

Registration number: 02792285

Barchester Healthcare Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2016

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Barchester Healthcare Limited

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Barchester Healthcare Limited

Company Information

Chairman	John Coleman
Directors	John Coleman John Bateson Anthony Bourne Keith Browne Pete Calveley David Edmonds Mark Hazlewood John Hegarty Michael O'Reilly
Company Secretary	Michael O'Reilly
Registered office	3rd Floor, The Aspect Finsbury Square London EC2A 1AS
Bankers	The Royal Bank of Scotland Plc London Corporate Services 2½ Devonshire Square 39-41 Broad Street London Jersey EC2M 4XJ
Auditor	KPMG LLP 1 St. Peter's Square Manchester M2 3AE

Barchester Healthcare Limited

Chairman's Statement

Introduction

Since our formation in 1992, we have grown by focussing on what really matters to our residents and families - high quality care in a safe, secure and homely environment. Our ambition is to be the number one provider of consistent, high quality, market leading services for those we care for.

Performance

Turnover grew during 2016, increasing by 5.3% to £563.9 million in the year, underpinned by higher fee rates year on year.

For the year to 31 December 2016, EBITDAR was £163.3 million, an increase of £8.6 million (5.6%) on the prior year.

Dividend

The Board of Barchester Healthcare Limited ("Barchester" or "the Company") have not recommended the payment of a dividend (2015: £Nil), as surplus cash is being invested in the maintenance and enhancement of the property portfolio to help maintain the competitive position of the business.

Board

Details of the current Directors are set out on pages 8 to 10.

Corporate governance

Barchester is a privately owned company but aspires to adopt high standards of corporate governance. Accordingly, and where appropriate, our systems and processes are developing to reflect the UK Corporate Governance Code.

The Board met thirteen times during the year. It considers clinical governance, safety, strategy and policy, approval of business plans, significant capital expenditure and other matters of strategic significance.

The Board also has Quality & Clinical Governance, Remuneration, Nominations and Investment Committees, which comply with best practice corporate governance principles. The Committees' Terms of Reference are available from the Company Secretary and our Company intranet.

Quality and Clinical Governance Committee

The Committee met six times during 2016. It is responsible for: reviewing existing practice and setting standards of quality, safety and care across the Company; assessing responses to raised care standards and reducing variation across the Company; drawing on relevant data, for example, serious untoward incidents, safeguarding whistle blowing and accidents and regularly reviewing how the Company responds to these in order to raise awareness and improve practices and reduce adverse outcomes. The Committee is also responsible for supervising a dashboard of vital signs and outcome measures of quality and care and overseeing, reviewing and analysing data produced by management. The Committee reports and takes recommendations to the Board. Details of its membership are on page 11.

Remuneration Committee

The Remuneration Committee held eight meetings during the year. No Director attends any meeting relating to his or her own remuneration. It holds responsibility for approving the remuneration and other benefits for the Executive Directors and other senior executives of the Company. Details of its membership are on page 11.

Nominations Committee

The Committee is responsible for the selection of suitable Executive and Non-Executive Directors to be proposed to the Board for appointment. It is responsible for the re-appointment of Non-Executive Directors for a further term. It also recommends to the Board the membership of the other Committees. There was one appointment to the Board during the year, being Michael O'Reilly. Details of the Committee's membership are on page 11.

Barchester Healthcare Limited

Chairman's Statement (continued)

Investment Committee

The Investment Committee held twelve meetings during 2016. The Committee was established in order to: approve the identified additional capital expenditure amount and to approve any projects in excess of £100,000; to approve any new builds projected in accordance with the new build development process; and to make investment decisions, under delegated authority, granted to the Committee by the Board. The Committee makes and reports recommendations to the Board. The quality of our environment is a very important ingredient in the overall standard of care offered at Barchester and we aim to have the best quality homes in the sector. Details of the Committee's membership are on page 11.

Outlook

The Group has a very strong balance sheet, with reduced bank and other debt, which leaves it free to explore ways of investing cash to support future growth in the scale of operations.

We must also acknowledge that trading conditions are providing a degree of margin compression across the sector. The introduction of the National Living Wage ("NLW") in April 2016 has increased the cost base of the Group significantly and will continue to do so as the NLW increases in line with government promises. Local Authority spending cuts continued through 2016 and look set to continue into the future putting pressure on the rates available for Local Authority and Health Service funded clients.

Notwithstanding these trading pressures our consistent quality of service delivery, strong balance sheet and our specific focus on the private pay market, we are confident in the Group's continued future success.

.....
John Coleman
Chairman
26 June 2017

Barchester Healthcare Limited

Strategic Report for the Year Ended 31 December 2016

The Directors present their strategic report for the year ended 31 December 2016.

Principal activity

The principal activity of the Company is that of an investment holding company. The core principal activity of the Company's subsidiary undertakings is the operation of care homes with related care services. Barchester is a Company domiciled in England and Wales.

The Group's primary activity is the provision of residential nursing care for the elderly. It also provides nursing care services to individuals with specialist higher acuity care needs. Specialist care services include elderly mentally infirm and young physically disabled.

Barchester commands a leading position in the UK long term care sector and is in the UK's top four largest providers. As at December 2016, Barchester provided in excess of 12,000 registered beds, spread across its portfolio of approximately 200 registered services (including nursing homes and domiciliary care) and 7 independent hospitals with a national footprint across Great Britain and Jersey, the largest proportion located within London and the South East.

