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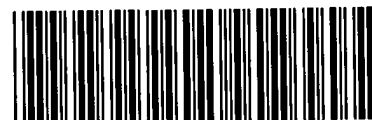
DON'T
STAPLE**OS AA01**Statement of details of parent law and other
information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law.

✗ **What this form is NOT**
You cannot use this form
an alteration of manner
with accounting require

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#296

COMPANIES HOUSE

Part 1 Corporate company nameCorporate name of
overseas company ①

FSHC Management Services (Kings Reach) Limited

UK establishment
number

B R 0 2 3 8 8 7

→ **Filling in this form**Please complete in typescript or in
bold black capitals.All fields are mandatory unless
specified or indicated by *① This is the name of the company in
its home state.**Part 2 Statement of details of parent law and other
information for an overseas company****A1 Legislation**Please give the legislation under which the accounts have been prepared and
audited.

Legislation ②

Isle of Man Companies Act 1931 to 2004

② This means the relevant rules or
legislation which regulates the
preparation of accounts.**A2 Accounting principles**

Accounts

Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box.

☐ **No. Go to Section A3.**☒ **Yes. Please enter the name of the organisation or other
body which issued those principles below, and then go to Section A3.**③ Please insert the name of the
appropriate accounting organisation
or body.Name of organisation
or body ③

United Kingdom Accounting Standards

OS AA01

Statement of details of parent law and other information for an overseas company

A3

Audited accounts

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box.

☐ No. Go to Part 3 'Signature'.

☒ Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'.

❶ Please insert the name of the appropriate accounting organisation or body.

Name of organisation or body ❶

International Standards on Auditing (UK)

Part 3

Signature

I am signing this form on behalf of the overseas company.

Signature

Signature

X

A. Mathison

X

This form may be signed by:
Director, Secretary, Permanent representative.

**Presenter information**

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	REF: GEM SERVICES
Company name	KPMG (UK) LLP
Address	ONE ST. PETER'S SQUARE
Post town	MANCHESTER
County/Region	
Postcode	M 2 3 A E
Country	UNITED KINGDOM
DX	
Telephone	

**Checklist**

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

**Important information**

Please note that all this information will appear on the public record.

**Where to send**

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG.
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This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

FSHC Management Services (Kings Reach) Limited

Annual report and financial statements

Registered number 46937C

31 December 2019

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Strategic report

Background and ownership structure

FSHC Management Services (Kings Reach) Limited is a retirement village management company within the Mericourt Limited group of companies.

As at 31 December 2019, the directors regard Terra Firma Holdings Limited, a company registered in Guernsey, as the ultimate parent entity.

Financial results

The Company made a profit before taxation of £2,000 (2018: loss of £129,000).

Principal activity

The principal activity of the Company is the management of a retirement village and apartments.

Business review and KPIs

The results of the Company are consolidated in the group headed by Mericourt Limited, the consolidated financial statements of which contain a detailed business review and KPIs relating to the group. Copies of these financial statements can be obtained from Companies House.

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

	2019	2018
Turnover	£53,000	£52,000
Operating profit/(loss)	£2,000	(£129,000)

Principal risk and uncertainties

The Mericourt Limited group has management structures and policies and procedures which are designed to enable the achievement of business objectives while controlling the risks associated with the environment in which it operates. The group has a risk management process in place which is designed to identify, manage and mitigate business risk. The Company operates within this group structure.

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

Strategic report *(continued)*

Principal risk and uncertainties *(continued)*

Financial risks

- *Liquidity and capital resources*

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

- *Reduction in demand for our services*

Mitigation: The Company and other group companies continue to focus on their strong partnering relations with Local Authorities and care commissioners to ensure that placements are made within our facilities. In addition, we regularly assess the services we provide to ensure they represent value for money and where necessary reposition services to align with demand.

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

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

- *Seasonal death rate*

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

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

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

Operational risks

- *Regulatory and reputational risk*

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

Strategic report *(continued)*

Future developments

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

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

Employment policies

The Company and other group companies aim to provide equal opportunities regardless of sex, race, religion or belief, sexual orientation, disability or ethnic origin, recognising that the continued success of the group depends upon its ability to attract, motivate and retain people of the highest calibre.

Environmental policy

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

On behalf of the Board



A J Hayward
Director

Millennium House
Victoria Road
Douglas
Isle of Man
IM2 4RW

11 June 2021

Directors' report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2019. The company has chosen to disclose certain information required in the Director's report in the Strategic report.

