HC-One Limited

Annual report and financial statements
for the year ended 30 September 2017

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HC-One Limited

Annual report and financial statements for the year ended 30 September 2017

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HC-One Limited

Annual report and financial statements for the year ended
30 September 2017

Officers and professional advisers

Directors

Mr Chaitanya Patel
Mr David Smith
Sir William Wells
Mr John Ransford
Mr Justin Hutchens (appointed 21 September 2017)

Registered Office

Southgate House
Archer Street
Darlington
County Durham
DL3 6AH

Bankers

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

Auditor

Deloitte LLP
Statutory Auditor
1 Trinity Gardens
Newcastle upon Tyne
NE1 2HF

HC-One Limited

Annual report and financial statements for the year ended 30 September 2017

Strategic Report

Review of the business

HC-One Limited is a leading care homes operator in the UK providing nursing and residential care to more than 8,500 residents in over 170 care homes in the UK.

In its six year history, HC-One Limited has established a leading reputation and developed a recognisable brand for the provision of high quality care in the UK. HC-One Limited is implementing its vision to operate the kindest care homes in the UK through its core principles of Accountability, Involvement and Partnership. Since HC-One Limited started operating in November 2011 management have focused on operational excellence, to deliver high quality services and provide the kindest possible care. Key achievements include:

- Improving occupancy from 83% in November 2011 to 93% at 30 September 2017;
- Improving the quality of the premises with substantial cumulative investment of £180m towards real estate/maintenance and services including home minibuses and IT infrastructure;
- Delivering a multi award winning mandatory and specialist Learning and Development programme; and
- Improving the quality of the services across the business.

Results

The profit and loss account shows the results for the year ended 30 September 2017. The Company's profit for the year ended 30 September 2017 amounted to £1.7m (2016: loss of £3.5m) and included £1.4m (2016: £4.3m) of exceptional costs. Exceptional costs included £0.1m (2016: £0.8m) due to the impairment on fixed assets, £nil (2016: £3.0m) due to closure costs and onerous lease costs and £1.3m (2016: £0.5m) due to restructuring costs. Profit on ordinary activities before exceptional costs was £3.1m (2016: £0.8m).

The Company's gross profit on ordinary activities for the year ended 30 September 2017 amounted to £17.4m (2016: £11.2m) including £17.2m (2016: £15.5m) of depreciation.

As at 30 September 2017 the Company had net assets of £18.1m (2016: £30.7m).

Key performance indicators

The principal Key Performance Indicators (KPIs) used by the Company to measure its own performance are shown below:

	At 30 September 2017	At 30 September 2016	Increase/ (Decrease)
Average occupancy	92.8%	93.0%	(0.2%)
Average weekly fee rate	£691	£657	£34

The Company has seen an improvement in average weekly fee per resident of 5.2% since September 2016. Over this period, occupancy has been maintained at a similar level.

Going Concern

The going concern position of the Company is dependent on the overall going concern position of the Group headed by FC Skyfall Upper Midco Limited.

The Directors have reviewed the going concern position of the Company and the Group carefully in the preparation of the financial statements.

Strategic Report (continued)

Going Concern (continued)

Management have prepared detailed forecasts for the Group for the period to 30 September 2019. Net debt levels, servicing costs and covenant requirements are closely monitored and managed in accordance to the Group's objectives, policies and processes.

The Company and the Group maintains sufficient cash resources to meet its day-to-day working capital requirements.

The Directors believe that the Company and the Group are well placed to manage its risk appropriately.

The Directors have received written confirmations from its group undertakings that they do not intend to recall any debts due on demand that would prevent the Company from continuing its business operations as a going concern, for a period of at least 12 months from the date of approval of the financial statements for the year ended 30 September 2017. The Company's group undertakings have sufficient recourse to continue to support the Company.

After making enquiries and based on the Group's forecasts and projections, taking into account reasonable possible changes in trading performance, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and financial risk management objectives and policies

Financial risks
The Company's activities expose it to a number of financial risks including credit risk and liquidity risk.

