------|-----------|---------------------------------|
| | £m | £m | £m | £m | £m |
| Property, plant and equipment. | 6.6 | (2.0) | - | - | 4.6 |
| Employee benefits | 1.0 | (0.4) | (0.3) | - | 0.3 |
| Acquired intangible asset | (2.7) | 1.2 | - | - | (1.5) |
| Unutilised losses | 1.8 | (0.2) | - | - | 1.6 |
| Other items | 1.0 | 0.2 | - | - | 1.2 |
| | <u>7.7</u> | <u>(1.2)</u> | <u>(0.3)</u> | <u>-</u> | <u>6.2</u> |

(d) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was fully enacted on 15 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 September 2019 has been calculated based on the rates fully enacted at the year-end date.

23. ISSUED SHARE CAPITAL AND CAPITAL RESERVE

In accordance with Section 408 of the Companies Act 2006, the company has elected not to present its own statement of comprehensive performance. The loss for the year dealt with in the company's own statement of comprehensive income is £1.3m (2018: £1.8m).

Issued share capital

| Group and company | 2019 | | 2018 | |
|---|--------------------|--------------|--------------------|--------------|
| | Shares | £m | Shares | £m |
| Authorised | | | | |
| Ordinary shares of £1 each | 210,676,212 | 210.7 | 210,676,211 | 210.7 |
| Allotted, called-up and fully paid shares of £1 each | | | | |
| At 30 September 2018 and 2019 | 210,676,212 | 210.7 | 210,676,211 | 210.7 |

During the year, the company issued one ordinary share to its parent company Care UK Health & Social Care Finance Limited in exchange for £4m, creating £4m of share premium.

Capital contribution reserve

| | Group £m | Company £m |
|--|-------------|---------------|
| At 30 September 2017 and 2018 | 15.7 | 15.7 |
| Cancellation of Notes held in Treasury | 6.4 | - |
| At 30 September 2019 | 22.1 | 15.7 |

The £6.4m cancellation of notes held in Treasury relate to £5.0m of Second Lien Notes and associated accrued interest which was owned by Care UK Health & Social Care plc, a subsidiary undertaking. As part of the re-financing exercise, these notes were cancelled, resulting in a capital contribution to the Group.

24. FINANCIAL RISK MANAGEMENT

Care UK's activities and debt financing expose it to a variety of financial risks, the most significant of which are market risk (cash flow interest rate risk and price risk), credit risk and liquidity risk (changes in the debt market). Care UK's overall risk management strategy seeks to minimise potential adverse effects on Care UK's financial performance. Further detail is provided below.

(a) Cash Flow Interest Rate Risk

In January 2019 the Care UK group completed a refinancing exercise of its borrowings. The new financing arrangements expose the group to interest rate risk on the new £250m term loan and the £37.5m replacement revolving credit facility. Both instruments carry a fixed margin (subject to leverage conditions) together with a LIBOR floating interest rate. Therefore, future rate rises would increase future interest costs however Care UK believes this risk to be tolerable based on the anticipated future direction of interest rates and Care UK's ability to service these debts from operating cash flows. A 1% increase in the LIBOR rate would increase annual interest costs by up to £2.8m under these new facilities.

24. FINANCIAL RISK MANAGEMENT (continued)

(b) Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the minimum wage level. Contracts with Local Authorities, Clinical Commissioning Groups and other NHS funded bodies are also subject to annual price review. For the year ended 30 September 2019, a 1% increase in salary costs would have decreased profit before tax by £3.6m (2018: £3.4m). In common with the majority of government funded providers, most of Care UK's price changes take effect annually on 1 April. Approximately 10% (2018: 11%) of Care UK's revenue is linked to general inflation indices.

(c) Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities, Clinical Commissioning Groups and other NHS funded bodies. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted. For an analysis of trade receivables which are past due but not impaired and trade receivables which are past due and impaired, see note 16(c).

As at 30 September 2019 the group had £nil (2018: £nil) cash and cash equivalents credit exposure to financial institutions (excluding bank balances).

(d) Liquidity Risk

A policy of prudent liquidity risk management is applied. Care UK's operational cash flow is largely stable and predictable given the contractual and recurring nature of the core business activities. Care UK prepares annual and shorter term cash flow forecasts reflecting known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance projected requirements, including capital expenditure. Adequate headroom in available facilities is maintained.

