
CARE UK HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2020

CARE UK HOLDINGS LIMITED

COMPANY INFORMATION

Directors	A R Knight (appointed 31 October 2019) M A Rosenberg (appointed 31 October 2019) M R Parish (appointed 5 May 2010) P J Whitecross (appointed 12 December 2014) R P Moores (appointed 16 February 2010) J R Wyatt (appointed 23 May 2019)
Registered number	07158142
Registered office	Connaught House 850 The Crescent Colchester Business Park Colchester Essex CO4 9QB
Independent auditor's	KPMG LLP Botanic House 100 Hills Road Cambridge CB2 1AR
Bankers	HSBC Bank Plc Midland House 26 North Station Road Colchester Essex CO1 1SY

CARE UK HOLDINGS LIMITED

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CARE UK HOLDINGS LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2020

Introduction

The directors are pleased to present their Strategic Report for the year ended 30 September 2020.

The Company changed its name from Care UK Health and Social Care Holdings Limited to Care UK Holdings Limited effective from 29 October 2020.

Care UK Holdings Limited is the ultimate controlling parent company of the group.

The Group and Company transitioned to FRS 102 from International Financial Reporting Standards as at 1 October 2018. The prior year numbers have been restated to show FRS 102 disclosures.

Care UK Holdings (“the Group”) ongoing strategy is to help older people live happier, healthier and more fulfilling lives. We aim to achieve this by developing and operating both existing and new care homes. Modern and well-maintained facilities are important to good quality care and the Group will continue to update existing care homes and to build new homes through the most extensive programme in the sector with 127 care homes providing over 8,000 beds. Whether our customers are publicly or privately funded, the Group will not compromise on meeting individual needs. We have retained market-leading regulator ratings, with 85% of our homes rated Good or Outstanding. This remains the highest level of compliance of similar large suppliers, and meant that in England we outperformed the market by 15ppts on residential homes and 5ppts on residential homes. We also continue to operate 18 Outstanding-rated homes, which is more than any other UK provider.

** Figures quoted as at 30 September 2020. CQC compliance: nursing 77.5% whole market v 82.6% Care UK; residential 84.9% whole market v 100% Care UK

Chairman's Statement

2020 was a year like no other, not just for Care UK or the wider care sector but for millions of people across the world. Well-structured business plans were put aside as we did our best to respond to the effects of an unforeseen pandemic. Ironically, we enjoyed a strong start to our financial year but the pandemic turned the world upside down, deeply impacting residents and their families, colleagues and our business.

At the beginning of the financial year we successfully sold the healthcare division of the group as part of a strategic re-positioning to focus on Care UK's roots which is to provide outstanding residential care for older people. This placed us in a stronger position to deal with the impact of the pandemic which followed. I'm proud of the actions we subsequently took to protect people throughout this most challenging of periods. Our colleagues were never without the protective equipment they needed and their dedication has been truly inspiring. We are also incredibly grateful to the families who worked in partnership with us, showing incredible patience and support as we collectively navigated our way through the pandemic.

This year's accounts reflect the scale of challenge we faced with a decline in revenue and profitability. Despite this and thanks in part to important government assistance and further financial support from our shareholder, we have been able to maintain a sound capital structure. It also meant that we have been able to continue with our long term plan to deliver the best care by investing in our services, our current homes and in the development of new homes. Critically we were also able in the short-term to invest heavily in the provision of PPE, better communications technology, enhanced infection control measures and the creation of Covid-secure environments to support family connections. We also introduced a number of staff reward and recognition initiatives, as well as additional investments to better support their health and wellbeing.

Against this most difficult backdrop we reduced debt levels thanks to the £160m generated on the sale of the healthcare division and a refinancing which saw annual interest payments drop from £25.7 to £17.0m. Capital expenditure on our existing care homes reached £14.1m and six new care homes were built with an additional four under development.

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GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Today we are seeing occupancy levels recover and, with the benefit of vaccination, we look forward with a strong sense of hope and pride. Our outlook is positive, with an expectation of a return to increased profitability within the next two years. We continue to maintain our commitment to investment in quality and growth. While these accounts show the extent of the financial hardship we have suffered, they fail to capture the human aspect of what occurred during this period. I am deeply saddened by the loss of so many of our residents to Covid-19 and am painfully aware of the impact on their loved ones and our staff and send each and every one of them affected my deepest condolences.

I am pleased to report that we are welcoming new residents as well as families back into our homes and starting to see visiting returning to something near normal.

Business review

Overall Group

The table below summarises the key performance indicators for 2020 and 2019:

	2020	2019
Revenue (for continuing operations) £m	401.0	735.6
Adjusted EBITDA £m	25.8	36.8
Operating loss £m	(15.5)	(4.7)

The key change that resulted in the reduction in the group turnover was the sale of the healthcare division which is referenced below.

The other key performance indicators of the group are disclosed further below.

Care Home Operations

The main drivers affecting results of continuing operations are:

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

The table below summarises the key performance indicators for 2020 and 2019:

	2020	2019
Average financial occupancy**	83.3%	87.6%
Privately funded residents % of annual bed based revenue	49.7%	49.6%
Number of beds	8,485	8,014
Average weekly fee £	991	946

* For the definition of Adjusted EBITDA see note 2.27. The Adjusted underlying EBITDA is the Adjusted EBITDA after adjusting for start up losses on new homes

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

Operating result and activities of the continuing business

During the financial year ending 30 September 2020, the Group has been responding to the Covid-19 virus pandemic. As reported extensively in the media, the care sector together with the NHS has been at the forefront of this and the impact on occupancy and ultimately business performance has been significant.

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GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

We invested in the health, safety and wellbeing of those living and working in our homes throughout the pandemic. This included ensuring an appropriate and continuous supply of PPE, and putting additional resource behind colleague wellbeing via our employee support line, access to third party wellbeing tools and a partnership with Marie Curie to provide grief counselling. We also provided additional recognition and reward for those who worked through the pandemic and put in place new digital communications tools to help drive colleague engagement.

As a result, average physical occupancy has reduced to 79.9% (2019: 85.3%) during the year. Government funding and additional NHS and Local Authority short term contracts as a response to the Covid-19 pandemic have partially mitigated this impact in the second half of the financial year, resulting in revenue increasing year on year by 6.2% (2019: 8.7%) and underlying bed income increased year on year by 3.1% (2019: 9.4%). Gross profit decreased to £15.5m (2019: £32.9m) and adjusted underlying EBITDA decreased to £31.7m (2019: £42.4m)* over the same period as a result of the reduced occupancy and additional costs relating to the pandemic.

During the year, the Group opened nine new homes, closed and sold three care homes and benefited from a full year of trading in respect of the homes which opened in the prior year. The net increase in beds is 471 (5.9%), which brings total beds at 30 September 2020 to 8,485 (2019: 8,014).

A review of the carrying value of the residential care homes has been conducted again as well as a review of our lease commitments for any onerous contracts. The impairment value this year was £5.3m (2019: £3.5m) while the onerous lease provision created in 2015 was increased to £14.7m (2019: £10.1m). The original provision was created due to the combination of the impact of the National Living Wage as well as Local Authority funding shortfalls restricting fee growth resulting in a disconnect between income and costs. The increase of the provision to 30th September 2020 is driven by the decision to close one care home after the year end date.

During the year the Group was able to access numerous grants as a result of the Covid-19 pandemic, details of these grants are included in note 5.

Business review - Property division

The Key Performance Indicators (KPIs) used by the group to measure performance are number of sites in construction, number of sites completed in the year & now rented and the number of land purchases in the year. There is also a healthy growth pipeline with land deposits paid on a further 7 sites. At the balance sheet date the KPIs were as follows:

30 September 2020

Sites in construction	4
Sites completed and now rented	6
Deposits paid on other sites with planning pending	7

As at 30 September 2020 the property division had completed freehold property with a net book value of £77.7m and associated debt of £37.9m, In addition there were sites in construction with a net book value of £38.6m and associated debt of £9.8m. During the period the group invested in assets to the value of £27.5m.

Business Review - Healthcare division (discontinued operation)

The sale of the Healthcare division of the Group, agreed in the prior year, completed on 25 October 2019, generating proceeds of £212.2m and a profit on sale of £160.2m. On 25 October 2019 debt of £55m was repaid on the Facility B term loan from the proceeds of sale. The Healthcare division is shown as discontinued in these financial statements and contributed £26.9m revenue and £1.3m profit during the financial year.

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**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

Non-recurring items

The Group separately identifies and discloses certain items, referred to as non-recurring items, by virtue of size, nature and occurrence. This is consistent with the way the financial performance is measured by management (see note 2.27 Non-GAAP financial measures) and assists in providing a meaningful analysis of operating results by excluding items that may not be indicative of the operating results of the business. Non-recurring items included in the year ended 30 September 2020 amounted to a charge of £7.5m in aggregate (2019: £2.9m). The key elements of the charges for both years on a continuing basis are set out in the following table, see note 13 for further details:

	2020	2019
	£m	£m
Property related costs	0.2	1.2
Restructuring	-	0.3
Abortive transaction costs	-	1.4
CMA upfront admission fee legal costs	0.7	-
CHC redress and associated costs	1.6	-
Onerous lease provision movement	5.0	-
	<u>7.5</u>	<u>2.9</u>

Net financing expense

Net financing expenses increased by £2.3m during the year from £63.7m to £66.0m. The majority of the financing expense of £44m relates to interest and preference share dividends accrued on shareholder debt. The interest charge on the Group's term loan and revolving credit facilities amounted to £17.0m and was cash paid other than the Payment-in-kind (PIK) interest of £1.6m which resulted from the Group's renegotiation of its term loan during the year in response to the impact of the Covid-19 pandemic. Non-cash elements of the finance expense include the amortisation of loan arrangement fees.

Taxation

The taxation charge reduced from a charge of £1.3m during the year ended 30 September 2019 to a credit of £2.6m during the year ended 30 September 2020, as a result of the impact on Covid-19 on the results of the business.

Future developments

The Group continues its strategy to invest in enhancing existing care homes and developing new care homes aimed at the privately funded market. Further growth is expected in the coming years in the number of homes and beds with 15 homes in the construction pipeline. The Group also continues to invest in its operating systems and IT infrastructure.

Net debt and Cash flow

The Group manages its capital through focusing on its net debt which includes cash, and financial liabilities including a Term Loan and a Revolving Credit Facility (RCF). The Group does not include instruments issued to investors within its definition of net debt and hence they are excluded from the net debt table below:

	2020	2019
	£m	£m
Cash	73.1	56.1
Term loan	(201.5)	(250.0)
Revolving credit facility	(20.0)	-
Debt linked to development operations	(47.7)	(31.9)
Arrangement fees	7.6	8.5
	<u>(188.5)</u>	<u>(217.3)</u>

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**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

The Group benefited from a reduction in net debt of £28.8m during the year, due to the repayment of debt following the disposal of the Healthcare division.

On 20 September 2020, in response to the impact of the Covid-19 pandemic, the Group refinanced the funding arrangements under the Facility B Term Loan, to obtain support in the form of a financial covenant waiver through to the quarter end September 2021. The refinancing also triggered a fair value adjustment which has been disclosed in the financial statements. In addition, this allowed for a liquidity injection of up to £15m from the bank in the form of Payment-in-Kind (PIK) interest on the term loan. As at the year end, £1.6m of PIK interest has been rolled into the loan.

Operating cashflows decreased from £49.8m to £26.9m, principally driven by the impact of Covid-19 on the business.

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GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Principal risks and uncertainties

The board of directors have the overall responsibility for The Group's approach to assessing risk and the senior management teams are responsible for managing risk and maintaining appropriate control environments.