Credit risk
The Company's principal financial assets are bank balances and cash, trade and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic climate.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk
The Company has continued to maintain liquidity and sufficient working capital for its ongoing operations and future developments.

Operational risks
The Company's activities expose it to a number of operational risks including reputational risk and regulatory risk.

Reputational risk

The Company is focused on the provision of care to the elderly, either long term, short term, or respite nursing or residential care. Any serious incident relating to the provision of care services could result in negative publicity and may result in an increase in scrutiny from regulators, residents and families.

In order to mitigate this risk the Company delivers employee training via a multi award winning mandatory and specialist Learning and Development programme, has independent quality inspectors, carries out a Disclosure and Barring Service check on all care staff and monitors compliance with an industry best electronic system.

Strategic Report (continued)

Principal risks and financial risk management objectives and policies (continued)

Regulatory risk

The Company's operations are subject to an increasingly high level of regulations and scrutiny by various regulators in the UK. Inspections are largely unaccounced and often involve several inspectors per home. The failure to meet national regulations could lead to a service being placed under special measures, being subject to enforcement notices or possibly forced to close. The CQC also have the power to issue fines and prosecute.

In order to mitigate this risk the Company has a dedicated compliance department that manages regulatory matters. In addition, quality measures are monitored on a weekly basis, with management interventions where appropriate.

Future Developments

HC-One has established a reputation as a high quality provider of residential and nursing care in the UK. HC-One has invested heavily in the portfolio and workforce in order to ensure it offers the best possible environments in which to deliver high quality and kind care. HC-One is striving to become the provider of the kindest care in the UK and the first choice care home provider in each community. To do this HC-One will continue to develop relationships with local authority and NHS commissioners with the aim of becoming a genuine and a trusted partner within increasingly integrated and area specific health and social care systems.

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 28 to the financial statements.

Approved by the Board and signed on its behalf by:

David Smith
Director
1 February 2018

HC-One Limited

Annual report and financial statements for the year ended 30 September 2017

Directors' Report

The Directors present their annual report on the affairs of HC-One Limited ("the Company"), together with the audited financial statements and auditor's report, for the year ended 30 September 2017.

Principal activities

The principal activity of the Company is the operation of care homes for the elderly in the United Kingdom.

Details of the significant events since the balance sheet date and of principal risks and uncertainties, including financial risk, are provided within the strategic report and form part of this report by cross reference.

Dividends

The directors note that £14.3m dividends have been paid during the year (2016: £nil).

Directors

The directors, who served throughout the year and to the date of signing, unless otherwise shown, were as follows:
Mr Chaitanya Patel
Mr David Smith
Sir William Wells
Mr John Ransford
Mr Justin Hutchens (appointed 21 September 2017)

Directors indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force to the date of this report.

Political contributions

The Company made £nil political donations during the year (2016: £nil).

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disable persons should, as far as possible, be identical to that of their employees.

Employment consultation

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and the weekly newsletters.

Directors' Report (continued)

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:

David Smith
Director
1 February 2018

Southgate House
Archer Street
Darlington
County Durham
DL3 6AH

Directors' Responsibilities Statement

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 financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditor's report to the members of HC-One Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HC-One Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of HC-One Limited (continued)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report to the members of HC-One Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Dave Johnson FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
1 February 2018