Results and dividends

The results for the year are shown in the profit and loss account on page 10. The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors who held office during the year and up to the date of signing of the financial statements were as follows:

A J Hayward (appointed 30 June 2020)

T R W Hammond (resigned 18 November 2019)

M C Royston (resigned 30 April 2020)

B R Taberner (resigned 30 June 2020)

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

J R Richardson (appointed 1 October 2020)

Going concern and liquidity management

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

Post Balance Sheet Events

Further details in respect of Post Balance Sheet Events that affect the company and the wider group are included in note 14.

Disclosure of information to auditor

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

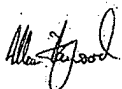
Third party indemnity provision for directors

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

Auditor

RSM UK Audit LLP were appointed as auditor of the Company. Pursuant to Section 12 (2) of the Isle of Man Companies Act 1982 the auditor will be deemed to be reappointed and RSM UK Audit LLP will therefore continue in office

On behalf of the Board



A J Hayward

Director

Millennium House
Victoria Road
Douglas
Isle of Man
IM2 4RW
11 June 2021

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

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

Isle of Man company law requires the directors to prepare company financial statements for each financial year in accordance with generally accepted accounting principles. The directors have elected under Isle of Man company law to prepare the company financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements of the company are required by law to give a true and fair view of the state of the company's affairs at the end of the financial period and of the profit or loss of the company for that period. In preparing the company financial statements, the directors should:

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

The directors are responsible for keeping accounting records which are sufficient to show and explain the company's transactions and are such as to disclose within a reasonable time and with reasonable accuracy the financial position of the company at any time and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1982. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of FSHC Management Services (Kings Reach) Limited

Opinion

We have audited the financial statements of FSHC Management Services (Kings Reach) Limited (the 'company') for the year ended 31 December 2019 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Isle of Man Companies Act 1931 to 2004.

Basis for opinion

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

Material Uncertainty Related to Going Concern

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

Independent auditor's report to the members of FSHC Management Services (Kings Reach) 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 we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept by the company, or proper 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 books of account and returns; or
- disclosures of loans to any director or officer of the company or disclosures of directors' remuneration specified by law are not made; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors

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

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

Independent auditor's report to the members of FSHC Management Services (Kings Reach) Limited
(Continued)

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is included in appendix 1 of this auditor's report. This description, which is located on page 9, forms part of our auditor's report.

Use of our report

This report is made solely to the company's members in accordance with section 15 of the Isle of Man Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

Rachel Fleming

For and on behalf of RSM UK Audit LLP, Auditor
Chartered Accountants

1 St James Gate
Newcastle Upon Tyne
NE1 4AD

11 June 2021

Independent auditor's report to the members of FSHC Management Services (Kings Reach) Limited *(Continued)*

Appendix 1: Auditor's responsibilities for the audit of the financial Statements

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

	<i>Note</i>	2019 £000	2018 £000
Turnover	2	53	52
Cost of sales		(50)	(47)
Gross profit		3	5
Exceptional items #	4	(1)	(134)
Operating profit/(loss)		2	(129)
Profit/(loss) before taxation		2	(129)
Tax on profit/(loss)	7	-	-
Profit/(loss) for the financial year		2	(129)
Other comprehensive income, net of tax	10	-	-
Total comprehensive income/(loss) for the financial year		2	(129)

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

All amounts relate to continuing operations.

The financial statements include the notes on pages 13 to 24.

Exceptional items includes a £1,000 increase (2018: £134,000 increase) in a non-cash provision against amounts due from group undertakings

Balance sheet
at 31 December 2019

		2019		2018	
	Note	£000	£000	£000	£000
Current assets					
Debtors	8	22		22	
Cash at bank and in hand		<u>1</u>		<u>1</u>	
		23		23	
Creditors: amounts due within one year	9	<u>(164)</u>		<u>(166)</u>	
Net current liabilities			(141)		(143)
Total assets less current liabilities			<u>(141)</u>		<u>(143)</u>
Net liabilities			<u>(141)</u>		<u>(143)</u>
Capital and reserves					
Called up share capital	10	90		90	
Profit and loss account		(231)		(233)	
Shareholder's deficit		<u>(141)</u>		<u>(143)</u>	

The financial statements include the notes on pages 13 to 24.