(e) Fair value hierarchy

The group uses the following valuation hierarchy to determine the carrying value of financial instruments that are measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

At 30 September 2018 and 2019, the carrying value of financial instruments at fair value was zero.

25. FINANCIAL INSTRUMENTS

(a) Embedded derivatives

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", the group reviews all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such derivatives were identified as a result of the review.

(b) Fair value of financial assets and liabilities

The fair values together with the carrying amounts shown in the consolidated statement of financial position are as follows. Items have been excluded where their book value approximates their fair value.

| Group | Notes | 2019 | | 2018 | |
|---------------------------------|-------|-----------------|------------|-----------------|------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| | | £m | £m | £m | £m |
| IFRIC 12 financial asset..... | 13 | 16.6 | 16.6 | 17.5 | 17.5 |
| Senior secured notes..... | 18 | - | - | (267.6) | (267.1) |
| Facility B Term Loan..... | 18 | (250.0) | (233.0) | - | - |
| Loan from related party..... | 18 | (13.7) | (13.5) | - | - |
| Revolving credit facility..... | 18 | - | - | (39.0) | (39.0) |
| Deferred government grants..... | 19,20 | (1.4) | (0.8) | (1.5) | (1.0) |

| Company | Notes | 2019 | | 2018 | |
|---------------------------------|-------|-----------------|------------|-----------------|------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| | | £m | £m | £m | £m |
| Revolving credit facility. | 18 | - | - | (39.0) | (39.0) |

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments reflected in the above tables:

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Interest rates for determining fair value

Unless stated otherwise, the group uses its risk adjusted weighted average cost of capital for 30 September 2019 to discount financial instruments.

26. PENSIONS

The group has established a number of pension schemes, both defined contribution and defined benefit, covering a number of its employees.

(a) Defined contribution plan

The group has a defined contribution group personal pension plan as well as a trust based occupational defined contribution pension scheme. These schemes comply with the new workplace pension reform requirements. Group contributions to these schemes are charged as an expense to the consolidated statement of comprehensive performance as they fall due. The assets of these schemes are held separately from those of the group in independently administered funds.

Pension costs for defined contribution schemes for the continuing business are as follows:

| | 2019 | 2018 |
|------------------------------------|------|------|
| | £m | £m |
| Defined contribution schemes | 3.0 | 3.3 |

In addition, the group pays into the NHS pension scheme to provide certain employees with defined pension benefits, however these are not accounted for as defined benefit schemes as group liability is limited to the contributions paid. In 2019, these totalled £1.9m (2018: £2.4m) and are not included in the defined benefit plan financial information below

(b) Defined benefit plans

As a result of contractual arrangements with a small number of public sector customers, the group contributes to seven defined benefit pension arrangements. These schemes provide pension benefits based on a mixture of final pensionable pay and career average revalued earnings.

The schemes are funded by payments to independently managed funds, the assets of which are held separately from those of the group. The funds are administered by trustees as a separate legal entity or by administering authorities in the case of county council schemes. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees is determined by the schemes' trust documentation.

Contributions to the defined benefit pension schemes are charged to the consolidated statement of comprehensive performance so as to spread the cost of pensions over employees' estimated working lives with the group. The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method.

The liabilities of the defined benefit schemes are measured by discounting the best estimate of future cash flows to be paid out by the schemes using the projected unit method. This is the amount, after taking into consideration reimbursement assets, which is reflected in the deficit in the consolidated statement of financial position. The projected unit method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

Under the terms of the group's contract with certain of the county council pension schemes, the group is indemnified for any shortfall in scheme assets and for any increase in contributions required by any future actuarial valuation; hence the group has no constructive or legal obligation to fund a deficit on the associated segregated portion of these schemes. Accordingly, the group has recognised an asset equal to the current deficit on the segregated portion of these schemes. These reimbursement assets have been presented as offsetting the current scheme deficit on the segregated portion of the schemes and are therefore included within retirement benefit obligations.

26. PENSIONS (continued)

Details of the principal defined benefit scheme are provided below.