HC-One Limited

Annual report and financial statements for the year ended 30 September 2017

Profit and loss account for the year ended 30 September 2017

	Note	Ordinary activities 2017 £'000	Exceptional costs (Note 8) 2017 £'000	Total 2017 £'000	Ordinary activities 2016 £'000	Exceptional costs (Note 8) 2016 £'000	Total 2016 £'000
Turnover	1	305,647	-	305,647	298,136	-	298,136
Cost of sales	4	(288,230)	(1,420)	(289,650)	(286,965)	(1,275)	(288,240)
Gross profit		17,417	(1,420)	15,997	11,171	(1,275)	9,896
Administrative expenses		(9,105)	-	(9,105)	(8,631)	-	(8,631)
Costs of a fundamental restructuring		-	30	30	-	(2,998)	(2,998)
Operating profit/(loss)	5	8,312	(1,390)	6,922	2,540	(4,273)	(1,733)
Losses on the disposal of fixed assets		23	-	23	1,391	-	1,391
Interest receivable and similar income	9	8	-	8	50	-	50
Interest payable and similar charges	10	(5,292)	-	(5,292)	(3,212)	-	(3,212)
Profit/(loss) before taxation		3,051	(1,390)	1,661	769	(4,273)	(3,504)
Taxation	11	2,582	-	2,582	-	-	-
Profit/(loss) after taxation		5,633	(1,390)	4,243	769	(4,273)	(3,504)

All activities relate to continuing operations.

There is no other comprehensive income in the financial year other than the profit for the year. Accordingly no separate statement of comprehensive income is disclosed.

Balance sheet as at 30 September 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	12	55,747	53,272
Intangible assets	13	-	-
Investments	14	1,537	-
Total fixed assets		57,284	53,272
Current assets			
Stocks		-	6
Debtors			
- due within one year	15	20,770	19,927
- due after one year	16	69,148	51,265
Cash at bank and in hand	17	14,242	9,555
Total current assets		104,160	80,753
Creditors amounts falling due within one year	18	(78,502)	(54,307)
Net current assets		25,658	26,446
Total assets less current liabilities		82,942	79,718
Creditors amounts falling due after more than one year	19	(61,748)	(47,743)
Provision for liabilities	20	(525)	(1,299)
Net assets		20,669	30,676
Capital and reserves			
Called-up share capital	21	5,000	5,000
Profit and loss account		15,669	25,676
Total shareholders' funds		20,669	30,676

The financial statements were approved by the Board of directors on and authorised for issue on 1 February 2018 and were signed on its behalf by:

David Smith
Director
1 February 2018
HC-One Limited
Registered number 07712656

Statement of changes in equity for the year ended 30 September 2017

	Called-up share capital	Profit and loss account	Total
	£'000	£'000	£'000
At 1 October 2015	5,000	29,180	**34,180**
Loss for the financial year and total comprehensive loss	-	(3,504)	**(3,504)**
At 30 September 2016	5,000	25,676	**30,676**
Profit for the financial year and total comprehensive income	-	4,243	**1,661**
Equity dividends paid (note 22)	-	(14,250)	**(14,250)**
At 30 September 2017	**5,000**	**15,669**	**20,669**

Notes to the financial statements for the year ended 30 September 2017

1. Accounting policies

The Company prepares its annual financial statements to 30 September each year. The principal accounting policies are set out below and have been applied consistently throughout the current and prior year.

Basis of preparation

HC-One Limited ('the Company') is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The address of the registered office is Southgate House, Archer Street, Darlington, County Durham, DL3 6AH. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention modified to include certain items at fair value and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The Company is exempt, by virtue of Section 400 of the Companies Act 2006, from the requirement to prepare group financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of FC Skyfall Upper Midco Limited, a company registered in England and Wales. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of FC Skyfall Upper Midco Limited, which can be obtained from the Companies House at Crown Way, Cardiff, Wales, CF14 3UZ. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, related party transactions, presentation of a cash flow statement and remuneration of key management personnel.

Going concern

The Company's business activities, together with the principal risks and uncertainties likely to affect its future development, performance and position are set out in the Strategic Report.

The Strategic Report also describes the financial position of the Company and the Company's objectives, policies and its financial risk management objectives.

The going concern position of the Company is dependent on the overall going concern position of the Group headed by FC Skyfall Upper Midco Limited.

The Directors have reviewed the going concern position of the Company and the Group carefully in the preparation of the financial statements.

Management have prepared detailed forecasts for the Group for the period to 30 September 2019. Net debt levels, servicing costs and covenant requirements are closely monitored and managed in accordance to the Group's objectives, policies and processes.