The principal risks faced by the Group are set out below:

Covid-19

During the financial year ending 30 September 2020, the world has been fighting the Covid-19 virus pandemic. As reported extensively in the media, the care sector together with the NHS has been at the forefront of this, and the impact has been significant.

As at the date of signing the accounts, the UK has emerged from the 3rd national lockdown, and the rollout of a vaccination programme is well progressed, however precautionary measures and restrictions remain in place.

The Board and Management have taken steps to steer their way through this crisis, however the impact on the Group has been considerable. There has been a deduction in occupancy rates and an increase in operating costs including the purchase of Personal Protective Equipment (PPE), introducing additional infection control measures, implementing testing and vaccination programmes, and facilitating visitation of relatives.

Key metrics have been, and continue to be, monitored closely by the Board and Management, such as: home level outbreaks, test results and vaccination coverage; occupancy, staffing levels and Covid-19 related sickness; supply of PPE and mobilisation of infection control measures. Management have worked alongside key suppliers, in particular of PPE, visitation and infection control equipment, agency workers, food and medicines, in order to mitigate any shortage in supply. They have also been working with local authorities, CCGs, NHS, relatives, and residents to provide reassurance and the best possible care for our residents, despite these difficult circumstances.

Government support to the sector, and therefore the group, has been important throughout this pandemic. Covid-19 support funding streams have been provided direct by local authorities, as well as nationally led funding in the form of the Coronavirus Job Retention Scheme ('Furlough') and the Infection Control Fund (ICF). Claims have been made against these funds, as detailed in note 5 to the accounts.

The impact of the virus has had a significant impact on the Group's profitability and cashflow.

Due to the inherent unpredictable nature of the crisis the Directors cannot readily determine the medium to long term impact of the crisis upon the Group, including:

- i the extent of NHS / Local Authority and privately funded demand for vacant beds, and the associated speed of admissions recovery;
- ii the degree of continued financial support from the Government, as the care sector emerges from Covid-19 operating restrictions;
- iii the impact of ongoing Covid-19 related precautionary measures and restrictions, on rates of admission and the operations (and associated costs) of the business in the medium to long term; and
- iv the impact of new Covid-19 virus variants and mutations on the efficacy of the current vaccines, and associated speed of scientific response to develop new versions and mobilisation of vaccination programmes to control the rate of spread.

Based on the above bank support, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. Nevertheless, the Directors consider the downside risks of COVID-19 on the group's occupancy levels and cashflows to represent a material uncertainty that may cast doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Competition and Markets Authority (“CMA”)

In February 2019 the CMA issued a claim against the Group under the Enterprise Act 2002. The claim relates to past conduct when the Group used to charge a one-off upfront admission fee. The Group stopped charging this fee in August 2018. Care UK has taken advice from specialist legal counsel and believes that it is in a strong position to defend the claim and accordingly no provision for redress has been made in the statutory accounts. An exceptional (non-recurring) charge of £0.7m has been included in these financial statements for costs associated with defending this claim.

Market risks

The Group relies on providing services to publicly funded entities in the United Kingdom such as Local Authorities and the NHS, typically through Clinical Commissioning Groups, for a proportion of its revenue and any material reduction in the revenue earned from such services could adversely impact the Group’s business, results of operations and financial condition.

A proportion of revenue is derived from contracts with these bodies, and if the Group is unable to renew them or replace them with comparable contracts, it could suffer a substantial reduction in revenues.

These risks are mitigated by a diversified by contract income stream, sector leading quality and strong relationship management.

The Group’s strategy is partly based on growth derived from increased levels of consumer demand for certain of its services or the increased influence of consumers in the choice of the provider of care to them and, as a result, its future growth is dependent on maintaining the quality of its services, consumer perception of that quality and on its ability to market these services effectively.

This risk is mitigated by sector leading quality, investment in marketing and close attention to consumer needs and expectations.

Inflation risks

The Group earns revenue from long term contracts and, as a result, a failure accurately to predict and account for future cost increases or to overestimate its ability to efficiently deliver the services that it contracts to provide could affect its profitability.

Future changes in the rate of the National Living Wage (“NLW”) will have a significant impact on labour costs for the social care sector and level of recovery through fee increases is uncertain. Failure to recover such costs would have a negative impact on margin.

This risk is mitigated by careful cost control.

Regulatory risks

The Group operates in a highly regulated business environment and failure to comply with regulations could lead to substantial penalties, including embargo of new resident admissions through to the loss of the registration certificates necessary to continue to trade.

The Group operates stringent quality policies and procedures, together with rigorous internal governance audit and oversight to ensure the safety of our residents.

Liquidity risk

The Group has access to a Revolving Credit Facility (RCF) for managing working capital requirements. In addition to this, the Group is funded by a Facility term loan (Facility B Term loan). Covenants apply to these funding arrangements which limit operating and financial flexibility if the Group defaults under these covenants.

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GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

The financing and debt arrangements are subject to an element of variable interest rates and any increases in interest rates in the future could significantly increase costs and reduce cash flow.

There is also a risk, due to macroeconomic factors, that long-term financing, including for the development of new facilities or modifications of existing facilities, may not be available on acceptable terms in the future.

The Group's activities and debt financing expose it to a variety of financial risks, the most significant of which are cash flow interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise potential adverse impacts on its financial performance.

Strong working relationships are maintained with our banking partners, to facilitate the regular provision of compliance reporting, and oversight of key issues impacting the business. In addition, prudent liquidity management policies are applied that include the preparation of regular detailed cash flow forecasts to monitor liquidity and compliance with the covenants.

Credit risk

A large proportion of the Group's revenue is derived from privately funded customers, and as a result there is potential exposure to credit risk.

The risk of an extended recessionary period and weak macro economic conditions generally may have an adverse effect on personal disposable income and/or the values of assets available to pay for care fees.

The risk is not considered material, and adequate provisions are made in the financial statements.

Directors' statement of compliance with duty to promote the success of the Group

Corporate governance

The Board consider the annual report and financial statements to comply with the Wates Principles of corporate governance, as outlined below:

Our vision and values

Care UK want to be the UK's favourite care provider, helping residents lead fulfilling lives. Care UK will do this by being the best operator, delivering the best care and quality and investing in its people and environments.

- Fulfilling Lives is the core purpose
- "Every one of us makes a difference" is the belief that drives Care UK
- Caring, Passionate and Teamwork are the values that underpin everything Care UK does

Fulfilling lives has given Care UK a framework to focus on our key strategic priorities for care quality, and increasingly it has become an approach that informs every aspect of the business. Care UK's Board has developed a strategy and business model to generate long-term sustainable value.

Care UK can only deliver Fulfilling lives if everyone commits to living the values in everything Care UK does. The Board, shareholders and management are committed to these values and have ensured they are embedded into the functions and operations of the business, including care quality governance, employment practices, risk management and compliance frameworks. This is monitored through resident and relatives feedback surveys and studies, Care UK's Colleague Voices employee engagement programme and working closely with regulators.

CARE UK HOLDINGS LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Board composition, responsibilities, and obligations

Care UK's Board comprises six Individuals, four of whom are non-executive and two executives, the CEO and CFO. Two of the non-executives represent the majority shareholder. The Chairperson is also an independent non-executive.

Board members possess the required combination of skills, backgrounds, experience and knowledge for their roles to: provide constructive challenge and criticism; enable effective decision-making; and to promote responsibility, integrity and accountability through its corporate governance practices.

Full Board meetings are held monthly and the following sub-committees are in place:

- The Audit Committee,
- The Remuneration Committee

These committees are chaired by Non-Executives and meet as required. The Board retains responsibility for all final decisions.

The terms of each committee are set out in the Delegation of Authorities Matrix, including authorities delegated to it.

The Board act in the way they consider, in good faith, are most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

- a) The likely consequences of any decision in the long term;
- b) The interests of the company's employees;
- c) The need to foster the company's business relationships with suppliers, customers and others;
- d) The impact of the company's operations on the community and the environment;
- e) The desirability of the company maintaining a reputation for high standards of business conduct; and
- f) The need to act fairly as between members of the company

The Board continuously review governance processes to ensure that they remain fit for purpose.

Opportunity and risk

Creating and preserving value over the long-term is of paramount importance to the Board, who regularly assess the sources of value, both tangible and intangible, and the stakeholders that contribute to it. All new business opportunities to create value, and threats that may adversely impact value, are reviewed, considered, mitigated and approved, as appropriate, at board level.

The Board has responsibility for the organisation's overall approach to strategic decision-making and effective risk management, with oversight of risk and how they are managed, and appropriate accountability to stakeholders. The Board has established an internal control framework and systems that are in place to manage and mitigate both emerging and principal risks.

Remuneration

The Board has established executive remuneration structures that are aligned with performance, behaviours, and the achievement of company purpose, values and the delivery of long-term sustainable success. This takes account of the broader operating context, including the pay and conditions of the wider workforce and the company's response to matters such as any gender pay gap.

Remuneration decisions have been delegated to the Remuneration Committee, which is chaired by a Non-Executive Director. It is responsible for designing remuneration policies and structures for Directors, senior management, and the wider organisation.

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**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

Stakeholder relationships and engagement

The Board foster effective stakeholder relationships aligned to the Group's purpose. The Board oversees meaningful engagement with stakeholders and has regard to their views when taking decisions. Stakeholders include the workforce, customers and suppliers, regulators, creditors, and community groups.

In this context, acting in good faith and fairly, the directors consider what is most likely to promote the success of the group for its members in the long term.

During the year ended 30th September 2020 the key decisions made by the board of directors which were determined to have a long-term impact on the business were:

- i In response to the Covid-19 pandemic, on 20 September 2020, to refinance the Term Loan (Facility B), as outlined above
- ii On 25 October 2019, to divest the Group's interest in the Healthcare division, as outlined above
- iii Disposal of 3 care homes generating net proceeds of £7.4m

The Group recognises the potential impact of these key decisions on our business operations. Our corporate responsibility is to provide long-term prosperity to stakeholders by balancing the social, economic and environmental choices we make. We actively promote safe ethical and sustainable working practices, and the Group's adherence to these principles will continue to be the bedrock for long-term success.

This report was approved by the board on 29 June 2021 and signed on its behalf.



M A Rosenberg
Director

CARE UK HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2020

The directors present their report and the financial statements for the year ended 30 September 2020.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the groups profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the the parent company and the group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to also safeguard the assets of the the parent company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity

The Care UK Holdings Limited Group's ("the Group") principal activity during the year was the development and operation of nursing and residential care homes for the elderly.

Care UK Holdings Limited is a holding company.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Results and dividends

The profit for the year, after taxation, amounted to £80 million (2019 - loss of £67 million).

Dividends of £nil (2019: £nil) were paid in the year.

Internal dividends of £70.2m (2019: £nil) were received in the year by the parent company.

The review of the business is included in the Strategic Report.

The Group and Company transitioned to FRS 102 from International Financial Reporting Standards as at 1 October 2018. The prior year numbers have been restated to show FRS 102 disclosures.

Post Balance Sheet Events

In March 2021 the Directors decided to close a care home, as it was no longer fit for purpose. This has resulted in an onerous lease provision of £3.8m. The directors are currently considering the options for this care home.

On 3 November 2020, the Board of directors decided to divest the Group's interest in Ellerash Limited, a subsidiary legal entity that operated one care home. Net proceeds of £1.1m resulted from this sale.

Directors

The directors who served during the year were:

A R Knight (appointed 31 October 2019)
M A Rosenberg (appointed 31 October 2019)
M R Parish (appointed 5 May 2010)
P J Whitecross (appointed 12 December 2014)
R P Moores (appointed 16 February 2010)
J R Wyatt (appointed 23 May 2019)

Future developments

Future developments is referred to in the Strategic Report.