Care UK LG Pension Scheme

The most recent approved triennial actuarial valuation was at 1 April 2018. At the date of the actuarial valuation the scheme had a funding deficit of £1.7m and the actuarial value of those assets represented 93% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Further to the valuation, the Trustees have agreed with the employer an additional amount of £20,400 per month as part of a recovery plan to be paid to 31 August 2026, plus an additional £0.5m per annum contingent on certain events, subject to a maximum future payment of £1.3m or the scheme being fully funded. The group will continue to monitor funding levels on an annual basis. The next triennial valuation report will be as at 1 April 2021.

Employer contributions amounted to £0.9m for the year ended 30 September 2019 (2018: £2.9m). The net defined benefit liability at 30 September 2019 was £3.9m (2018: £2.0m).

The scheme obtains approval by the Government Actuarial Department when new members join the scheme. Currently the Trustee Board has three Trustees nominated by the employer and an independent Trustee.

Risks

By funding its defined benefit pension schemes, the group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities;
- The level of price inflation may be higher from that assumed, resulting in higher payments from the schemes;
- Scheme members may live longer than assumed, for example due to unanticipated advances in medical health care. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash;
- Legislative changes could also lead to an increase in the schemes' liabilities.

Aggregated scheme disclosures

The amounts recognised in the consolidated statement of financial position for all defined benefit schemes, including the LG scheme, are as follows:

| | 2019 | 2018 |
|--|---------------|--------|
| | £m | £m |
| Present value of funded obligations | (66.5) | (64.0) |
| Fair value of plan assets | 61.0 | 63.6 |
| Reimbursement assets | 1.4 | (1.6) |
| Total value of plan assets | 62.4 | 62.0 |
| Net defined benefit liability | (4.1) | (2.0) |

26. PENSIONS (continued)

Movements in net defined benefit liability:

| | Defined benefit obligation | Fair value of plan assets | Reimbursement asset | Net defined benefit liability |
|---|-------------------------------|------------------------------|------------------------|-------------------------------------|
| | £m | £m | £m | £m |
| Opening position at 1 October 2017 | (65.1) | 59.0 | 0.1 | (6.0) |
| Service cost | | | | |
| Current service cost | (0.5) | - | 0.1 | (0.4) |
| | (0.5) | - | 0.1 | (0.4) |
| Net interest | | | | |
| Interest income on plan assets | - | 1.6 | (0.8) | 0.8 |
| Interest cost on defined benefit obligation | (1.8) | - | 0.8 | (1.0) |
| | (1.8) | 1.6 | - | (0.2) |
| Total defined benefit cost recognised in profit or (loss) | (2.3) | 1.6 | 0.1 | (0.6) |
| Cash flows | | | | |
| Plan participant contributions | (0.1) | - | - | (0.1) |
| Employer contributions | - | 3.3 | - | 3.3 |
| Benefits paid | 1.3 | (1.3) | - | - |
| | 1.2 | 2.0 | - | 3.2 |
| Expected closing position | (66.2) | 62.6 | 0.2 | (3.4) |
| Re-measurements | | | | |
| Changes in demographic assumptions | (0.2) | - | - | (0.2) |
| Changes in financial assumptions | 2.1 | - | (0.8) | 1.3 |
| Other experience | 0.3 | - | - | 0.3 |
| Return on assets excluding amounts included in net interest | - | 1.0 | (1.0) | - |
| Total re-measurements recognised in Other Comprehensive Income | 2.2 | 1.0 | (1.8) | 1.4 |
| Closing position at 30 September 2018 | (64.0) | 63.6 | (1.6) | (2.0) |