The Company and the Group maintains sufficient cash resources to meet its day-to-day working capital requirements.

The Directors believe that the Company and the Group are well placed to manage its risk appropriately.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1. Accounting policies (continued)

Going concern (continued)
The Directors have received written confirmations from its group undertakings that they do not intend to recall any debts due on demand for a period of at least 12 months from the date of approval of the financial statements for the year ended 30 September 2017. The Company's group undertakings have sufficient recourse to continue to support the Company.

After making enquiries and based on the Group's forecasts and projections, taking into account reasonable possible changes in trading performance, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in preparing the annual financial statements.

Turnover
Turnover represents fee income receivable from care services provided. Turnover is recognised in the year in which the Company obtains the right to consideration as the services provided under contracts have been delivered and is recorded at the value of the consideration due. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of Creditors due within one year..

Exceptional costs
The Company separately presents certain items as exceptional on the face of the profit and loss account. Exceptional items are material items of income or expense that, because of their size or incidence, are shown separately to improve a reader's understanding of the financial information. Further information is given in note 8.

Finance income
Finance income includes interest recievable on deposits calculated using the effective interest method. Interest income is recognised in the profit and loss account as it accrues.

Finance costs
Finance costs include interest payable on borrowings calculated using the effective interest method. Interest expenses are recognised in the profit and loss account as they accrue.

Pension costs
The Company operates both a Company Default Pension Scheme and a Stakeholder Pension Scheme. The Company Default Pension Scheme is managed by an external third party. The Stakeholder Pension Scheme is managed by the Company and funds are invested on the employee's behalf. This pension scheme is a defined contribution scheme and therefore the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Taxation
The charge for taxation is based on the result for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the year in which timing differences reverse, based on current tax rates and laws.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1. Accounting policies (continued)

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

- Buildings and grounds and leasehold improvements – shorter of the term of the lease, or useful economic life of the asset
- Fixtures and fittings - 3 to 5 years
- Motor Vehicles - 3 to 5 years

Impairment reviews are performed where there are indicators that the carrying value may not be recoverable. An impairment loss is recognised in the profit and loss account to reduce the carrying value to the recoverable amount.

Intangible fixed assets – Negative goodwill
Negative goodwill, which represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of an acquisition, is included in the balance sheet and is credited to the profit and loss account in the years in which the acquired non-monetary assets are recovered through depreciation. Negative goodwill in excess of the fair values of the non-monetary assets acquired is amortised over the years expected to benefit.

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

Debtors
Debtors are recognised initially at cost less any provision for impairment.

Creditors
Trade creditors are recorded initially at fair value, net of transaction costs incurred. Any difference between the amount initially recognised and the redemption value is recognised in the profit and loss account over the year of the borrowing using the effective interest rate method.

Other creditors and accruals are measured at the best estimate of the expenditure required to settle the obligation.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Share capital
Ordinary shares are classified as equity and recorded at the par value of proceeds received, net of direct issue costs.

Leases
Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the lower of fair value at acquisition or at the present value of the minimum lease payments and are depreciated over the shorter of the lease terms and their useful lives.

Notes to the financial statements for the year ended 30 September 2017 (continued)

1. Accounting policies (continued)

Leases (continued)
The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the lease term to produce a constant rate of interest on the outstanding obligation.

All other leases are operating leases and are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis. No asset is recognised on the Company's balance sheet.

Onerous leases and contracts
Provisions are made for future operating lease payments on those homes which are not forecast to be profitable.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

Critical judgements in applying the Company's accounting policies and key source of estimation uncertainty

The following are the critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Excluding these critical judgements, it is deemed that there are no additional key sources of estimation uncertainty.

Fixtures and fittings

Accounting for fixtures and fittings involves the use of estimates for determining (a) the useful lives of the assets, over which they are to be depreciated, and (b) the existence and amount of any impairment. Details of fixtures and fittings are provided in note 12.