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DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Section 172(1) statement

The Board of Directors consider the interests of key stakeholders when performing their duties to promote the long-term success of the group. Outlined below the directors explain how they:

- engage with employees, suppliers, customers and others; and
- have had regard to the employee interests, the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regards, including the principal decisions taken by the company during the financial year.

Engagement with regulators

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

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

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

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

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

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

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

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

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

CARE UK HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

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

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

The Group fosters strong working relationships with its regulators to drive the best quality of care, in line with our strategic values.

Engagement with suppliers and customers

It is recognised that it is essential for the continued success and reputation of the Group to maintain positive relationships with our customers, suppliers and our financing partners.

The group regularly reviews how it engages with these stakeholders. This is achieved through the transfer of information provided by senior management and by direct engagement with the stakeholders themselves.

We are committed to providing consistent, high quality service to our customers and regularly engage with our residents and relatives to ask for their feedback. We use this feedback to develop robust action plans to ensure we have a programme of continuous improvement. We encourage openness and the honest reporting of any issues and, in the event of any performance or service shortcomings, we ensure a full and open review is carried out and shared widely.

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

Strong working relationships are maintained with our financing partners, to facilitate the regular provision of compliance reporting, and oversight of key issues impacting the business.

Engagement with employees (colleagues)

The group believes we thrive because our people love what they do and because they connect with our core value – to fulfil lives.

We want our people to flourish and be positive advocates of our organisation. We are committed to providing an engaging and inclusive environment for everyone who works with us regardless of their background, beliefs or personal context. We promote policies that ensure equal opportunities for all colleagues regardless of factors such as gender, marital status, race, age, sexual preference and orientation or ethnic origin.

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

	2020		2019	
	Male %	Female %	Male %	Female %
Board of directors	100	-	100	-
Senior managers*	60	40	60	40
Other employees	17	83	17	83

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

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

CARE UK HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

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

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

We communicate with our people through a range of channels including face to face meetings and forums, newsletters and most importantly our intranet, which is available to colleagues both in the workplace and via their personal mobile devices.

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

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

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

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

Engagement with local communities

We understand that as a Group we impact directly on the communities in which we operate and therefore we ensure all of our decision-making is supported by analysis of impacts both internal to our organisation and external. We are constantly striving to find better ways to deliver our services.

Key social and community issues for us include considering how we can have a positive impact on our local social and business community. The ways in which we can achieve this include the following:

- Colleague participation in local community help schemes
- Colleague participation in national charity fundraising events
- 'Matched Funding - Working with The Community' scheme, whereby every year, hundreds of colleagues take part in fundraising for their favourite charities.
- Annual fund raising events in our main offices (e.g. the BBC 'Children in Need' appeal).

CARE UK HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Greenhouse gas emissions, energy consumption and energy efficiency action

Energy efficiency actions taken this year

As described in the Strategic Report, from March 2020 the Group had to focus all employee activity to protecting residents and colleagues from Covid-19. This meant that less effort was put into increasing our energy efficiency through our colleagues and employees than we planned, but we continued to improve our energy efficiency through our facilities maintenance policy and New Build design specification.

Colleague engagement is achieved through our Eco-Ambassadors Campaign. This comprises colleagues who volunteer to act as the 'environmental conscience' of their home by demonstrating and encouraging energy and water saving best practice amongst their colleagues. Due to Covid-19 less effort was put into this area than normal but we used this opportunity to prepare a new intranet site and training materials to re-launch this initiative once the pandemic is over.

The facilities maintenance policy stipulates that when an energy consuming asset needs replacing we install the most energy efficient solution within the constraints of the relevant statutory specification. So, for example, we continued to replace fluorescent lamps with LED lamps. The policy also ensures that we are continually optimising the performance of our energy saving assets – such as the combined heating and power units.

The New Build design specification contributes to our efforts to reduce emissions by including the requirement to fit energy efficient assets such as solar PV (photo-voltaic) or combined heat and power units, install electric vehicle charging points where practical and operate travel plans to minimise our employee business travel emissions.

Streamlined Energy and Carbon Reporting (SECR) Methodology

Energy Consumption and Emissions: Our consumption was collected using the energy bills from our suppliers except for electricity in one home where we pay for the electricity via the service charge. The emissions were calculated from the kWh using the 2020 conversion factors published on the government's SECR website.

Transport and Business Travel Emissions: We do not directly purchase any fuel for transport. The business travel mileage was collected from the employee expenses claim system. The related emissions were calculated from the miles using the conversion factors published on the government's SECR website.

Summary of greenhouse annualised gas emissions and energy consumption for the financial year:

Metric	Unit	Value
Energy consumption used to calculate emissions:	Kwh	94,954,961
Emissions from combustion of gas	tCO ₂ e	11,990
Emissions from combustion of fuel for transport purposes	tCO ₂ e	-
Emissions from business travel	tCO ₂ e	129
Emissions from purchased electricity	tCO ₂ e	6,978
Total gross emissions	tCO ₂ e	19,097
Intensity factor:	Care Home	
	kgCO ₂ e	
	per Bed	2,282.9

Intensity Factor

In selecting the intensity factor that would give the best indication of our energy efficiency overall it was noted that i) 99.3% of our emissions are from gas and electricity (only 0.3% from travel), and ii) 99.4% of our gas and electricity is used by the care homes. Therefore we decided that the most representative intensity factor for the business as a whole would be one that normalised the emissions from the care homes. We also decided that the simplest measure of their output is the number of beds in the home. Therefore the intensity metric we chose for the group is "Care Home emissions per bed".

CARE UK HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020

Human rights

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

Anti-corruption and bribery

It is our policy to conduct all of our business in an honest and ethical way. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate. The requirement to comply with Care UK's internal policies forms part of an individual's terms of employment and there are processes available to deal with instances of non-compliance. Care UK believes these policies operate effectively and also recognises the importance of robust processes to mitigate against both the likelihood and the impact of risks crystallising.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

Auditors

The auditors, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 29 June 2021 and signed on its behalf.



M A Rosenberg
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE UK HOLDINGS LIMITED

Opinion

We have audited the financial statements of Care UK Holdings Limited (the 'parent Company') for the year ended 30 September 2020, which comprise the Group Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes, including the accounting policies in note 2..

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.4 to the financial statements which indicates the downside risks of COVID-19 on the group's occupancy levels and cashflows and the impact this might have on the group's ability to meet its bank covenants. These events and conditions, along with other matters explained in 2.4, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern.

Strategic report and directors' report

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARE UK HOLDINGS LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Director's responsibilities

As explained more fully in their statement on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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



**Ian Brokenshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants**

Regus, 4th Floor
Salt Quay House
6 North East Quay
Plymouth PL4 0HP
29 June 2021

CARE UK HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Note	Continuing operations 2020 £m	Discontin'd operations 2020 £m	Total 2020 £m	Continuing operations 2019 £m	Discontin'd operations 2019 £m	Total 2019 £m
Turnover	4	363.6	26.9	390.5	354.3	381.3	735.6
Cost of sales		(345.9)	(23.4)	(369.3)	(321.1)	(341.7)	(662.8)
Gross profit		17.7	3.5	21.2	33.2	39.6	72.8
Administrative expenses		(37.8)	(1.9)	(39.7)	(37.2)	(37.5)	(74.7)
Non recurring costs	12	(7.5)	-	(7.5)	(2.9)	-	(2.9)
Other income	5	10.5	-	10.5	0.1	-	0.1
Operating loss		(17.1)	1.6	(15.5)	(6.8)	2.1	(4.7)
Adjusted EBITDA (earnings before, interest, taxation, depreciation, amortisation and non- recurring items)		24.3	1.6	25.9	30.1	20.4	50.5
Depreciation of tangible assets		(20.3)	-	(20.3)	(18.6)	(9.7)	(28.3)
Adjusted operating profit		4.0	1.6	5.6	11.5	10.7	22.2
Amortisation		(6.7)	-	(6.7)	(8.5)	(8.6)	(17.1)
Loss on disposal of tangible fixed assets		(0.1)	-	(0.1)	(2.2)	-	(2.2)
Impairment of tangible fixed assets		(5.3)	-	(5.3)	(3.5)	-	(3.5)
Non-recurring items		(7.5)	-	(7.5)	(2.9)	-	(2.9)
Straightline rent accounting		(1.5)	-	(1.5)	(1.2)	-	(1.2)
Operating loss		(17.1)	1.6	(15.5)	(6.8)	2.1	(4.7)
Sale of Healthcare division		-	160.2	160.2	-	-	-
Interest receivable and similar income		0.1	-	0.1	1.4	-	1.4
Interest payable and similar expenses		(66.1)	-	(66.1)	(62.4)	-	(62.4)
Other finance income		-	-	-	0.1	-	0.1
Profit/(loss) before tax		(83.1)	161.8	78.7	(67.7)	2.1	(65.6)
Tax on profit/(loss)	11	2.0	(0.3)	1.7	(0.7)	(0.6)	(1.3)
Profit/(loss) for the financial year		(81.1)	161.5	80.4	(68.4)	1.5	(66.9)

CARE UK HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

**Other comprehensive
income for the year**

Actuarial losses on defined benefit pension scheme	(1.0)	(2.9)
Movement of deferred tax relating to pension surplus	0.2	0.5
Other comprehensive income for the year	<u>(0.8)</u>	<u>(2.4)</u>

**Total comprehensive
income for the year**

<u>79.6</u>	<u>(69.3)</u>
-------------	---------------

**Profit for the year
attributable to:**

Owners of the parent company	(81.1)	161.5	80.4	(68.4)	1.5	(66.9)
	<u>(81.1)</u>	<u>161.5</u>	<u>80.4</u>	<u>(68.4)</u>	<u>1.5</u>	<u>(66.9)</u>

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED
REGISTERED NUMBER: 07158142

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Note	2020 £m	2019 £m
Fixed assets			
Intangible assets	13	37.2	106.1
Tangible assets	14	298.3	306.8
		<u>335.5</u>	<u>412.9</u>
Current assets			
Stocks	16	0.5	2.3
Debtors	17	60.8	95.5
Bank and cash balances	18	73.1	56.1
		<u>134.4</u>	<u>153.9</u>
Creditors: amounts falling due within one year	19	(88.3)	(222.9)
Net current assets/(liabilities)		<u>46.1</u>	<u>(69.0)</u>
Total assets less current liabilities		<u>381.6</u>	<u>343.9</u>
Creditors: amounts falling due after more than one year	20	(913.3)	(961.0)
Provisions for liabilities			
Other provisions	24	(28.1)	(22.8)
		<u>(28.1)</u>	<u>(22.8)</u>
Net assets excluding pension liability		<u>(559.8)</u>	<u>(639.9)</u>
Pension liability		(4.6)	(4.1)
Net liabilities		<u>(564.4)</u>	<u>(644.0)</u>
Capital and reserves			
Share premium account	26	4.7	4.7
Other reserves	26	78.8	78.8
Profit and loss account	26	(647.9)	(727.5)
Equity attributable to owners of the parent Company		<u>(564.4)</u>	<u>(644.0)</u>
		<u>(564.4)</u>	<u>(644.0)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 June 2021.