26. PENSIONS (continued)

| | Defined benefit obligation | Fair value of plan assets | Reimbursement asset | Net defined benefit liability |
|---|----------------------------|---------------------------|---------------------|-------------------------------|
| | £m | £m | £m | £m |
| Opening position at 1 October 2018 | (64.0) | 63.6 | (1.6) | (2.0) |
| Service cost | | | | |
| Current service cost | (0.3) | - | - | (0.3) |
| Plan settlements | 0.3 | (0.4) | - | (0.1) |
| | - | (0.4) | - | (0.4) |
| Net interest | | | | |
| Interest income on plan assets | - | 1.8 | (0.9) | 0.9 |
| Interest cost on defined benefit obligation | (1.8) | - | 0.9 | (0.9) |
| | (1.8) | 1.8 | - | - |
| Total defined benefit cost recognised in profit or (loss) | (1.8) | 1.4 | | (0.4) |
| Cash flows | | | | |
| Plan participant contributions | - | - | - | - |
| Employer contributions | - | 1.2 | - | 1.2 |
| Benefits paid | 1.2 | (1.2) | - | - |
| | 1.2 | - | - | 1.2 |
| Expected closing position | (64.6) | 65.0 | (1.6) | (1.2) |
| Re-measurements | | | | |
| Changes in demographic assumptions | 2.6 | - | (1.8) | 0.8 |
| Changes in financial assumptions | (11.5) | - | 6.0 | (5.5) |
| Return on assets excluding amounts included in net interest | - | 3.0 | (1.2) | 1.8 |
| Total re-measurements recognised in Other Comprehensive Income | (8.9) | 3.0 | 3.0 | (2.9) |
| Closing position at 30 September 2018 | (73.5) | 68.0 | 1.4 | (4.1) |
| Transferred to liabilities held for sale | 7.0 | (7.0) | - | - |
| Balance sheet position at 30 September 2019 | (66.5) | 61.0 | 1.4 | (4.1) |

Plan assets

| | 2019 | 2018 |
|-------------------------------------|------|------|
| | £m | £m |
| Cash and cash equivalents | 1.0 | 0.7 |
| Equity instruments | 9.3 | 11.6 |
| Debt instruments: Gilts | 0.4 | 3.0 |
| Debt instruments: Other bonds | 7.1 | 9.5 |
| Investment funds | 39.2 | 35.4 |
| Property and other assets | 4.0 | 3.4 |
| | 61.0 | 63.6 |

26. PENSIONS (continued)

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA or AA rated. All other plan assets are not quoted in an active market.

Actuarial assumptions for all pension schemes in place during the year

| | 2019 | 2018 |
|---|---------|---------|
| | % | % |
| Rate of increase of pensionable salaries | 2.0 | 2.0 |
| Rate of increase in pensions in payment and deferred pensions | 2.2-3.3 | 2.4-3.3 |
| Discount rate | 1.8-1.9 | 2.8-2.9 |
| Inflation assumptions..... | 3.0-3.3 | 3.2-3.5 |

The assumed life expectancy at age 65 is:

| | Care UK LG Pension Scheme | | Other | |
|-------------------------------|---------------------------|-------|-------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | Years | Years | Years | Years |
| Current pensioners | | | | |
| — males..... | 87.3 | 87.7 | 87.0 | 87.6 |
| — females..... | 89.5 | 89.9 | 89.1 | 89.7 |
| Prospective pensioners | | | | |
| — males..... | 88.7 | 89.1 | 88.5 | 89.5 |
| — females..... | 90.8 | 91.4 | 90.7 | 91.7 |

Sensitivity analysis

The net defined benefit liability for the Care UK LG scheme as at 30 September 2019 is £3.9m (2018: £2.0m). The sensitivities shown below are only in respect of this scheme due to materiality.

The following table summarises how the defined benefit obligation would increase as a result in the respective assumptions:

| | 2019 | 2018 |
|---|------|------|
| | £m | £m |
| 0.5% decrease in discount rate | 4.0 | 3.5 |
| 0.5% increase in rate of increase of pensionable salaries | 0.2 | 0.1 |
| 0.5% increase in inflation rate..... | 3.1 | 2.7 |
| 1 year increase in member life expectancy | 0.9 | 0.8 |

Future funding

The aggregate amount of contributions expected to be paid during the financial year ending 30 September 2020 for all defined benefit pension schemes relating to continuing operations is £0.4m with an additional £0.5m contingent payment.