Fixtures and fittings are depreciated on a straight line basis over their estimated useful lives. When the Company estimates useful lives various factors are considered including expected technology obsolescence and the expected usage of the asset. The Company regularly reviews these assets useful lives and future economic utilisation and the physical condition of the assets concerned. A significant change in these circumstances may have a material impact on the carrying value of these assets.

The carrying value of fixtures and fittings is assessed periodically to determine whether there are indications of any impairment of the value beyond the depreciation charge. If this is the case, an impairment charge is taken against the carrying value of the assets and charged to profit and loss account. The impairment of fixed assets requires management judgement in determining the amounts to be impaired; in particular judgement is used when assessing the future cash flows.

Deferred tax assets and liabilities

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised; in particular judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. Refer to note 16 for further details of deferred tax assets recognised.

Notes to the financial statements for the year ended 30 September 2017 (continued)

3. Segmental analysis

HC-One Limited operates under one segment, Elderly Care. The origin and destination of all turnover is the United Kingdom.

4. Cost of sales

Cost of sales includes home payroll costs, home running costs, rent, depreciation and amortisation.

5. Operating profit

	2017 £'000	2016 £'000
Operating profit is stated after charging:		
Wages and salaries	**185,506**	185,357
Social security costs	**11,448**	10,450
Other pension costs	**981**	992
Staff costs	**197,935**	196,799
Depreciation of tangible fixed assets (note 12):		
-Owned assets	**16,163**	14,523
-Leased assets	**1,026**	952
Operating lease charges land and buildings	**33,573**	31,510
Impairment of fixed assets (note 12)	**115**	790
Exceptional costs (note 8)	**1,305**	485
Services provided by the Company's auditor:		
Fees payable to the Company's Auditor for the audit of the Company's annual financial statements	**88**	74
Non audit fees:		
Fees payable to the Company's Auditor in respect of Tax compliance services	**28**	20

6. Directors' emoluments

	2017 £'000	2016 £'000
Aggregate emoluments inclusive of benefits in kind	**558**	509
Pension contributions	**27**	27
	585	536

No. of directors accruing benefits under defined contribution scheme	**2**	2

Highest paid director	2017 £'000	2016 £'000
Aggregate emoluments inclusive of benefits in kind	**287**	271
Pension contributions	**27**	27
	314	298

Notes to the financial statements for the year ended 30 September 2017 (continued)

7. Employee information

The average monthly number of persons employed by the Company during the year was:

By activity	2017 No.	2016 No.
Care staff	**10,622**	10,979
Administrative	**335**	325
Total average monthly number of employees	**10,957**	11,304

8. Exceptional costs

	2017 £'000	2016 £'000
Restructuring costs	**1,305**	485
Impairment of fixed assets	**115**	790
Closure costs and onerous leases	**(30)**	2,998
Total exceptional costs	**1,390**	4,273

Restructuring costs

Exceptional costs totalling £1,305,000 (2016: £485,000) have been incurred relating to the restructuring costs in the year ended 30 September 2017.

Impairment of fixed assets

The Company carried out an impairment review which resulted in fixed assets being written down by £115,000 (2016: £790,000) in the year ended 30 September 2017.

Closure costs

Management undertook a review of its portfolio resulting in the decision to close six care homes in the prior year. As a result of this decision, a charge for closure costs and future committed costs of £756,000 (2016: £1,004,000) has been recognised in the year.

Onerous leases

During the year the Company conducted a review of the property lease portfolio. The review resulted in there being a reduction in the onerous lease provision of £786,000 (2016: increase of £1,994,000). Further details are given in note 20.