M A Rosenberg
 Director



CARE UK HOLDINGS LIMITED
REGISTERED NUMBER: 07158142

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Note	2020 £m	2019 £m
Fixed assets			
Investments	15	185.2	185.2
		<u>185.2</u>	<u>185.2</u>
Current assets			
Debtors	17	1.2	1.2
		<u>1.2</u>	<u>1.2</u>
Creditors: amounts falling due within one year	19	(2.2)	(72.1)
		<u>(1.0)</u>	<u>(70.9)</u>
Net current liabilities		(1.0)	(70.9)
Total assets less current liabilities		184.2	114.3
Creditors: amounts falling due after more than one year	20	(387.1)	(366.9)
		<u>(202.9)</u>	<u>(252.6)</u>
Net assets excluding pension liability		(202.9)	(252.6)
Net liabilities		(202.9)	(252.6)
Capital and reserves			
Share premium account	26	4.7	4.7
Profit and loss account brought forward		(257.3)	(234.7)
Profit/(loss) for the year		49.7	(22.6)
		<u>(207.6)</u>	<u>(257.3)</u>
Profit and loss account carried forward		<u>(202.9)</u>	<u>(252.6)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 June 2021.



M A Rosenberg
 Director

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Share premium account	Capital contribution reserve	Profit and loss account	Total equity
	£m	£m	£m	£m
At 1 October 2019	4.7	78.8	(727.5)	(644.0)
Comprehensive income for the year				
Profit for the year	-	-	80.4	80.4
Actuarial losses on pension scheme	-	-	(0.8)	(0.8)
Total comprehensive income for the year	-	-	79.6	79.6
At 30 September 2020	4.7	78.8	(647.9)	(564.4)

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share premium account	Capital contribution reserve	Profit and loss account	Total equity
	£m	£m	£m	£m
At 1 October 2018	4.7	78.8	(658.2)	(574.7)
Comprehensive income for the year				
Loss for the year	-	-	(66.9)	(66.9)
Actuarial losses on pension scheme	-	-	(2.4)	(2.4)
Total comprehensive income for the year	-	-	(69.3)	(69.3)
Total transactions with owners	-	-	-	-
At 30 September 2019	4.7	78.8	(727.5)	(644.0)

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Share premium account £m	Profit and loss account £m	Total equity £m
At 1 October 2019	4.7	(257.3)	(252.6)
Comprehensive income for the year			
Profit for the year	-	49.7	49.7
	<hr/>	<hr/>	<hr/>
At 30 September 2020	4.7	(207.6)	(202.9)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share premium account £m	Profit and loss account £m	Total equity £m
At 1 October 2018	4.7	(234.7)	(230.0)
Comprehensive income for the year			
Loss for the year	-	(22.6)	(22.6)
	<hr/>	<hr/>	<hr/>
At 30 September 2019	4.7	(257.3)	(252.6)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	2020 £m	2019 £m
Cash flows from operating activities		
Profit/(loss) for the financial year	80.4	(66.9)
Adjustments for:		
Amortisation of intangible assets	6.7	17.1
Depreciation of tangible assets	20.3	28.3
Impairments of tangible assets	5.3	3.5
(Profit) /loss on disposal of tangible assets	(2.3)	2.2
Interest expense	63.7	61.7
Interest income	(0.9)	(1.5)
Taxation charge	(1.7)	1.3
(Increase) in stocks	(0.1)	(0.3)
(Increase) in debtors	(4.0)	(4.0)
Increase in creditors	11.5	10.8
Increase in provisions	4.9	-
(Decrease) in net pension assets/liabilities	(0.6)	(0.5)
Net fair value losses recognised in P&L	2.9	-
Corporation tax received/(paid)	1.1	(1.8)
Profit on sale of investments	(160.2)	-
Net cash generated from operating activities	27.0	49.9
Cash flows from investing activities		
Purchase of tangible fixed assets	(40.4)	(28.7)
Sale of tangible fixed assets	10.8	6.1
Interest received	0.1	0.1
Cash arising on business (disposal) /combination	(7.9)	38.9
Sale of subsidiaries	212.2	-
Loans from/(to) related party undertakings	-	59.6
Net cash from investing activities	174.8	76.0

CARE UK HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	2020 £m	2019 £m
Cash flows from financing activities		
New secured loans	39.9	454.0
Repayment of loans	(207.7)	(511.4)
Interest paid	(17.0)	(25.7)
Net cash used in financing activities	(184.8)	(83.1)
Net increase in cash and cash equivalents	17.0	42.8
Cash and cash equivalents at beginning of year	56.1	13.3
Cash and cash equivalents at the end of year	73.1	56.1
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	73.1	56.1
	73.1	56.1

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

CONSOLIDATED ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	At 1 October 2019 £m	Cash flows £m	Acquisition and disposal of subsidiaries £m	At 30 September 2020 £m
Cash at bank and in hand	56.1	(187.3)	204.3	73.1
Debt due after 1 year	(273.4)	14.6	-	(258.8)
Debt due within 1 year	-	(2.8)	-	(2.8)
	<u>(217.3)</u>	<u>(175.5)</u>	<u>204.3</u>	<u>(188.5)</u>

The notes on pages 31 to 86 form part of these financial statements.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

1. General information

Care UK Holdings Limited ("the Company") is a private company, limited by shares and is incorporated and domiciled in England and Wales.

The Consolidated Financial Statements of the Company for the year ended 30 September 2020 comprise the company and its subsidiaries (together referred to as the "Group"). See note 37 for a full list of subsidiaries.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 on transition from International Financial Reporting Standards is given in note 37.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

Parent Company disclosure exemptions

In preparing the separate financial statements of the parent *Company*, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No disclosures have been given for the aggregate remuneration of the key management personnel of the parent *Company* as their remuneration is included in the totals for the Company as a whole.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The parent has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Care UK Holdings Limited as at 30 September 2020 and these financial statements may be obtained from Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.3 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

In accordance with the transitional exemption available in FRS 102, the group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 01 October 2018.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.4 Going concern

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report on page 1.

Notwithstanding the Care UK Holdings Ltd Group's loss before taxation for the year ended 30 September 2020 of £80.2m (after excluding the sale of the Healthcare division), the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

At 30 September 2020 the Group was financed by £73.0m of cash, £198.6m of term loan, £47.7m of Property development facility financing, £20.0m of revolving credit facility, £57.0m of loan notes with related parties and the group had outstanding preference share liabilities of £248.8m, with additional accrued interest on the loan notes and preference shares of £327.2m.

At 31 May 2021, the Group was financed by £61.4m of cash, £205.1m of term loan, £75.0m of Property development facility financing, £57.0m of loan notes with related parties and the Group has outstanding preference share liabilities of £248.8m and additional accrued interest on these of £296.8m.

Covid-19

During the financial year ending 30 September 2020, the world has been fighting the Covid-19 virus pandemic. As reported extensively in the media, the care sector together with the NHS has been at the forefront of this, and the impact has been significant.

As at the date of signing the accounts, the UK has emerged from the 3rd national lockdown, and the rollout of a vaccination programme is well progressed, however precautionary measures and restrictions remain in place.

The Board and Management have taken steps to steer their way through this crisis, however the impact on the group has been considerable. There has been a deduction in occupancy rates and an increase in operating costs including the purchase of Personal Protective Equipment (PPE), introducing additional infection control measures, implementing testing and vaccination programmes, and facilitating visitation of relatives.

Key metrics have been, and continue to be, monitored closely by the Board and Management, such as: home level outbreaks, test results and vaccination coverage; occupancy, staffing levels and Covid-19 related sickness; supply of Personal Protective Equipment (PPE) and mobilisation of infection control measures. Management have worked alongside key suppliers, in particular of PPE, visitation and infection control equipment, agency workers, food and medicines, in order to mitigate any shortage in supply. They have also been working with local authorities, CCGs, NHS, relatives, and residents to provide reassurance and the best possible care for our residents, despite these difficult circumstances.

Government support to the sector, and therefore the Group, has been important throughout this pandemic. Covid-19 support funding streams have been provided direct by local authorities, as well as nationally led funding in the form of the Coronavirus Job Retention Scheme ('Furlough') and the Infection Control Fund (ICF). Claims have been made against these funds, as detailed in note 5 to the accounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.4 Going concern (continued)

The virus has had a significant impact on the Group's profitability and cashflow. The Group obtained support in the form of a bank financial covenant waiver for its leverage covenant until September 2021, and a liquidity injection of up to £15m from the bank in the form of PIK interest on the term loan, matched by a further £15m internal transfer from cash reserves in the Group, but outside of the Care UK Investments Limited group banking arrangement, to the banking group. As at the year end, £1.6m of loan has been rolled into the PIK interest, and in September 2020 £10.5m was injected into the banking group.

Nonetheless, the Directors cannot readily predict the medium to long term impact of the crisis upon the Group, including:

- (i) the extent of NHS / Local Authority and self-pay demand for vacant beds, and the associated speed of admissions recovery;
- (ii) the degree of continued financial support from the Government, as the care sector emerges from Covid-19 operating restrictions;
- (iii) the impact of ongoing Covid-19 related precautionary measures and restrictions, on rates of admission and the operations (and associated costs) of the business in the medium to long-term; and
- (iv) the impact of new Covid-19 virus variants and mutations on the efficacy of the current vaccines, and associated speed of scientific response to develop new versions and mobilisation of vaccination programmes to control the rate of spread.

Based on the above bank support, the Directors believe that it remains appropriate to prepare the financial statement on a going concern basis. Nevertheless, the Directors consider the downside risks of Covid-19 on the group's occupancy levels and cashflows to represent a material uncertainty that may cast doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2.5 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.6 Revenue

The group operates two principal types of contracts with customers:

Residential long-term contracts

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

Residential spot purchase contracts

Revenue is recognised when the Company's principal performance obligation is fulfilled, that is typically when a service user has received care services from the Company, which are usually provided on a daily basis.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.7 Operating leases: the Group as lessee

Rent paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.8 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Consolidated Statement of Comprehensive Income in the same period as the related expenditure.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.9 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.10 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.11 Borrowing costs

All borrowing costs are recognised in the financial statements in the year in which they are incurred. Certain borrowing costs are capitalised as part of the asset they relate to whereas other are charged to the profit and loss account or amortised over a defined period of time.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.12 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

Defined benefit pension plan

The Group operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets at the reporting date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.13 Share based payments

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

Equity-settled share based payments are measured at the fair value of the equity instruments on the grant date. The resulting fair value is expensed on a straight-line basis over the vesting period.

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

2.14 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.15 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Consolidated Statement of Comprehensive Income over its useful economic life.

Negative Goodwill

Negative Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, negative goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Negative Goodwill is amortised on a straight line basis to the Consolidated Statement of Comprehensive Income in line with use of non monetary assets.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.16 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.16 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold buildings and land	- 2% on cost, less residual value of 30% or 10 years. No depreciation is provided on freehold land.
Long-term leasehold buildings	- The shorter of the period of the lease or the associated contract
Short-term leasehold buildings	- The shorter of the period of the lease or the associated contract
Motor vehicles	- 4 years
Fixtures and fittings	- 7 years
Computer equipment	- 3 years
Other fixed assets	- Over the useful economic life

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Subsequent costs

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

Pre-contract costs

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

Commissioning costs

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.16 Tangible fixed assets (continued)

Capitalised interest

Interest costs that are directly attributable to the acquisition or construction of an item of property, plant and equipment are capitalised to the cost of that asset.

2.17 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.18 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.19 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.20 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.21 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.22 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.23 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.24 Financial instruments

Financial instruments are following IFRS 9 for recognition and measurement.

(i) *Recognition and initial measurement*

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

(ii) *Classification and subsequent measurement*

Financial assets

Classification

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.24 Financial instruments (continued)

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

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

Subsequent measurement

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

Financial liabilities and equity

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.24 Financial instruments (continued)

Intra-group financial instruments

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

(iii) Impairment

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

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

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Write-offs

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.25 Dividends

Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

2.26 Land pass through

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

In consideration of the principles of Section 2, Sections 11 and 12 and Section 23 of FRS 102 Reporting substance of transactions, revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents transferred. Accordingly, the Group recognises the fair value of non-cash deferred income and operating lease charges, being equal and opposite values, within liabilities and assets respectively upon the legal transfer of land. The subsequent amortisation of both the deferred income and lease charge are released to the statement of comprehensive income over the life of the underlying contract and lease relationships.