27. SHARE BASED PAYMENTS

In December 2015 certain senior management were invited to become shareholders in their employing company and also in the ultimate parent company, Care UK Health & Social Care Holdings Limited. For Care UK Health & Social Care Holdings Ltd, management could purchase either A1 ordinary, C ordinary or D ordinary shares depending on the division in which they were employed. Management in subsidiaries were offered A ordinary shares in their employing company. The shares were offered at a price reflecting the fair value of the shares on the date of issue and the terms and conditions attached to the shares. The fair value of the shares acquired was measured at the grant date using the estimated enterprise value of the business, and market conditions such as the management estimate of exit date. These shares entitle management to a certain level of return in the case of any sale by the controlling party, subject to certain value thresholds being met. To qualify, the management must be employed by the group at the point of sale. If management leave the business, then it is anticipated that their shares will be repurchased by either other employees or the employee benefit trust.

In the consolidated Financial Statements, these shares have been accounted for as equity settled share based payments. The issue of the shares resulted in an increase in equity in the subsidiary for the fair value of the shares issued. Given management paid fair value for the equity instruments, there was no impact in the income statement.

The table below shows the shares have been issued by subsidiaries which meet the definition of share based payments:

| Group | 2019 | | 2018 | |
|---|-----------|--------------------------|-----------|--------------------------|
| | Number | Fair value on grant date | Number | Fair value on grant date |
| | £ | £ | £ | £ |
| — A Ordinary shares in Healthcare subsidiary... | 14,999 | 21,749 | 14,999 | 21,749 |
| — A Ordinary shares in Residential subsidiary . | 13,333 | 25,333 | 13,333 | 25,333 |
| — A1 Ordinary shares in parent company..... | 1,000,000 | 40,000 | 1,000,000 | 40,000 |
| — C Ordinary shares in parent company..... | 9,998 | 100 | 9,998 | 100 |
| — D Ordinary shares in parent company | 10,000 | 100 | 10,000 | 100 |

During 2019, no charge (2018: £nil) has been recognised in respect of these arrangements.

There were no changes to the terms and conditions attached to the shares during the current year and there were no other shares granted in the current year.

The ordinary shares issued to management within the subsidiaries effectively represents non-controlling interests. Given the terms and conditions attached to these shares, the carrying value of the non-controlling interests is limited to the price paid by management and has not been recognised on the grounds of materiality.

28. NOTES TO THE CONSOLIDATED AND COMPANY CASH FLOW STATEMENT

Net cash flow from operating activities are as follows:

| | Group | | Company | |
|--|-------------|-------------|-------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Loss for the year before taxation | (12.0) | (7.2) | (1.3) | (1.7) |
| Financial income | (1.7) | (4.0) | - | - |
| Financial expense | 20.2 | 19.9 | 1.3 | 1.7 |
| Depreciation of tangible assets | 25.3 | 24.7 | - | - |
| Amortisation of intangible assets | 5.9 | 6.5 | - | - |
| Impairment of tangible assets | 3.5 | - | - | - |
| Decrease in IFRIC 12 financial asset | 1.6 | 1.8 | - | - |
| Loss/(profit) on disposal of fixed assets | 2.2 | (1.4) | - | - |
| (Increase)/decrease in inventory | (0.3) | - | - | - |
| (Increase) in trade and other receivables | (2.0) | (1.6) | - | - |
| Increase/(decrease) in trade and other payables | 10.9 | (13.7) | 36.1 | (33.3) |
| Cash inflow from operations | 53.6 | 25.0 | 36.1 | (33.3) |
| Pension deficit contribution | (0.5) | (2.5) | - | - |
| Income taxes paid | (1.8) | - | - | - |
| Net cash inflow from operating activities | 51.3 | 22.5 | 36.1 | (33.3) |

29. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under non-cancellable operating leases are as follows:

| Group | 2019 | | 2018 | |
|----------------------------------|--------------------|------------|--------------------|------------|
| | Land and buildings | Other | Land and buildings | Other |
| | £m | £m | £m | £m |
| — within one year | 54.1 | 0.7 | 48.5 | 0.4 |
| — within two to five years | 213.3 | 0.7 | 187.3 | 0.4 |
| — after five years | 904.4 | - | 837.5 | - |
| | 1,171.8 | 1.4 | 1,073.3 | 0.8 |

The group leases various offices, operational facilities, plant and equipment under non-cancellable operating lease agreements with varying terms, escalation clauses and renewal rights. The company has no operating lease commitments.