Notes to the financial statements for the year ended 30 September 2017 (continued)

9. Interest receivable and similar income

	2017 £'000	2016 £'000
Bank deposits interest receivable	**8**	50

10. Interest payable and similar charges

	2017 £'000	2016 £'000
Interest payable on intercompany loan	**5,120**	2,941
Finance lease interest	**172**	271
Total interest payable and similar charges	**5,292**	3,212

11. Tax on profit/(loss)

	2017 £'000	2016 £'000
Current tax:	**-**	-
Deferred tax:		
Origination and reversal of timing differences	(2,962)	(838)
Effect of changes in tax rates	380	838
Total deferred tax (see note 16)	(2,582)	-
Total tax per profit and loss account	(2,582)	-

The charge for the year can be reconciled to the loss per the profit and loss account as follows:

	2017 £'000	2016 £'000
Profit/(loss) for the year	**1,661**	(3,504)
Tax on loss at standard UK tax rate of 19.5% (2016: 20.0%)	**324**	(701)
Effects of:		
Expenses not deductible	**420**	1,128
Income not taxable	**(50)**	(192)
Effects of group relief	**(2,266)**	(957)
Movement in unrecognised deferred tax	**(1,390)**	(116)
Tax rate changes	**380**	838
Tax charge for the year	**(2,582)**	-

Notes to the financial statements for the year ended 30 September 2017 (continued)

12. Tangible fixed assets

	Buildings & Grounds £'000	Leasehold Improvements £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Total £'000
Cost					
At 1 October 2016	31,731	2,000	86,675	6,031	126,437
Additions	6,239	-	13,593	-	19,832
Disposals	(154)	(5)	(846)	-	(1,005)
At 30 September 2017	**37,816**	**1,995**	**99,422**	**6,031**	**145,264**
Depreciation					
At 1 October 2016	(10,639)	(1,050)	(56,623)	(4,853)	(73,165)
Charge for the year	(3,098)	(107)	(12,958)	(1,026)	(17,189)
Disposals	179	5	768	-	952
Impairment	(108)	-	(7)	-	(115)
At 30 September 2017	**(13,666)**	**(1,152)**	**(68,820)**	**(5,879)**	**(89,517)**
Net Book Value					
At 30 September 2016	21,092	950	30,052	1,178	53,272
At 30 September 2017	**24,150**	**843**	**30,602**	**152**	**55,747**

Included in the amounts for motor vehicles above are the following amounts related to assets acquired under hire purchase contracts:

Net Book Value					
At 30 September 2016	-	-	-	1,176	1,176
At 30 September 2017	-	-	-	**150**	**150**

The Buildings and Grounds figure includes no freehold buildings.

The Company carried out an impairment review which resulted in the fixed assets being written down by £115,000 (2016: £790,000) in the year. The impairment review took into consideration current and expected operating performance.

When considering future operating performance, cash flow projections have been based on management operating profit projections for a three year period which have been approved by management. Future cash flows have been discounted at a discount rate of 8.0%. Cash flow projections beyond the three year period have assumed no growth.

Notes to the financial statements for the year ended 30 September 2017 (continued)

13. Intangible fixed assets

Negative Goodwill	£'000
Cost	
At 1 October 2016	(1,249)
At 30 September 2017	(1,249)
Amortisation	
At 1 October 2016	1,249
At 30 September 2017	1,249
Net Book Value	
At 30 September 2016	-
At 30 September 2017	-

14. Investments

	£'000
Cost	
At 1 October 2016	-
Additions	1,537
At 30 September 2017	**1,537**
Provisions for impairment	
At 1 October 2016	-
At 30 September 2017	-
Net book value	
At 1 October 2016	-
At 30 September 2017	**1,537**

On 29 September 2017, the Company acquired 100% of the shareholding of RV Care Homes Limited and RV Extra Care Limited.

Notes to the financial statements for the year ended 30 September 2017 (continued)

14. Investments (continued)

Shares in subsidiary undertakings

At 30 September 2017, the Company held investments in the following subsidiary undertaking:

Name	Country of incorporation	Principal activity	% Holdings	Class of shares held
RV Care Homes Limited	United Kingdom[1]	Care Home Operator	100%	Ordinary £1
RV Extra Care Limited	United Kingdom[1]	Domiciliary Care Provider	100%	Ordinary £1