These financial statements were approved by the board of directors on 11 June 2021 and were signed on its behalf by:



A J Hayward
Director



J R Richardson
Director

Statement of changes in equity

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2018	(104)	90	(14)
Total comprehensive income for the period			
Loss for the year	(129)	-	(129)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	(129)	-	(129)
Balance at 31 December 2018	(233)	90	(143)

	Profit & Loss account £000	Called up share capital £000	Total equity £000
Balance at 1 January 2019	(233)	90	(143)
Total comprehensive income for the period			
Profit for the year	2	-	2
Other comprehensive income	-	-	-
Total comprehensive income for the period	2	-	2
Balance at 31 December 2019	(231)	90	(141)

The financial statements include the notes on pages 13 to 24.

Notes *(forming part of the financial statements)*

1 Accounting policies

FSHC Management Services (Kings Reach) Limited (the "Company") is a private company limited by shares and incorporated, domiciled, and registered in the Isle of Man.

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

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

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

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

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 13.

Measurement convention

The financial statements are prepared on the historical cost basis.

The accounting reference date for the Company is 31 December 2019 (2018: 31 December 2018). The Company has opted to adopt the "seven day rule". The seven-day rule provides that a particular financial year need not end on the accounting reference date itself but on a date within not more than seven days of the date as the directors may determine. On this basis, the accounting period is for the 52 weeks ended 29 December 2019, with the comparative period being the 52 weeks ended 30 December 2018.

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

1 Accounting policies *(continued)*

Going concern

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

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

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

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

Following the administration of EIL, the EIL group is being restructured and is forecasting that additional funding will be required within 12 months of the signing of these financial statements based on planned restructuring activities. The EIL group will seek to address this funding requirement once the timing and the amount of funding requirement is more certain. If sufficient funding is not obtained in a timely manner or as part of the restructuring then the restructuring may not be completed and this entity or other entities within the remaining EIL group could be placed into administration. Further details on the group restructuring and cash flow forecasts for the EIL group are set out below.

Capital structure and debt guarantees

At the date of signing these accounts the debt of EIL and EFUK included (i) £525m of high yield bonds (due for repayment in 2019 and 2020) (ii) £100m term loan facility (due for repayment in 2019) and (iii) accrued interest thereon of c£235m, none of which have been re-paid. As such, the debt and accrued interest is in default and, whilst the Company itself does not act as a guarantor of this debt, the cross guarantee provided by other entities within the EIL group that the company may be reliant upon for operational and/or financial support could be called as a result of the debt default and subsequent appointment of administrators over EIL and EFUK.

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

1 Accounting policies *(continued)*

Going concern (continued)

Developments post Administration:

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

- *Disposals Processes and Leasehold Estate Restructuring:*

On 3 May 2019 EIL and EFUK announced the launch of an Independent Sales Process for the EIL group which was expected to complete by the end of 2019. On 10 October 2019 the Joint Administrators announced the expiry of the marketing and bid phase of the Independent Sales Process, and that a conditional sale and purchase agreement had been entered into for the sale of certain subsidiaries, businesses and other assets comprising the EIL group's freehold estate and a number of leasehold homes. However, on 24 October 2019 this conditional sale and purchase agreement was terminated due to certain conditions having not been met or waived.

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

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

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

- *Liquidity and funding*

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

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

1 Accounting policies (continued)

Going concern (continued)

Current status and anticipated developments:

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

- As a consequence of the on-going LER the group anticipates that further migrations of care homes and specialist units to alternative operators may be agreed in due course, or other arrangements may be agreed with landlords so that the leases that might be retained are on long-term sustainable market terms. For the remaining leasehold companies, the EIL group continues to consider all options.
- The Joint Administrators continue to consider all possible options for the EIL group's organisational and capital structure. This includes potential sales of all or parts of the EIL group, internal reorganisation, refinancing of the unpaid debt of EIL & EFUK (which may or may not include a debt for equity swap) and/or a combination of these.
- The EIL group continues to assess its cash flow forecast in light of Covid-19 and the on-going restructuring process. The current cash flow forecasts indicate an additional funding requirement within 12 months of the signing of these financial statements, although the timing and the amount of any funding requirement is dependent upon the form of the restructuring.

Material risks and uncertainties – form of the restructuring

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

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

1 Accounting policies *(continued)*

Going concern (continued)

Material risks and uncertainties – restructuring

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

- Further Funding – the EIL group's cash flow forecasts indicate that the costs to progress and complete a EIL group restructuring will require an injection of further funding within 12 months of the signing of these financial statements based on planned restructuring activities. The EIL group will seek to address this funding requirement once the timing and the amount of the funding requirement is more certain. These costs could increase, requiring further additional funding, should the restructuring process either increase in complexity, requiring additional advisers, or extend beyond the timeframe forecast by the business. The injection of further funding in a timely manner cannot be guaranteed, without which the group restructuring cannot be completed; and
- Execution – it is likely that the implementation of a successful EIL group restructuring will require the agreement of various stakeholders of the EIL group. This agreement cannot be guaranteed.