The group has the right to recharge rent due on certain leased care homes to a third party. The table below shows the elements which are expected to be recovered. The 2018 figure has been restated to include two additional homes for which rent is reimbursed.

| Group | 2019 | | 2018 | |
|----------------------------------|--------------------|----------|--------------------|----------|
| | Land and buildings | Other | Land and buildings | Other |
| | £m | £m | £m | £m |
| — within one year | 1.2 | - | 1.2 | - |
| — within two to five years | 5.0 | - | 5.0 | - |
| — after five years | 30.1 | - | 31.3 | - |
| | 36.3 | - | 37.5 | - |

30. CAPITAL COMMITMENTS

| | Group | | Company | |
|---------------------------------------|-------|------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | £m | £m | £m | £m |
| Contracted for, but not provided..... | 0.3 | 1.0 | - | - |

31. CONTINGENT LIABILITIES

Cross guarantees

The group has a number of cross guarantees between group companies relating to debtor balances. The directors consider that the likelihood of these guarantees being called upon is remote.

Contingent liabilities relating to potential claim

In February 2019 the CMA issued a claim against Care UK under the Enterprise Act 2002. The claim relates to past conduct when Care UK used to charge a one off upfront admission fee. Care UK stopped charging this fee in August 2018. Care UK has taken advice from specialist legal counsel and believes that it is in a strong position to defend the claim and accordingly no provision has been made in the statutory accounts.

32. RELATED PARTY TRANSACTIONS

(a) Identity of related parties

The group has a related party relationship with its subsidiaries and with its directors and executive officers.

Silver Sea Holdings

Subsequent to the acquisition of Care UK Limited in 2010, Bridgepoint Europe IV (Nominees) Limited and the management of Care UK jointly established, as planned, an independent development group of which the parent company is Silver Sea Holdings ("Silver Sea"). Silver Sea has been established in order to (i) build residential care homes to Care UK's specifications; or (ii) to oversee the development of residential care homes by third party property developers who will build the care homes to Care UK's specifications and sell them to Silver Sea on completion. In each case Silver Sea enters into an agreement for lease and development with Care UK and enters into a lease for each such home on its practical completion. During July 2019, the Silver Sea structure was brought onshore via the purchase by Care UK Health & Social Care Midco Ltd, an intermediate parent company. This has no impact on the results of the Group.

Sites developed by Silver Sea are funded by a combination of equity contributions from its shareholders, loans from Care UK and loans drawn down under the separate non-recourse debt facilities available to Silver Sea. The loans provided by Care UK are on arm's length terms and subject to the provisions of both Care UK's Revolving Credit Facility and Senior Secured Notes. These loans were all settled during the year.

Under a technical services agreement, Silver Sea subcontract certain elements of its obligations to Care UK and pays a fee to Care UK for performing these services. Each agreement for lease and development contains an obligation on Silver Sea to grant, and an obligation on Care UK to accept, a lease of the relevant site.

Given the commonality of equity ownership between Silver Sea and Care UK, each of the agreements entered into between these entities in connection with development plans are a related party transaction.

32. RELATED PARTY TRANSACTIONS (continued)

(b) Pension plans

During the year, the group made various payments to defined benefit pension plans. Details of these transactions are set out in note 26 to the financial statements.

(c) Company transactions with Subsidiaries

The group centrally manages its financing arrangements. Amounts are transferred within the group, dependent on the operational needs of individual companies. The directors do not consider it meaningful to set out the gross amounts of transfers between individual companies. Similarly the directors do not consider it meaningful to set out the interest and dividend payments made within the group as these are a function of the group's central financing arrangements. There are no provisions or expenses recognised for doubtful debts with subsidiary undertakings.

The table below shows the Company's related party transactions:

| Company | 2019 | | 2018 | |
|--|--------------------|-----------------|--------------------|-----------------|
| | Amounts receivable | Amounts payable | Amounts receivable | Amounts payable |
| | £m | £m | £m | £m |
| Balances with subsidiary undertakings..... | - | 13.4 | 23.6 | - |

There were no income statement transactions between the Company and any related parties during the year ended 30 September 2019 (2018: none).

Details of the company's cash and indebtedness are set out in note 17.

(d) Group transactions with related parties

(i) Silver Sea

Rent of £4.4m was paid by Care UK to Silver Sea in the year ending 30 September 2019 (2018: £5.2m). Care UK received fees under the technical services agreement from Silver Sea of £2.3m during the year ended 30 September 2018 (2018: £2.1m).