There is no impact on cash flow or total profit or loss that will ultimately be recognised in the statement of comprehensive income over the life of the operating leases or service contracts.

2.27 Non-GAAP performance measures

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

Adjusted operating profit is defined as Operating (loss) / profit adjusted to exclude non-recurring costs. Adjusted EBITDA is defined as Adjusted operating (loss) / profit plus depreciation and amortisation..

Adjusted underlying EBITDA is defined as Adjusted EBITDA after adjusting for start up losses on new homes.

2.28 Non-recurring items

Non-recurring items are material transactions or events with a high degree of abnormality that arise outside ordinary activities. They are not expected to recur.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements in conformity with FRS 102 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year then ended. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

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

Management regularly discusses with the Group Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Significant accounting judgements in applying the Group's accounting policies have been applied by the Group in order to prepare the consolidated financial statements with respect to the value of tangible assets (note 14), intangible assets including goodwill (note 13), provisions (note 24), and pensions (note 30), and are described below.

Tangible assets

The Group assesses tangible fixed assets where there are indications that the assets could be impaired. Indicators of impairment include factors internal and external to the organisation that suggest the asset's value may have declined. Where indicators suggest that the value of the asset may have declined, the group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The value in use calculation requires an estimate of the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Further details are given in note 14.

Intangible assets

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

Provision for onerous lease

The Group has provided for onerous lease contracts in respect of residential care homes to the extent that the unavoidable costs of fulfilling the lease obligation exceeds the estimated economic benefit expected from operating the care home. The calculation of the provision requires an estimate of the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate present value. The carrying amount of the provision as at 30 September 2020 was £14.7m (2019: £10.1m). The group estimates that the cost would be realised over a period of 16 to 18 years and calculates the provision using the DCF method based on a discount rate of 0.78%.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

3. Judgments in applying accounting policies (continued)

Provision for dilapidations

The group has recognised provisions for the cost of dilapidations on leasehold properties based on estimates of the likely cash out flow at the end of the lease, discounted using an appropriate discount rate. The carrying amount of the provision for the year ended 30 September 2020 was £13.4m (2019: £12.7m). This provision is expected to be utilised over a period from 2020 to 2057. See note 24 for further details.

Pensions

Details of the principal actuarial assumptions used in calculating the recognised liability for the Defined Benefit plans are given in note 31. Changes to the discount rate, mortality rates and actual return on plan assets may necessitate material adjustments to this liability in the future.

4. Turnover

An analysis of turnover by class of business is as follows:

	2020 £m	2019 £m
Service revenue from care homes	363.6	354.3
Provision of primary and secondary healthcare services	26.9	381.3
	<u>390.5</u>	<u>735.6</u>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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5. Other income

	2020 £m	2019 £m
Other operating income	-	0.1
Government grants receivable	10.0	-
Profit on disposal of tangible assets	0.5	-
	<u>10.5</u>	<u>0.1</u>

During the year ended 30 September 2020 the Group received grant funding totalling £10.3m from the government to support the Care sector through the Covid-19 pandemic. The following grant income was recognised in the financial statements during the year:

- Infection Control Fund (ICF) – £5.2m recognised in the income statement for costs incurred for implementing infection control procedures aimed at reducing the rate of Covid-19 transmission. This mainly relates to increased staff costs incurred to complete additional infection control procedures, and staff costs incurred for absence due to Covid-19 sickness or required isolation because of receiving a positive Covid-19 test result. In addition, £0.3m has been recognised as an offset against the depreciation charge of tangible fixed assets, contributing to the capital costs incurred for equipment related to implementing infection control procedures, such as facilitating visitation in care homes. Funding issued by central government is distributed and administered via Local Authorities.
- Covid-19 Job retention scheme (“Furlough”) - £1m recognised in the income statement to fund the staff costs incurred for employees who are shielding, and staff costs relating to employees who would otherwise be made redundant due to the impact on reduced staffing requirements in certain care homes.
- Covid-19 support payments – Various Local Authorities have provided home specific additional support payments to contribute towards the increased running costs incurred from the Covid-19 pandemic, mainly relating to the Personal Protective Equipment (PPE) costs incurred. A total of £3.8m has been recognised in the income statement.

The Group has carefully assessed and considered the criteria associated with each stream of grant funding prior to submission of a claim and is of the opinion that all criteria have been met to recognise the amounts detailed above in the financial statements.

All funding streams detailed above are potentially subject to retrospective audit against the criteria of each grant funding scheme.

6. Auditors' remuneration

	2020 £m	2019 £m
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	<u>0.3</u>	<u>0.5</u>

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2020 £m	<i>Group 2019 £m</i>	Company 2020 £m	<i>Company 2019 £m</i>
Wages and salaries	195.0	323.0	-	-
Social security costs	15.0	29.0	-	-
Cost of defined benefit scheme	-	2.0	-	-
Cost of defined contribution scheme	4.0	6.0	-	-
	214.0	360.0	-	-

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

	2020 No.	<i>2019 No.</i>
Nursing, care and support staff	10,309	14,285
Management and administration	382	2,003
	10,691	16,288

8. Directors' remuneration

	2020 £m	<i>2019 £m</i>
Directors' emoluments	3.0	2.0
	3.0	2.0

During the year retirement benefits were accruing to 2 directors (2019 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £0.9m (2019 - £0.9m).

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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9. Interest receivable

	2020 £m	2019 £m
Other interest receivable	0.1	1.4
	<u>0.1</u>	<u>1.4</u>

10. Interest payable and similar expenses

	2020 £m	2019 £m
Interest payable on borrowings and amortisation of deferred financing costs	19.0	20.3
Interest payable on loan notes	10.7	17.1
Preference share dividends	33.0	24.8
Fair value adjustment on bank loans	2.9	-
Other interest payable	0.5	0.2
	<u>66.1</u>	<u>62.4</u>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

11. Taxation

	2020 £m	2019 £m
Corporation tax		
Current tax on profits for the year	-	0.6
Adjustments in respect of previous periods	(1.7)	0.1
Tax on disposal of discontinued operation	0.3	0.6
	<u>(1.4)</u>	<u>1.3</u>
Total current tax	<u>(1.4)</u>	<u>1.3</u>
Deferred tax		
Origination and reversal of timing differences	0.4	-
Changes to tax rates	(0.3)	(0.1)
Adjustments in respect of previous periods	(0.4)	0.1
Total deferred tax	<u>(0.3)</u>	<u>-</u>
Taxation on (loss)/profit on ordinary activities	<u>(1.7)</u>	<u>1.3</u>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - *higher than*) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £m	2019 £m
Profit/(loss) on ordinary activities before tax	78.7	(65.6)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	15.0	(12.5)
Effects of:		
Disallowed expenditure	9.1	14.1
Non-taxable income	(29.7)	(0.4)
Unrelieved loss carried back	0.8	-
Prior year adjustment	(2.1)	0.2
Change in rate of deferred tax	(0.3)	(0.1)
Deferred tax not recognised	4.2	-
Other adjustments	1.3	-
Total tax charge for the year	(1.7)	1.3

Factors that may affect future tax charges

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the group's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax asset would have increased by £606,000.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

12. Non recurring costs

	2020 £m	2019 £m
Property related costs	0.2	1.2
Restructuring	-	0.3
Abortive transaction costs	-	1.4
Admission fee legal costs	0.7	-
CHC redress and associated costs	1.6	-
Onerous lease provision movement	5.0	-
	<u>7.5</u>	<u>2.9</u>

Property related costs

A residential care home operated by Care UK under a long-term operating lease closed in January 2018 after suffering from building defects. Care UK is conducting ongoing investigations to determine the best course of action in respect of rectification or rebuild of the property. During the year ended 30 September 2020 costs of £0.2m have been incurred in respect of ongoing site maintenance and security, during the year ended 30 September 2019 £0.8m was incurred with an additional £0.4m of costs relating to the closure of two care homes for the purposes of refurbishment.

Restructuring

As a part of a long-term initiative that commenced in 2015 to establish the Health Care and Residential Care operating divisions as self-sufficient organisations an information technology and systems separation project was conducted during the year ended 30 September 2019 incurring £0.3m of non-recurring costs.

Abortive transaction costs

During the early part of 2018 Care UK conducted an evaluation of strategic options for the long term future and continued growth of both the Health care and Residential Care businesses. A range of options were explored with potential investors which ultimately did not result in the progression or completion of any transaction during the year ended 30 September 2019. Associated advisor and legal and professional costs of £1.4m were incurred.

Admission fee legal costs

In February 2019, the Competition Market Authority (CMA) issued a claim against the Group under the Enterprise Act 2002. The claim relates to past conduct when the Group used to charge a one-off upfront admission fee. The Group stopped charging this fee in August 2018. The Group has taken advice from specialist legal counsel and believes that it is in a strong position to defend the claim and accordingly no provision for redress has been made in the statutory accounts. An exceptional (non-recurring) charge of £0.7m has been included in these financial statements for costs associated with defending this claim.

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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12. Non-recurring costs (continued)

CHC redress and associated costs

In September 2020, the Group signed an undertaking with the Competition and Markets Authority (CMA) related to the charging of additional fees to NHS Continuing Healthcare (CHC) residents in Care UK's premium care homes. Whilst these fees are common practice with a great many other care home providers, Care UK has agreed to settle this matter to allow it to focus on the more pressing challenges facing the sector. The agreement requires Care UK to stop charging such fees, and to partially refund historically charged fees to approximately 160 residents. Care UK does not accept it has breached any rules or misled anyone taking a place at its care homes and has done its best to be transparent with all involved. An exceptional (non-recurring) charge of £1.6m has been included in these financial statements, for the estimated redress payments, associated costs of administering the process and legal charges incurred.

Onerous Lease Provision Movement

During the year ended 30 September 2020 management have continued to review the trading performance for the five homes which currently have an onerous lease provision and any movements in the year relate to these homes.

13. Intangible assets

Group

	Intangible Assets £m	Goodwill £m	Negative goodwill £m	Total £m
Cost				
At 1 October 2019	115.2	118.9	(1.9)	232.2
Disposals	(115.2)	(68.4)	-	(183.6)
At 30 September 2020	-	50.5	(1.9)	48.6
Amortisation				
At 1 October 2019	112.6	13.5	-	126.1
Charge for the year on owned assets	2.0	4.9	(0.2)	6.7
On disposals	(114.6)	(6.8)	-	(121.4)
At 30 September 2020	-	11.6	(0.2)	11.4
Net book value				
At 30 September 2020	-	38.9	(1.7)	37.2
At 30 September 2019	2.6	105.4	(1.9)	106.1

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

13. Intangible assets (continued)

The amortisation of intangible assets of £6.9m (2019: £5.9m) is recognised within administrative expenses in the consolidated statement of comprehensive performance.

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

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

Impairment testing of intangible assets

Impairment testing is carried out where there is an indication of impairment in the year.

Method of impairment testing

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

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

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

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

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

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

Key assumptions used in value in use calculation

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

The key drivers for Residential Care Services are:

- occupancy,
- bed fee rates,
- staff costs
- capital expenditure

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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13. Intangible assets (continued)

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

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

	2020	2019
Goodwill impairment testing	9.2%	8.3%
Other impairment testing	9.2%	8.3% - 9.3%

Impairment tests for cash-generating units containing goodwill

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

	2020	2019
Residential Care Services	38.9	48.6
Health Care	-	57.0
	<u>38.9</u>	<u>105.6</u>

During the year ended 30 September 2020, the Group reviewed all cash generating units that contain goodwill for impairment with no impairment losses being recognised. The recoverable amount was determined using value in use.