[1] Registered office: Southgate House, Archer Street, Darlington, DL3 6AH

15. Debtors – amounts falling due within one year

	2017 £'000	2016 £'000
Trade debtors	**18,557**	17,007
Other debtors	**810**	1,256
Prepayments and accrued income	**1,403**	1,664
Total debtors – amounts falling due within one year	**20,770**	19,927

16. Debtors – amounts falling due after more than one year

	2017 £'000	2016 £'000
Amounts owed from Group undertakings	**61,816**	46,515
Deferred tax asset	**7,332**	4,750
Total debtors – amounts falling due after more than one year	**69,148**	51,265

Deferred tax (assets)/ liabilities:

	2017 £'000	2016 £'000
Provision at start of year	**(4,750)**	(4,750)
Deferred tax charge to profit and loss account for the year	**(2,582)**	-
Provision at end of year	**(7,322)**	(4,750)

Notes to the financial statements for the year ended 30 September 2017 (continued)

16. Debtors – amounts falling due after more than one year (continued)

	30 September 2017 £'000	30 September 2016 £'000
Fixed asset timing differences	(7,332)	(4,750)
	(7,332)	(4,750)
Deferred tax (assets)		
Recoverable within 12 months	(7,332)	-
Recoverable after 12 months	-	(4,750)
	(7,332)	(4,750)

Finance Act No.2 2015, which was substantively enacted on 26 October 2015, includes provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. In addition, the Finance Act 2016 which was substantively enacted on 6th September 2016 introduced a further reduction in the main rate of corporation tax from 18% to 17% from 1 April 2020. Accordingly these rates have been applied when calculating deferred tax assets and liabilities as at 31 March 2017.

During the year commencing 1 April 2016, the net reversal of deferred tax assets/liabilities is expected to increase/(decrease) the corporation tax charge for the year by £7,332,000. This is primarily due to fixed asset timing differences.

There is no expiry date on timing differences, unused tax losses or tax credits.

17. Cash at bank and in hand

	2017 £'000	2016 £'000
Cash at bank and in hand	**14,242**	9,555

At 30 September 2017, the Company had £13,787,000 (2016: £9,349,000) of cash held on short term deposit, held with counterparties with a short-term credit rating as determined by Moody's of Prime-2. Cash and cash equivalents includes cash and balances in accounts accessible at no or short notice.

Notes to the financial statements for the year ended 30 September 2017 (continued)

18. Creditors – amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	**(15,124)**	(13,729)
Amounts owed to Group undertakings	**(35,596)**	(13,796)
Finance leases (note 19)	**(132)**	(1,087)
Other taxation and social security	**(2,514)**	(2,890)
Other creditors	**(7,077)**	(7,373)
Accruals and deferred income	**(18,059)**	(15,432)
Total creditors – amounts falling due within one year	**(78,502)**	(54,307)

19. Creditors – amounts falling due after more than one year

	2017 £'000	2016 £'000
Amounts owed to Group undertakings	**(61,748)**	(46,775)
Finance leases	**-**	(968)
Total creditors – amounts falling due after more than one year	**(61,748)**	(47,743)

Amounts owed to group undertakings

During the year to 30 September 2017, HC-One received further intercompany loans totalling £9,950,000. The loans are due for repayment on 11 November 2019 and bear a fixed interest rate of 9% per annum.

Finance leases

Future minimum payments under finance leases are as follows:

	2017 £'000	2016 £'000
Between one and two years	**-**	968
Between two and five years	**-**	-
Total due after more than one year	**-**	968
Within one year	**132**	1,087
Total future minimum payments under finance leases	**132**	2,055

Notes to the financial statements for the year ended 30 September 2017 (continued)

20. Provisions for liabilities

	Closure costs	Onerous leases	Total
	£'000	£'000	£'000
At 1 October 2016	(120)	(1,179)	(1,299)
Charged to profit and loss account	(756)	786	30
Utilisation of provision	535	209	744
At 30 September 2017	**(341)**	**(184)**	**(525)**

Closure costs

During the year management have undertaken a review of its portfolio resulting in the decision to close six care homes. As a result of this decision, a charge for closure costs and future committed costs of £756,000 has been recognised in the year. Of the £876,000 closure provision, £535,000 has been utilised in the year with the remaining £341,000 to be utilised within one year.