During the year Care UK loaned £nil (2018: £4.3m) to the Silver Sea group). The loan is an unsecured, interest bearing loan. Interest is charged at an arms-length rate with interest charged of £0.8m in the year ending 30 September 2019 (2018: £3.0m). Following the re-financing in January 2019, Silver Sea repaid the loans of £35.9m it owed to Care UK in full and additionally lent Care UK another £13m. This loan is an unsecured loan; is repayable by July 2025, and accrues interest at 8%. Interest of £0.7m has been rolled up into the loan during the year and hence a total amount of £13.7m is outstanding at 30 September 2019.

(ii) Other subsidiaries controlled by Care UK Health & Social Care Holdings Limited

The table below shows the Group's related party transactions with Care UK Health & Social Care Finance Ltd, a subsidiary of Care UK Health & Social Care Holdings Limited, the ultimate parent company:

| Group | 2019 | | 2018 | |
|---|--------------------|-----------------|--------------------|-----------------|
| | Amounts receivable | Amounts payable | Amounts receivable | Amounts payable |
| | £m | £m | £m | £m |
| Balances with other parent companies..... | - | - | 6.6 | - |

Interest of £0.1m was charged on the loan above during the year ended 30 September 2019 (2018: £0.1m).

32. RELATED PARTY TRANSACTIONS (continued)

(e) Transactions with key management personnel

(i) Identity

The group and company have identified key management personnel as being the directors of the company and the members of the executive committee. Total remuneration and directors' emoluments are included in note 6.

(ii) Shareholdings

No directors or other key management personnel hold any of the issued ordinary share capital of the company. Certain management have the opportunity to purchase shares in their employing company, see note 26 for further details.

(iii) Compensation

Key management personnel's compensation is as follows:

| | 2019 | 2018 |
|---|------------|------------|
| | £m | £m |
| Salaries and short-term employment benefits | 2.5 | 2.7 |
| Contributions to defined contribution plans | 0.2 | 0.2 |
| | <u>2.7</u> | <u>2.9</u> |

(v) Loans and other transactions

There have been no loans or other transactions with key management personnel during the year (2018: none).

33. FINANCIAL COMMITMENTS

In line with the growth strategy of the Residential Care Services division of Care UK, the group enters into forward agreements for the development of new residential care homes. As part of these funding arrangements Care UK agrees to enter into a commercial operating lease in respect of the new care home upon practical completion. The lease terms can vary but are typically of between 20 and 30 years duration. As at 30 September 2019, Care UK has twelve (2018: ten) such build projects in progress whereby future operating lease commitments will commence upon completion of the new home.

34. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is a wholly owned subsidiary of Care UK Health and Social Care Midco Limited, which is registered in England and Wales. Care UK Health and Social Care Midco Limited does not prepare group financial statements. The immediate parent company changed from Care UK Health & Social Care Finance Limited to Care UK Health & Social Care Midco Limited during the year as part of an internal group restructure.

The company's ultimate parent company is Care UK Health and Social Care Holdings Limited, which is registered in England and Wales. The ultimate controlling party is Bridgepoint Europe IV (Nominees) Limited which is managed by Bridgepoint Advisers Limited.

Copies of the financial statements of Care UK Health and Social Care Holdings Limited, which includes the consolidated results of this group, are available from the company's registered office at Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB.

35. PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

The following principal subsidiary and joint venture undertakings, which are incorporated in England and Wales and operate in the UK, have been included in the consolidated financial statements. They all have a registered office at Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB and are all indirectly held by the holding company; unless otherwise stated:

| Subsidiaries | Nature of business | Ownership interest | |
|--|--|--------------------|------|
| | | 2019 | 2018 |
| | | % | % |
| BH Health Limited (2) | Dormant | 100 | 100 |
| Care UK (AGW) Limited (2) | Dormant | 100 | 100 |
| Care UK (H4H) Limited | Provides health care services | 100 | 100 |
| Care UK (HCS) Limited (2) | Dormant | 100 | 100 |
| Care UK Healthcare Holdings Limited | Holding company | 100 | 100 |
| Care UK Health & Rehabilitation Services Limited | Provides forensic and health care services to those within the judicial system | 100 | 100 |
| Care UK (Peninsula) Limited | Provides health care services | 100 | 100 |
| Care UK (Shepton Mallet) Limited | Provides health care services | 100 | 100 |
| Care UK (Surrey) Limited (2) | Dormant | 100 | 100 |
| Care UK (UKSH) Limited | Provides health care services | 100 | 100 |
| Care UK (Urgent Care) Holdings Limited | Holding company | 100 | 100 |
| Care UK (Urgent Care) Limited | Provides primary health care services | 100 | 100 |
| Care UK Clinical Services Limited | Provides secondary health care services to the public sector | 100 | 100 |
| Care UK Community Diagnostics Limited | Provides medical scanning services | 100 | 100 |
| Care UK Community Partnerships (Suffolk) Limited | Development and operation of nursing and residential care homes for the elderly | 100 | 100 |
| Care UK Community Partnerships Limited | Provides specialist health care, intermediate care, social care and facilities management services for the elderly | 100 | 100 |
| Care UK Health & Social Care PLC (1) | Intermediary holding and finance company | 100 | 100 |
| Care UK Healthcare (Southeast) Limited | Dormant | 100 | 100 |
| Care UK Limited | Intermediary holding company | 100 | 100 |
| Care UK Practices Limited | Provides health care services | 100 | 100 |
| Care UK Primary Care Limited | Provides health care services | 100 | 100 |
| Care UK Pharmacy Services Limited | Provides pharmacy services | 100 | 100 |
| CareNorthants Limited | Provides health care services | 100 | 100 |
| CHS (Kincardine) Limited | Development and operation of nursing and residential care homes for the elderly | 100 | 100 |
| CHS Healthcare Limited | Dormant | 100 | 100 |

35. PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (continued)

| Subsidiaries | Nature of business | Ownership interest | |
|---|---|--------------------|------|
| | | 2019 | 2018 |
| Community Health Services Limited | Development and operation of nursing and residential care homes for the elderly | 100 | 100 |
| Ellerash Limited | Development and operation of nursing and residential care homes for the elderly | 100 | 100 |
| Hillingdon Health Limited (2) | Dormant | 100 | 100 |
| Lanemile Limited | Development and operation of nursing and residential care homes for the elderly | 100 | 100 |
| PHG (Hampshire) Limited (2) | Operates a treatment centre providing clinical services | 100 | 100 |
| Practice Assist Limited (2) | Dormant | 100 | 100 |
| Shepton Mallet Health Partnership Limited | Operates a treatment centre providing clinical services | 100 | 100 |
| Suffolk Integrated Healthcare Limited | Dormant | 100 | 100 |
| Buckinghamshire Urgent Care Alliance LLP | Provides primary care services to the public sector | 66 | 66 |

All companies are held indirectly, with the exception of Care UK Health & Social Care Ltd which is directly owned by the Company.

(1) Re-registered as a private limited company on 17th October 2019

(2) Company was struck off on 1st October 2019

36. POST BALANCE SHEET EVENTS

On 23rd October 2019, the company undertook a capital reduction through the cancellation of £0.12 on each issued fully paid up £1 ordinary share which reduced the nominal value to £0.88 per share. This resulted in a reduction of capital of £25.2m which was credited to reserves.

On 25th October 2019, the group sold its shares in Care UK Healthcare Holdings Limited to a new company Care UK Healthcare Bidco Ltd, whose equity ownership sits outside the group but continues to be managed by Bridgepoint.

On 25th October 2019, the company received and then subsequently paid a dividend of £159.8m.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE UK HEALTH & SOCIAL CARE INVESTMENTS LIMITED

Opinion

We have audited the financial statements of Care UK Health & Social Care Investments ("the company") for the year ended 30 September 2019 which comprise the consolidated statement of comprehensive performance, consolidated and company statement of financial position, consolidated and company statement of changes in equity, consolidated and company cash flow statements, and related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group 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.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of Goodwill and calculation of onerous lease provision and related disclosures, and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the

group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 14, 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 group and parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

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.



Ian Brokenshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Longbridge Road
Marsh Mills
Plymouth
Devon
PL6 8LT

30 January 2020