Impairment tests for other intangible assets

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

During the year ended 30 September 2020 the group reviewed all cash generating units that contained intangible assets to determine whether there is any indication that those assets have suffered an impairment loss in accordance with FRS102 section 27. Recoverable amount was determined using a combination of value in use and fair value less costs of disposal. No impairments were recognised.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

14. Tangible fixed assets

Group

	Freehold property £m	Fixtures and fittings £m	Computer equipment £m	Assets in the course of construction £m	Total £m
Cost or valuation					
At 1 October 2019	278.1	91.1	26.3	38.2	433.7
Additions	6.7	9.0	1.1	29.3	46.1
Disposals	(23.7)	(9.1)	(18.0)	(1.8)	(52.6)
Transfers between classes	25.0	4.0	-	(29.0)	-
At 30 September 2020	<u>286.1</u>	<u>95.0</u>	<u>9.4</u>	<u>36.7</u>	<u>427.2</u>
Depreciation					
At 1 October 2019	69.8	34.9	22.2	-	126.9
Charge for the year on owned assets	6.6	12.6	1.5	-	20.7
Disposals	(9.7)	2.6	(16.9)	-	(24.0)
Impairment charge	2.1	3.1	0.1	-	5.3
At 30 September 2020	<u>68.8</u>	<u>53.2</u>	<u>6.9</u>	<u>-</u>	<u>128.9</u>
Net book value					
At 30 September 2020	<u>217.3</u>	<u>41.8</u>	<u>2.5</u>	<u>36.7</u>	<u>298.3</u>
At 30 September 2019	<u>208.3</u>	<u>56.2</u>	<u>4.1</u>	<u>38.2</u>	<u>306.8</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

14. Tangible fixed assets (continued)

Valuation of land and buildings

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

Impairment

The Group considers each individual care home as a cash generating unit (CGU), except in circumstances where certain care homes operate under contractual arrangements with a single local authority in which case the assets are grouped together to form a larger CGU for the purposes of impairment assessment.

Impairment assessments are conducted at this level when indicators of impairment are considered to exist. Consistent with the sector, a combination of the impact of the National Living Wage and Local Authority funding shortfalls restricting fees has resulted in the impairment assessment of the carrying value of the residential care homes.

The recoverable amount of the care homes that are assessed for impairment have been determined based on value in use methodology or fair value less cost to sell. As a result of the assessments, the company has recognised an impairment charge of £5.3m (2019: £3.5m).

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

Post-tax discount rate: 9.22% (2019: 8.3%)

Long term growth rate: 3.21% (2019: 3.25%)

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

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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15. Fixed asset investments

Company

	Investments in subsidiary companies £m
Cost or valuation	
At 1 October 2019	185.2
At 30 September 2020	<u>185.2</u>

16. Stocks

	Group 2020 £m	Group 2019 £m
Raw materials and consumables	0.5	2.3
	<u>0.5</u>	<u>2.3</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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17. Debtors

	Group 2020 £m	<i>Group 2019 £m</i>	Company 2020 £m	<i>Company 2019 £m</i>
Due after more than one year				
Other debtors	9.6	8.0	-	-
Prepayments and accrued income	4.3	4.5	-	-
Deferred tax asset	1.8	4.6	-	-
	<u>15.7</u>	<u>17.1</u>	<u>-</u>	<u>-</u>
Due within one year				
Trade debtors	25.5	32.1	-	-
Amounts owed by group undertakings	-	-	1.2	-
Other debtors	8.3	16.9	-	1.2
Prepayments and accrued income	11.3	29.4	-	-
	<u>60.8</u>	<u>95.5</u>	<u>1.2</u>	<u>1.2</u>

18. Cash and cash equivalents

	Group 2020 £m	<i>Group 2019 £m</i>
Cash at bank and in hand	73.1	56.1
	<u>73.1</u>	<u>56.1</u>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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19. Creditors: Amounts falling due within one year

	Group 2020 £m	<i>Group 2019 £m</i>	Company 2020 £m	<i>Company 2019 £m</i>
Bank loans	2.8	-	-	-
Trade creditors	19.3	34.2	-	-
Amounts owed to group undertakings	-	-	2.2	2.1
Corporation tax	1.5	2.5	-	-
Other taxation and social security	3.6	9.0	-	-
Accrued cumulative preference share dividend	-	9.2	-	9.2
Other creditors	12.6	15.0	-	-
Accruals and deferred income	48.5	92.2	-	-
Share capital treated as debt	-	60.8	-	60.8
	88.3	<i>222.9</i>	2.2	<i>72.1</i>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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20. Creditors: Amounts falling due after more than one year

	Group 2020 £m	<i>Group 2019 £m</i>	Company 2020 £m	<i>Company 2019 £m</i>
Bank loans and arrangement fees	258.8	273.4	-	-
Accrued cumulative preference share dividend	275.2	242.7	260.8	240.6
Share capital treated as debt	248.8	248.8	126.3	126.3
Accruals and deferred income	73.5	139.1	-	-
Loan notes	57.0	57.0	-	-
	913.3	961.0	387.1	366.9

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

Creditors: Amounts falling due after more than one year (continued)

This note details the terms and conditions attached to the Facility B Term Loan Revolving Credit Facility and the loan from related party. The terms of the Facility B Term Loan was amended as part of a refinancing exercise on 25th September 2020.

Bank loans

Facility B Term Loan

On 25 October 2020, the group disposed of its Healthcare business and repaid £55.0m of the Facility B Term Loan reducing the principal loan value to £195m. The facility was further refinanced on 25 September 2020 to allow for interest to be rolled up into the loan, as Payment-in-Kind (PIK) interest. This incurred a £1.95m fee that was added to the loan value. The margin payable on any loan utilisation had a new upper margin added to give a range of interest of 5.0% to 6.0% above LIBOR depending on the total net leverage of the group which is paid in arrears based on agreed utilisation period. Interest during the PIK period is subject to a further 1% margin. At 30 September 2020, the Loan value including refinancing fees and PIK interest stood at £201.5m. The termination date of Facility B is 25th July 2024.

Revolving Credit Facility

The Revolving Credit Facility of £37.5m was reduced to £20m following the group's disposal of its Healthcare business on 25 October 2020. The margin payable on any loan utilisation under the RCF is in the range of 2.25% to 3.25% above LIBOR depending on the total net leverage of the group. Each utilisation under the facility is repayable and capable of being redrawn at the end of each interest period. The final repayment date is 25 January 2024.

Loan Notes

The term 'Loan Notes' refers to two tranches of notes. The term 'Notes' means the Loan Notes and the Payment In Kind Notes ('PIK Notes'). The Loan Notes rank pari passu among themselves. Until the Loan Notes are redeemed, interest on the principal amount of the Loan Notes is payable annually on 9 May (the "interest payment date").

The Group may at its discretion elect to defer payment of interest on the Notes otherwise payable on the interest payment date. If the Group elects to defer payment of interest on the Notes, such interest shall automatically compound as from the relevant interest payment date so that it bears interest from such date as if it had been added to the principal amount of the loan note then outstanding.

The Group may, at the election and with the consent of any Noteholder, satisfy its obligation to pay interest in respect of the Notes by issuing the relevant Noteholders with Payment In Kind Notes ('PIK Notes') (on the basis of £1 nominal amount of PIK Notes for every £1 of interest due to the Noteholder) in full or partial satisfaction of any interest that has accrued in respect of the Notes up to that date (to the extent that such interest has not previously been satisfied by the issue of PIK Notes). The issue of the PIK Notes shall be treated as if it were a payment of interest falling due in respect of such Notes of an amount equal to the nominal value of the PIK Notes at the time of issue. Any PIK Notes issued by Care UK Health & Social Care Finance Limited shall be issued on identical terms mutatis mutandis to the Notes issued. The PIK Notes when issued shall rank pari passu among themselves.

Preference Shares

The Group have issued preference shares which are classified as debt. Dividends are accrued cumulatively on these preference shares. The repayment date is expected to be more than 5 years from the balance sheet date.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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21. Loans

The analysis of the amounts due on loans is shown below:

	Group 2020 £m	<i>Group 2019 £m</i>
Amounts falling due within one year		
Bank loans	2.8	-
Amounts falling due 1-2 years		
Bank loans	43.7	30.1
	<hr/> 43.7	<hr/> 30.1
Amounts falling due 2-5 years		
Bank loans	215.1	243.3
	<hr/> 215.1	<hr/> 243.3
	<hr/> 261.6	<hr/> 273.4
	<hr/> <hr/> 261.6	<hr/> <hr/> 273.4

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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22. Deferred taxation

Deferred tax is calculated in full on temporary differences using tax rates of 19% (2019: 17% and 19%).

Recognised deferred tax assets

Deferred tax assets have been recognised in respect of tax losses and other deductible temporary differences, the movements in deferred tax assets and liabilities during the year are shown below.

Group

	2020	<i>2019</i>
	£m	<i>£m</i>
At beginning of year	4.6	4.0
Charged to profit or loss	0.3	0.1
Charged to other comprehensive income	0.2	0.5
Sale of Healthcare division	(3.3)	-
At end of year	1.8	4.6

The deferred tax asset is made up as follows:

	Group	<i>Group</i>
	2020	<i>2019</i>
	£m	<i>£m</i>
Accelerated capital allowances	(3.2)	1.5
Tax losses carried forward	3.3	1.6
Pension surplus	0.9	0.7
Other items	0.8	0.8
	1.8	4.6

Unrecognised deferred tax assets

The total amount of unrecognised deferred tax assets as at 30 September 2020 was £18.1m (2019: £13.9m).

NOTES TO THE FINANCIAL STATEMENTS
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23. Financial risk management

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

i) Cash Flow Interest Rate Risk

In October 2019, the Care UK group disposed of its Healthcare business. The RCF facility was reduced from £37.5m to £20m and the Facility B Term loan was reduced by £55m to £195m. A further refinancing of the Facility B Term loan was completed on 25th September 2020 which introduced a Payment-in-Kind (PIK) facility. Both instruments carry a fixed margin (subject to leverage conditions) together with a LIBOR floating interest rate. Interest during the PIK period attracts a further 1% margin. Therefore, future rate rises would increase future interest costs however Care UK believes this risk to be tolerable based on the anticipated future direction of interest rates and Care UK's ability to service these debts from operating cash flows. A 1% increase in the LIBOR rate would increase annual interest costs by up to £2.1m under these new facilities. The value of the Facility B Term Loan outstanding at 30th September 2020 is £198.6m.

ii) Price Risk

Care UK is not exposed to commodity price risk but as a provider of services is subject to both general and industry specific wage pressures, including legislative changes concerning the minimum wage level. Contracts with Local Authorities, Clinical Commissioning Groups and other NHS funded bodies are also subject to annual price review.

iii) Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. Credit exposures in relation to customers is limited given that the majority of Care UK's revenue is attributable to publicly funded entities such as Local Authorities and NHS funded bodies. Care UK has no significant concentrations of credit risk. For banks and financial institutions, only parties with a minimum rating of A are accepted.

iv) Liquidity Risk

A policy of prudent liquidity management is applied that includes the preparation of regular detailed cash flow forecasts to monitor liquidity, maintenance of adequate headroom in available facilities and compliance with the facility covenants. These annual and shorter term cash flow forecasts reflect known commitments and anticipated projects. Borrowing facilities are arranged as necessary to finance projected requirements, including capital expenditure.