Onerous leases

During the year the Company conducted a review of the property lease portfolio. The review resulted in a reduction in the onerous lease provision of £786,000. Of the £393,000 onerous lease provision, £209,000 has been utilised in the year with the remaining £184,000 to be utilised within one year.

21. Called-up share capital

	2017 £'000	2016 £'000
Allotted, called-up and fully-paid		
5,000,002 ordinary shares of £1 each	**5,000**	5,000

22. Dividends declared and paid

	2017 £'000	2016 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares	**14,250**	-

Notes to the financial statements for the year ended 30 September 2017 (continued)

23. Defined Contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The total expense charged to the profit and loss in the year ended 30 September 2017 was £981,000 (2016: £992,000).

24. Financial commitments

Minimum lease payments under non-cancellable operating leases fall due as follows:

	Land and buildings 2017 £'000	**Other 2017 £'000**	Land and buildings 2016 £'000	Other 2016 £'000
- within one year	**32,123**	**114**	31,091	107
- between one and five years	**123,345**	**70**	122,818	103
- in more than five years	**704,525**	**-**	369,823	-

The operating lease of land and buildings in relation to the care homes is held with FC Skyfall TA Limited, FC Skyfall IOM Properties Ltd, and HCP which are subject to rent reviews at specified intervals.

Lease terms on 125 properties were renegotiated during the year.

Other operating leases relate to the lease of company cars.

25. Related party transactions

Identity of related parties

The Company has taken the exemption provided under FRS 102 to not disclose intercompany transactions with other wholly-owned group undertakings within the FC Skyfall Upper Midco Limited group.

Other related party transactions

Care Management Group (CMG)

During the year the Company obtained management services and goods in the ordinary course of business from Care Management Group, at a cost of £259,000. Dr Chaitanya Patel is a Director of Care Management Group, Chairman for HC-One Limited.

Care Management Group entered into a lease for an office and subsequently sub-let one floor to HC-One Limited. All transactions were on normal commercial terms and at arm's length.

Transactions with CMG

	2017 £'000	**2016 £'000**
Lease and service charge	**247**	268
Expenses	**12**	4
Total	**259**	272

Notes to the financial statements for the year ended 30 September 2017 (continued)

25. Related party transactions (continued)

Other related party transactions (continued)

FC Skyfall TA Limited and FC Skyfall TopCo Limited

Amounts due to and from related group undertakings not part of the consolidation group headed by FC Skyfall Upper Midco Limited are detailed in the table below:

	2017 £'000	2016 £'000
Amounts due (to)/from related group undertakings:		
FC Skyfall TopCo Limited	(6,718)	58
FC Skyfall TA Limited	(3,766)	2,557
Total	(10,484)	2,615

26. Ultimate parent undertaking

The Company's immediate parent undertaking is Libra Intermediate Holdco Limited, a company incorporated in Jersey.

The ultimate parent undertaking and controlling party is FC Skyfall LP, a limited partnership incorporated and registered in the Cayman Islands. FC Skyfall Upper Midco Limited is both the smallest and largest group the consolidated financial statements are drawn up. The registered address of FC Skyfall Upper Midco Limited is 40 Bank Street, Level 29, London, England, E14 5DS.

Copies of FC Skyfall Upper Midco Limited financial statements to 30 September 2017 are available from the Companies House at Crown Way, Cardiff, Wales CF14 3UZ.

27. Contingent Liabilities and Guarantees

The Company and its group undertakings are guarantors to a facility agreement entered into by FC Skyfall Bidco Limited, the Company's intermediate parent undertaking. The facility is secured by a fixed and floating charge over the group assets and unlimited guarantee from its group undertakings. As at 1 February 2018 the outstanding loan amount is £281.3m.

28. Subsequent events

No subsequent events are noted between the year ended 30 September and the date of signing this report.