Material risks and uncertainties – liquidity

The EIL group's latest cash flow forecasts, including current assumptions regarding the impact of Covid-19 but excluding costs to progress and complete a group restructuring, for the 12 month period following the date of signing these financial statements, indicate that the EIL group has sufficient liquidity for the EIL group to continue operations, though headroom is limited and may require mitigating actions to be taken by management. Based on those forecasts, costs to progress and complete a group restructuring will require an injection of further funding within 12 months of the signing of these financial statements based on planned restructuring activities. This cash flow forecast takes into account the current operating environment and material risks and uncertainties to trading (outlined below) and assume (i) no payment of the outstanding EIL and EFUK debt, or related interest noted above (ii) non payment of certain accrued and on-going rents (iii) the impact of Covid-19 based on current KPIs and their expected development (as set out below), and (iv) limited incremental local authority and CCG Covid-19 support that is yet to be agreed.

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

Material risks and uncertainties - Covid 19 and future trading

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

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

1. Accounting policies *(continued)*

Going concern (continued)

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

- Occupancy decline – by way of illustration, the cash flow impact of a one-percentage point reduction in occupancy within the care home business, based on the fee and cost structures assumed in the forecasts, is up to £3.5m per annum.

Average occupancy had declined from a high point of 88% at the end of March 2020 to 79% during May 2020, predominantly as a result of the death rate within the care home business increasing to approximately twice the seasonal average during the first wave of Covid-19. From June 2020 onwards the death rate reduced back to levels at or below the seasonal average and occupancy levels stabilised, ranging between 78% and 80%. However, admission rates have remained low as a consequence of admissions decisions being carefully considered, especially due to Covid-19. Recent occupancy levels have been in the range of 78% to 79%.

- Staffing – payroll costs, including agency staff, represent the group's largest cost, with payroll costs representing approximately two thirds of income. Appropriate staffing levels are required to ensure that the correct level of care is provided and the shortage of qualified nursing staff has resulted in staffing pressures across the sector. Staffing pressures have been further exacerbated by Covid-19 as shielding and self-isolation has pushed staff absenteeism up to c11%, although this had reduced by September 2020. Agency usage has been well controlled, however restrictions on staff movements mean that a higher level of agency usage may be required going forward. As a result, the group's own staff costs may be higher than forecast or the group may require higher than forecast levels of agency staff. By way of illustration, the cash flow impact of a 0.5 percentage point increase in the group's agency usage is approximately £1m per annum.
- Local Authority and CCG Covid-19 support - the group has received support from Local Authorities, CCGs and central Government in respect of Covid-19. Whilst a proportion of Covid-19 exceptional costs may ultimately be covered in one form or another, reimbursement of these costs does not fully compensate for the occupancy decline. Further support of c£2m is assumed in the cash flow forecast based on recent announcements of support measures. Further Covid-19 support funding cannot be guaranteed, but would provide upside to the forecast should it be granted.

Conclusion

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

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

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

1 Accounting policies (continued)

Basic financial instruments

Trade and other debtors/creditors

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

Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the Company is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Exceptional items

Items that are material in size and non-recurring in nature are presented as exceptional items in the profit and loss account. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Company's underlying business performance. Events which may give rise to the classification of items as exceptional include restructuring of businesses, changes to business processes, gain or losses on the disposal or impairment of assets and other significant non-recurring gains or losses.

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

2 Turnover

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

All turnover arises from operations in the Isle of Man and is attributable to the company's principal activity.

3 Expenses and auditor's remuneration

The auditor's remuneration of £2,700 (2018: £1,600) for audit services was borne by another group undertaking.

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

4 Exceptional items

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

5 Staff numbers and costs

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

6 Directors' remuneration

None of the directors received any remuneration from the Company during the current and prior year. Directors of the Company are remunerated by fellow subsidiary companies within the group and the related cost is disclosed within the accounts of these companies.