Strong working relationships are maintained with our banking partners, to facility the regular provision of compliance reporting, and oversight of key issues impacting the business.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

24. Provisions

Group

	Onerous Lease Provision £m	Dilapidations Provision £m	Total £m
At 1 October 2019	10.1	12.7	22.8
Utilised in year	(0.4)	5.0	4.6
New provision in year	5.0	1.2	6.2
Sale of Healthcare division	-	(5.5)	(5.5)
At 30 September 2020	14.7	13.4	28.1

Onerous lease

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

Dilapidations

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

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

25. Share capital

	2020 £m	2019 £m
Shares classified as equity		
Allotted, called up and fully paid		
1,000,000 (2019: 1,000,000) Ordinary A1 Shares of £0.02 each	-	-
3,893,985 (2019: 3,893,985) Ordinary B Shares of £0.01 each	-	-
9,998 (2019: 9,998) Ordinary C Shares of £0.001 each	-	-
10,000 (2019: 10,000) Ordinary D Shares of £0.001 each	-	-
925,000 (2019: 925,000) Deferred Shares of £0.01 each	-	-
	-	-
	-	-
	2020 £m	2019 £m
Shares classified as debt		
Allotted, called up and fully paid		
126,258,568 (2019: 126,258,568) A Preferred Shares of £0.01 each	1.3	1.3
Nil (2019: 60,826,851) B Preferred Shares of £0.00001 eaach	-	60.8
122,506,000 (2019: 122,506,000) Preference Shares of £1.00 each (The Preference Shares mentioned above are in Care UK Midco Ltd)	122.5	122.5
Share premium		
126,258,568 (2019: 126,258,568) A Preferred Shares of £0.99 each	125.0	125.0
	248.8	309.6
	248.8	309.6

26. Reserves

Share premium account

Share premium account represents the value paid above the nominal value of the shares issued.

Other reserves

This represents the capital contribution reserve created when the shareholder cancelled loan notes in return for the issuance of newly issued preference shares.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

27. Share based payments

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

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

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

	2020	Fair value on grant date (£)	2019	Fair value on grant date (£)
	Number		Number	
- A Ordinary shares in Healthcare subsidiary			14,999	21,749
- A Ordinary shares in Residential subsidiary	13,333	25,333	13,333	25,333
- A1 Ordinary shares in parent company	1,000,000	40,000	1,000,000	40,000
- C Ordinary shares in parent company	9,998	100	9,998	100
- D Ordinary shares in parent company	10,000	100	10,000	100

During 2020, no charge (2019: £nil) has been recognised in respect of these arrangements. On 25 October 2019 the Group sold its shares in Care UK Healthcare Holdings Limited, refer to note 30.

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

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

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

28. Discontinued operations

On 25 October 2019, the Group sold its shares in Care UK Healthcare Holdings Limited to a new company Practice Plus Group Bidco Limited, whose equity ownership sits outside of the Group but continues to be managed by Bridgepoint. The proceeds and assets disposed of are detailed in the table below.

		£m
Cash proceeds		212.2
		<hr/> 212.2
Net assets disposed of:		
Tangible fixed assets	(21.8)	
Intangible assets	(62.2)	
Deferred tax asset	(3.3)	
Stocks	(1.9)	
Debtors	(28.6)	
Cash	(7.9)	
Trade creditors and other payables	67.7	
Current tax liabilities	0.6	
Other liabilities	(0.1)	
Provisions	5.5	
		<hr/> 52.0
Profit on disposal before tax		<hr/> <hr/> (160.2)

The net inflow of cash in respect of the sale of the Healthcare division is as follows:

		£m
Cash consideration		212.2
Cash transferred on disposal		(7.9)
Net inflow of cash		<hr/> <hr/> 204.3

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

29. Contingent liabilities

Cross guarantees

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

Contingent liabilities relating to potential claim

In February 2019, the Competition Market Authority (CMA) issued a claim against the Group under the Enterprise Act 2002. The claim relates to past conduct when the Group used to charge a one-off upfront admission fee. The Group stopped charging this fee in August 2018. The Group has taken advice from specialist legal counsel and believes that it is in a strong position to defend the claim and accordingly no provision for redress has been made in the statutory accounts. An exceptional (non-recurring) charge of £0.7m has been included in these financial statements for costs associated with defending this claim.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

30. Pension commitments

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

(a) Defined contribution plan

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

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

	2020	2019
	£m	£m
Defined contribution schemes	3.7	3.0

In addition, the group pays into the NHS pension scheme to provide certain employees with defined pension benefits, however these are not accounted for as defined benefit schemes as group liability is limited to the contributions paid. In 2020, these totalled £1.9m (2019: £1.9m) and are not included in the defined benefit plan financial information below

The Group operates a defined benefit pension scheme.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

30. Pension commitments (continued)

Details of the principal defined benefit scheme are provided below.

Care UK LG Pension Scheme

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

Employer contributions amounted to £0.9m for the year ended 30 September 2020 (2019: £0.9m). The net defined benefit liability at 30 September 2020 was £4.2m (2019: £3.9m).

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

Risks

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

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

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

30. Pension commitments (continued)

Reconciliation of present value of plan liabilities:

	2020 £m	2019 £m
Reconciliation of present value of plan liabilities		
At the beginning of the year	73.5	64.0
Current service cost	0.2	0.3
Plan settlements	-	(0.3)
Interest cost	1.3	1.8
Actuarial gains/losses	(1.2)	8.9
Benefits paid	(1.1)	(1.2)
Sale of Healthcare division	(7.0)	-
At the end of the year	65.7	73.5

Reconciliation of present value of plan assets:

	2020 £m	2019 £m
At the beginning of the year	68.0	63.6
Plan settlements	-	(0.4)
Expected rate of return on plan assets	1.0	1.8
Actuarial gains/losses	(1.7)	3.0
Company contributions	0.9	1.2
Benefits paid	(1.1)	(1.2)
Sale of Healthcare division	(7.0)	-
At the end of the year	60.1	68.0

Composition of plan assets:

	2020 £m	2019 £m
Equities	5.5	12.1
Bonds	13.1	11.8
Investments funds	36.3	39.1
Other	5.2	5.0
Total plan assets	60.1	68.0

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

30. Pension commitments (continued)

	2020 £m	2019 £m
Fair value of plan assets	60.1	68.0
Present value of plan liabilities	(65.7)	(73.5)
Pension reimbursement	1.0	1.4
Net pension scheme liability	(4.6)	(4.1)

The amounts recognised in profit or loss are as follows:

	2020 £m	2019 £m
Current service cost	0.2	0.3
Plan settlements	-	0.1
Expected returns on plan assets	(0.5)	(0.9)
Interest cost	0.6	0.9
Total	0.3	0.4

Reconciliation of present value of pension reimbursement:

	2020 £m	2019 £m
At the beginning of the year	1.3	(1.6)
Received	0.1	0.1
Decrease in year	(0.4)	2.8
At the end of the year	1.0	1.3

Reconciliation of company pension net liability:

	2020 £m	2019 £m
Fair value of plan assets	60.1	68.0
Present value of plan liabilities	(65.7)	(73.5)
Pension reimbursement	1.0	1.4
	(4.6)	(4.1)

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

30. Pension commitments (continued)

The cumulative amount of actuarial gains and losses recognised in the Consolidated Statement of Comprehensive Income was £1.0m (2019 - £2.9m).

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):

	2020	2019
	%	%
Discount rate	1.6	1.8
Future salary increases	2.0	2.0
Future pension increases	2.4	2.7
Inflation assumption	3.0	3.1
Mortality rates		
- for a male aged 65 now	87.2	87
- at 65 for a male aged 45 now	88.4	88.5
- for a female aged 65 now	89.3	89.1
- at 65 for a female member aged 45 now	90.8	90.7

31. Commitments under operating leases

At 30 September 2020 the Group had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2020 £m	Group 2019 £m
Not later than 1 year	53.0	54.8
Later than 1 year and not later than 5 years	211.8	214.0
Later than 5 years	953.1	904.4
	<u>1,217.9</u>	<u>1,173.2</u>

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

32. Related party transactions

(a) Identity of related parties

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

(b) Pension plans

During the year, the group made various payments to defined benefit pension plans. Details of these transactions are set out in note 31 to the financial statements.

(c) Company transactions with subsidiaries

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

	2020		2019	
	Amounts	Amounts	Amounts	Amounts
	receivable	payable	receivable	payable
	£m	£m	£m	£m
Balances with subsidiary undertakings	1.2	2.2	-	2.1

There were no income statement transactions between the Company and any related parties during the year ended 30 September 2020 (2019: none).

(d) Transactions with key management personnel

(i) Identity

The Group and Company have identified key management personnel as being the directors of the company and the members of the executive committee. Total remuneration and directors' emoluments are included in note 8.

(ii) Shareholdings

Key management personnel have 1.8% (2019: 1.8%) of the voting shares of the Company.

(iii) Loan notes

Key management personnel hold 10.6% (2019: 10.6%) of the Tranche B Loan Notes at the balance sheet date.

There have been no other loans or other transactions with key management personnel during the year (2019: none).

33. Financial commitments

In line with the growth strategy of the Residential Care Services division of Care UK, the group enters into forward agreements for the development of new residential care homes. As part of these funding arrangements Care UK agrees to enter into a commercial operating lease in respect of the new care home upon practical completion. The lease terms can vary but are typically of between 20 and 30 years duration. As at 30 September 2020, Care UK has six (2019: twelve) such build projects in progress whereby future operating lease commitments will commence upon completion of the new home.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

34. Post balance sheet events

In March 2021 the Directors decided to close a care home, as it was no longer fit for purpose. This has resulted in an onerous lease provision of £3.8m. The directors are currently considering the options for this care home.

On 3 November 2020, the Board of directors decided to divest the Group's interest in Ellerash Limited, a subsidiary legal entity that operated one care home. Net proceeds of £1.1m resulted from this sale.

35. Ultimate parent company and controlling party

Bridgepoint Europe IV (Nominees) Limited holds 78.2% of the issued ordinary share capital that carries voting rights within Care UK Holdings Limited as nominee for Bridgepoint Europe IV "A" LP, Bridgepoint Europe IV "B" LP, Bridgepoint Europe IV "C" LP, Bridgepoint Europe IV "D" LP, Bridgepoint Europe IV "E" LP, Bridgepoint Europe IV "F" LP and Bridgepoint Europe IV "G" LP (together the "BEIV Fund"). The BEIV Fund is managed by Bridgepoint.

The remaining 21.8% of the issued ordinary share capital that carries voting rights within Care UK Holdings Limited is held by Mike Parish, Philip Whitecross, other members of Care UK's senior management and a number of Care UK's employees and an independently managed benefit trust, who together hold 20.9% of the issued ordinary share capital with voting rights within Care UK Holdings Limited, as well as the group's former Chairman, whose trustees hold 0.9% of the issued ordinary share capital with voting rights.

These Financial Statements comprise the largest group consolidated Financial Statements of the Care UK group.

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

36. Subsidiary undertakings

The following principal subsidiary and joint venture undertakings, which are incorporated in England and Wales and operate in the UK, have been included in the consolidated financial statements. They all have a registered office at Connaught House, 850 The Crescent, Colchester Business Park, Colchester, Essex, CO4 9QB with the exception of the Luxembourg entities which are all registered at 15 Boulevard de Raiffeisen, L-2411, Luxembourg. All entities are indirectly held by the holding company.