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

7 Taxation

	2019 £000	2018 £000
Total tax expense recognised in the profit and loss account, other comprehensive income and equity		
<i>UK corporation tax</i>		
Current tax on loss for period	-	-
<i>IOM income tax</i>		
Current tax on profit/(loss) for period	-	-
Total current tax	-	-
<i>Deferred tax charge</i>		
Total deferred tax	-	-
Total tax	-	-
<i>Reconciliation of effective tax rate</i>		
Profit/(loss) for period	2	(128)
Total tax expense	-	-
Profit/(loss) excluding taxation	2	(128)
Tax using the UK corporation tax rate of 19.0% (2018: 0%)	-	-
<i>Effects of:</i>		
Total tax expense included in profit and loss	-	-

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

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

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

8 Debtors

	2019	2018
	£000	£000
Trade debtors	22	22
Amounts due from group undertakings	134	134
Non-cash provision against amounts due from group undertakings	(134)	(134)
	<u>22</u>	<u>22</u>

The amounts due from group undertakings are unsecured and repayable on demand. No interest is charged.

9 Creditors: amounts due within one year

	2019	2018
	£000	£000
Trade creditors	4	1
Accruals	2	6
Other creditors	158	159
	<u>164</u>	<u>166</u>

10 Share capital, reserves and other comprehensive income

	2019	2019	2018	2018
	No. of shares	£000	No. of shares	£000
<i>Allotted, called up and fully paid:</i>				
Ordinary shares of £1 each	90,000	90	90,000	90
Total		<u>90</u>		<u>90</u>
Shares classified as liabilities	-	-	-	-
Shares classified as equity	90,000	90	90,000	90
Total		<u>90</u>		<u>90</u>

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

Other comprehensive income

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

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

11 Related parties

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

As detailed in note 1, from 30 April 2019 the Mericourt Group, which was previously part of the Group headed by Elli Investments Limited (EIL), ceased to be controlled by EIL. Group entities continue to have transactions with the Group headed by Rhyme (Jersey) Limited, which was also controlled by EIL until 30 April 2019. Transactions between the Mericourt Group and Rhyme (Jersey) Group during the years ended 31 December 2019 and 31 December 2018 include rental of property from Rhyme (Jersey) Group, the recharging of central operational costs to Rhyme (Jersey) Group, and interest on loan balances due to / from Rhyme (Jersey) Group. The exemption in FRS 102 Chapter 33.1 A applies to these transactions up to 30 April 2019. Due to the cessation of control by EIL, Mericourt Group and Rhyme (Jersey) Group ceased to be 'related parties' from 30 April 2019.

Where balances remain outstanding between the Mericourt Group and Rhyme (Jersey) Group at 31 December 2019, these have been disclosed within the debtors and creditors notes as amounts due to / from connected parties along with any provisions against debtor balances. Balances at 31 December 2018 between Mericourt Group and Rhyme (Jersey) Group are disclosed within amounts due to / from group undertakings.

12 Ultimate parent

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

As at 31 December 2019, the ultimate parent undertaking is Terra Firma Holdings Limited, an entity incorporated in Guernsey.

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

13 Accounting estimates and judgements

Key sources of estimation uncertainty

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

Going concern basis of preparation

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

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

13 Accounting estimates and judgements *(continued)*

Recoverability of trade debtors

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

Recoverability of amounts owed by related undertakings

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

Treatment of items as exceptional

The Company has presented items as exceptional within the profit and loss account and other comprehensive income. These are items of income and expense which the directors believe are material in size and non-recurring in nature, and this disclosure helps to provide clarity over the business' underlying performance. These items may include the profit or loss on disposal of properties, fixed asset impairments and reversal of impairments, movements on onerous lease provisions, costs relating to the balance sheet restructuring exercise, credits on disposal of negative goodwill and certain project costs. Judgement is required in ensuring that only items that meet the definition in the accounting policy are separately presented as exceptional items. See note 4 for details of the exceptional items.

14 Post balance sheet events

Covid-19

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

Group Restructuring

During 2020 and up to the date of approval of these financial statements, a number of activities have been ongoing as part of the EIL Group Restructuring. These have included the continuation of the leasehold estate review, the sale and purchase agreement in respect of the business and assets of certain sites within a different division of the EIL group, trading as Huntercombe, which completed on 5 March 2021, and the announced sales process in respect of certain Care Home sites in Northern Ireland. Whilst these processes have no direct impact on the Company, they are relevant to the overall financial position of the EIL Group which indirectly impacts the company as cash is managed on a central basis. The Company could also be affected by the future form and implementation of the EIL Group restructuring. See note 1 for further details on the potential impact of the EIL Group restructuring on the company's ability to continue as a going concern.