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding
Care UK Social Care Ltd	Ordinary	100%
Care UK Ltd	Ordinary	100%
Care UK Community Partnerships Ltd	Ordinary	100%
Care UK Community Partnerships (Suffolk) Ltd	Ordinary	100%
CHS Healthcare Ltd	Ordinary	100%
Community Health Services Ltd	Ordinary	100%
CHS (Kincardine) Ltd	Ordinary	100%
Lanemile Ltd	Ordinary	100%
Ellerash Ltd	Ordinary	100%
Wigmore 1 Ltd	Ordinary	100%
Care UK Midco Ltd	Ordinary	100%
Care UK Finance Ltd	Ordinary	100%
Care UK Property Holdings Ltd	Ordinary	100%
Care UK Property Ltd	Ordinary	100%
Care UK Developments Limited	Ordinary	100%
Care UK Murrayfield Limited	Ordinary	100%
Care UK Cheadle Limited	Ordinary	100%
Care UK Bromsgrove Limited	Ordinary	100%
Care UK Bristol Limited	Ordinary	100%
Care UK Shinfield Limited	Ordinary	100%
Care UK Quorn Limited	Ordinary	100%
Care UK Sarisbury Green Limited	Ordinary	100%
Care UK Haywards Heath Limited	Ordinary	100%
Care UK Cambridge Limited	Ordinary	100%
Care UK Angmering Limited	Ordinary	100%
Care UK Thame Limited	Ordinary	100%
Care UK Dundee Limited	Ordinary	100%
Care UK Shrewsbury Limited	Ordinary	100%
Care UK Wilmslow Limited	Ordinary	100%
Care UK Corsham Limited	Ordinary	100%
Care UK Cardiff Limited	Ordinary	100%
Care UK Hook Limited	Ordinary	100%
Care UK Saffron Walden Limited	Ordinary	100%
Care UK Yate Limited *	Ordinary	100%
Care UK Wantage Limited *	Ordinary	100%
Care UK SPV 8 Limited *	Ordinary	100%
Silver Sea Holdings Sarl	Ordinary	100%
Silver Sea Property Holdings Sarl	Ordinary	100%
Silver Sea Developments Sarl	Ordinary	100%

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

36. Subsidiary undertakings (continued)

(continued)

Name	Class of shares	Holding
Silver Sea Properties (Angmering) Sarl	Ordinary	100%
Silver Sea Properties (Bristol) Sarl	Ordinary	100%
Silver Sea Properties (Bromsgrove) Sarl	Ordinary	100%
Silver Sea Properties (Cheadle) Sarl	Ordinary	100%
Silver Sea Properties (Portobello) Sarl	Ordinary	100%
Silver Sea Properties (Horndean) Sarl	Ordinary	100%
Silver Sea Properties (Worcester) Sarl	Ordinary	100%
Silver Sea Properties (Quorn) Sarl	Ordinary	100%
Silver Sea Properties (Sarisbury Green) Sarl	Ordinary	100%
Silver Sea Properties (Shinfield) Sarl	Ordinary	100%
Silver Sea Properties (Thame) Sarl	Ordinary	100%
Silver Sea Properties (St Ives) Sarl	Ordinary	100%
Silver Sea Properties (Leamington Spa) Sarl	Ordinary	100%
Silver Sea Properties (Murrayfield) Sarl	Ordinary	100%
Silver Sea Properties (Whitstable) Sarl	Ordinary	100%
Silver Sea Properties (Ashford) Sarl	Ordinary	100%
Silver Sea Properties (Sale) Sarl	Ordinary	100%
Silver Sea Properties (Hythe) Sarl	Ordinary	100%
Silver Sea Properties (Chester) Sarl	Ordinary	100%

* These companies are dormant for the period ended 30 September 2020. Dormant company accounts have been filed at Companies House.

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

36. Subsidiary undertakings (continued)

(continued)

The aggregate of the share capital and reserves as at 30 September 2020 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £m	Profit/(Loss) £m
Care UK Social Care Ltd	169.9	(11.1)
Care UK Investments Ltd	212.7	158.8
Care UK Ltd	(79.0)	153.7
Care UK Community Partnerships Ltd	134.0	3.2
Care UK Community Partnerships (Suffolk) Ltd	(1.4)	-
CHS Healthcare Ltd	3.8	0.2
Community Health Services Ltd	10.7	2.6
CHS (Kincardine) Ltd	1.0	(0.2)
Lanemile Ltd	1.8	0.2
Ellerash Ltd	1.2	-
Wigmore 1 Ltd	0.1	-
Care UK Midco Ltd	126.9	64.2
Care UK Finance Ltd	132.9	149.1
Care UK Property Holdings Ltd	225.0	102.5
Care UK Property Ltd	(1.0)	(1.0)
Care UK Developments Ltd	0.1	0.1
Care UK Murrayfield Limited	(0.1)	(0.1)
Care UK Cheadle Limited	0.1	0.1
Care UK Bromsgrove Limited	-	-
Care UK Bristol Limited	0.3	0.3
Care UK Shinfield Limited	0.2	0.2
Care UK Quorn Limited	0.1	0.1
Care UK Sarisbury Green Limited	-	-
Care UK Haywards Heath Limited	-	-
Care UK Cambridge Limited	-	-
Care UK Angmering Limited	-	-
Care UK Thame Limited	-	-
Care UK Dundee Limited	-	-
Care UK Shrewsbury Limited	-	-
Care UK Wilmslow Limited	-	-
Care UK Corsham Limited	-	-
Care UK Cardiff Limited	-	-
Care UK Hook Limited	-	-

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

36. Subsidiary undertakings (continued)

(continued)

Name	Aggregate of share capital and reserves £m	Profit/(Loss) £m
Care UK Saffron Walden Ltd	-	-
Care UK Yate Ltd	-	-
Care UK Wantage Ltd	-	-
Care UK SPV 8 Ltd	-	-
Silver Sea Holdings Sarl	3.7	110.9
Silver Sea Property Holdings Sarl	6.4	48.9
Silver Sea Developments Sarl	(0.5)	(0.3)
Silver Sea Properties (Angmering) Sarl	0.1	-
Silver Sea Properties (Bristol) Sarl	1.2	2.9
Silver Sea Properties (Bromsgrove) Sarl	0.5	6.8
Silver Sea Properties (Cheadle) Sarl	0.6	12.3
Silver Sea Properties (Portobello) Sarl	0.2	0.1
Silver Sea Properties (Horndean) Sarl	0.3	-
Silver Sea Properties (Worcester) Sarl	0.2	-
Silver Sea Properties (Quorn) Sarl	0.1	-
Silver Sea Properties (Sarisbury Green) Sarl	0.1	-
Silver Sea Properties (Shinfield) Sarl	-	(0.1)
Silver Sea Properties (Thame) Sarl	0.1	-
Silver Sea Properties (St Ives) Sarl	(0.8)	(0.3)
Silver Sea Properties (Leamington Spa) Sarl	(0.9)	(0.4)
Silver Sea Properties (Murrayfield) Sarl	0.5	6.3
Silver Sea Properties (Whitstable) Sarl	-	-
Silver Sea Properties (Ashford) Sarl	0.7	0.5
Silver Sea Properties (Sale) Sarl	0.2	-
Silver Sea Properties (Hythe) Sarl	0.2	-
Silver Sea Properties (Chester) Sarl	0.3	0.1

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

37. First time adoption of FRS 102

The Group and Company transitioned to FRS 102 from International Financial Reporting Standards as at 1 October 2018. The impact of the transition to FRS 102 is as follows:

Group

	Note	As previously stated 1 October 2018 £m	Effect of transition 1 October 2018 £m	FRS 102 (as restated) 1 October 2018 £m	As previously stated 30 September 2019 £m	Effect of transition 30 September 2019 £m	FRS 102 (as restated) 30 September 2019 £m
Fixed assets	2,1	395.2	14.8	410.0	333.0	79.9	412.9
Current assets	2	89.3	(15.8)	73.5	168.7	(14.8)	153.9
Creditors: amounts falling due within one year	2,4	(416.0)	0.9	(415.1)	(161.7)	(61.2)	(222.9)
Net current liabilities		(326.7)	(14.9)	(341.6)	7.0	(76.0)	(69.0)
Total assets less current liabilities		68.5	(0.1)	68.4	340.0	3.9	343.9
Creditors: amounts falling due after more than one year	2,4,5,6	(654.2)	11.3	(642.9)	(981.5)	20.5	(961.0)
Provisions	4	-	(22.1)	(22.1)	-	(26.9)	(26.9)
Net liabilities		(585.7)	(10.9)	(596.6)	(641.5)	(2.5)	(644.0)
Capital and reserves		(585.7)	(10.9)	(596.6)	(641.5)	(2.5)	(644.0)

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

37. First time adoption of FRS 102 (continued)

	Note	As previously stated 30 September 2019 £m	Effect of transition 30 September 2019 £m	FRS 102 (as restated) 30 September 2019 £m
Turnover	3,5	352.7	382.9	735.6
Cost of sales	3,5	(320.3)	(342.5)	(662.8)
Gross profit		32.4	40.4	72.8
Administrative expenses	3,1	(33.3)	(44.2)	(77.5)
Operating loss		(0.9)	(3.8)	(4.7)
Profit for the year from discontinued operations	3	8.3	(8.3)	-
Interest receivable and similar income	5	1.5	-	1.5
Interest payable and similar charges	3	(61.7)	(0.7)	(62.4)
Taxation		(0.6)	(0.7)	(1.3)
Loss on ordinary activities after taxation and for the financial year		(53.4)	(13.5)	(66.9)

Explanation of changes to previously reported profit and equity:

- 1 Goodwill on business combination was not previously amortised under IFRS. The useful life of the goodwill has been assessed as 10 years.
- 2 Assets and liabilities held for sale are shown as a separate line under IFRS whereas under FRS 102 they are presented in their normal line.
- 3 Discontinued operations are presented as a single line at the bottom of the Statement of Comprehensive Income under IFRS, whereas under FRS 102 they are presented in their normal line.
- 4 Provisions for liabilities are shown separately under FRS 102 where as under IFRS there are with in current and non-current liabilities.
- 5 The treatment of service concessions is different under FRS 102 compared to IFRS.
- 6 Negative goodwill is taken to Profit & Loss under IFRS whereas under FRS 102 is carried on the Balance Sheet and amortised in line with the use of the non-monetary assets

CARE UK HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

37. First time adoption of FRS 102 (continued)

Company

	<i>As previously stated</i>	<i>Effect of transition 1 October 2018</i>	FRS 102 (as restated) 1 October 2018	<i>As previously stated 30 September 2019</i>	<i>Effect of transition 30 September 2019</i>	FRS 102 (as restated) 30 September 2019
Note	<i>£m</i>	<i>£m</i>	£m	<i>£m</i>	<i>£m</i>	£m
Fixed assets	185.2	-	185.2	185.2	-	185.2
Current assets	1.2	-	1.2	1.2	-	1.2
Creditors: amounts falling due within one year	(2.1)	-	(2.1)	(72.1)	-	(72.1)
Net current liabilities	(0.9)	-	(0.9)	(70.9)	-	(70.9)
Total assets less current liabilities	184.3	-	184.3	114.3	-	114.3
Creditors: amounts falling due after more than one year	(414.3)	-	(414.3)	(366.9)	-	(366.9)
Net liabilities	(230.0)	-	(230.0)	(252.6)	-	(252.6)
Capital and reserves	(230.0)	-	(230.0)	(252.6)	-	(252.6)

CARE UK HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

37. First time adoption of FRS 102 (continued)

	Note	<i>As previously stated 30 September 2019 £m</i>	<i>Effect of transition 30 September 2019 £m</i>	FRS 102 (as restated) 30 September 2019 £m
		-	-	-
Operating profit		-	-	-
Interest payable and similar charges		(22.6)	22.6	-
Dividends on shares treated as debt		-	(22.6)	(22.6)
Loss on ordinary activities after taxation and for the financial year		(22.6)	-	(22.6)

Explanation of changes to previously reported profit and equity:

- 1 There are no changes to the Company's result when transitioning from IFRS to FRS 102