The Group's strategy is one of continued growth through new builds, the extension of existing facilities and, where appropriate, through the acquisition of nursing homes of a suitable quality. The Group is especially focused on the private pay market.

Fair review of the business

A review of the business of the Group can be found in the Chairman's statement and the Directors' report. These show the Group's business and activities during the year, its financial position at the end of the year, and the likely future developments.

Principal risks and uncertainties & key performance indicators

The Board analyse key risks to the business and monitor exposure to these risks through a series of Key Performance Indicators (KPI's). These KPI's are reviewed to ensure that the Group is achieving its principal objectives of providing the highest quality of care for residents and patients, at the same time ensuring that the infrastructure is as fully and efficiently utilised as possible to provide appropriate returns to shareholders.

Reputational risk

Failure to operate to regulatory standards and provision of poor or inappropriate levels of care would cause severe damage to our brand and the ability of the business to attract new residents. The business operates sophisticated levels of performance monitoring with regular reporting to senior management and the Board of any potential issues. In addition, a comprehensive programme of service audits is undertaken across all homes with reports and resulting action plans being the subject of comprehensive review. Perhaps most importantly, the Board encourages a culture of reporting any minor concerns from staff, residents and relatives all of which are appropriately investigated.

KPI's used:

- regulatory compliance (both internal and external);
- various indicators of clinical well-being;
- number of hours for staffing (employed and agency).

Barchester Healthcare Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Health & Safety

Failure to ensure the safety of our staff, residents, their guests or anyone else on our premises is not acceptable. Everyone in our business has accountability for health and safety, and they are given the necessary tools (including training, safety equipment and resources) to operate safely. Compliance is organised and monitored through a dedicated health and safety team across the business.

KPI's used:

- notifiable accident frequency; and
- accident statistics.

Government policy

Continued pressure is being exerted to reduce Government and Local Authority spending, which is manifesting itself increasingly in the reduction of fees being paid for the care of funded residents. As a response to the unwillingness to pay the fees required, our business continues to focus more on the provision of space to the privately funded individuals.

KPI's used:

- average fee rates;
- occupancy rates.

Employment of staff

Our business thrives on the skills and expertise of the staff we employ. As the economy recovers, the shortage of appropriate labour is a potential risk to the business, this is particularly acutely felt with the national shortage of qualified nursing staff. In order to mitigate this risk, the business has a proactive Human Resources and Recruitment team, including recruitment from overseas.

Continuity of service and care provided to residents is vitally important to the business. In order to ensure high quality care is provided it is necessary for the business to employ well trained staff and to encourage strong staff retention. To ensure staff have appropriate skills, the business provides on-going statutory and mandatory training to all resident facing staff. Development opportunities are identified and promoted throughout the business to continue to develop staff and encourage staff retention.

KPI's used:

- staff turnover;
- staff training statistics;
- number of hours for staffing (employed and agency).

Cost base inflation

The principal costs for the successful operation of the business include staff costs, energy and food. All of these areas are subject to on-going cost pressures in advance of inflation. In order to mitigate these areas, we have a well organised procurement process to source energy and food at the best possible rates. We have a well organised operational structure to ensure that labour is employed as effectively as possible.

KPI's used:

- EBITDA and EBITDAR per bed;
- profit margins.

Barchester Healthcare Limited

Strategic Report for the Year Ended 31 December 2016 (continued)

Occupancy

An inability to maintain and grow occupancy levels of both private and local authority funded residents is a potential risk to the business. In order to mitigate this risk, we have a proactive Sales and Marketing team who work alongside the operational team to monitor and review occupancy levels.

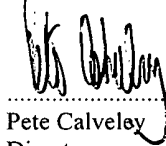
KPI's used:

- occupancy rates;
- enquiry conversion rates.

Future prospects

The Directors are pleased with the performance of the Group for the year ended 31 December 2016 and expect to see continued growth in revenue in the coming year.

Approved by the Board on 26 June 2017 and signed on its behalf by:



Pete Calveley
Director

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016

The Directors present their report and the financial statements for the year ended 31 December 2016.

Financial overview

Total revenue increased by 5.3% (2015: 2.3%) to £563.9 million in the year (2015: £535.6 million). This improvement was driven primarily by higher fee rates, with the number of available beds and occupancy decreasing slightly in 2016.

Operating profit from continuing operations for 2016 was £20.9 million (2015: £18.1 million), an increase of £2.8 million. The movement in operating profit from continuing operations year on year was impacted by a number of significant factors, including:

- current year increase in depreciation (£2.9m);
- current year restructuring costs (£1.9m);
- current year loss on disposal of fixed assets (£0.5m);
- current year increase in external rent (£1.3m); and
- prior year impairment of goodwill not recurring (£0.8m).

Adjusting for the above items, the trading performance underlying the operating profit increased by £8.6m on prior year. This was as a result of the improved revenue figures outlined above, being offset by an increase in labour costs and increases in the use of agency due to staff shortages.

Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR)

EBITDAR in the year was £163.3m (2015: £154.7m). EBITDAR margin increased slightly to 29.0% from 28.9% in 2015. The lack of a significant increase in margin, despite the significant increase in revenue can be explained by the increase in the cost of labour hours and the increased usage of agency staff, with 5.1% of hours being filled with agency staff (2015: 3.9%).

Profit before tax

Profit before tax increased by 23%, from £3.0 million to £3.7 million. This was due to the £2.8m increase in operating profit from continuing operations described above, being offset by a £2.0m increase in financing costs largely relating to homes leased on finance leases.

Cash and debt

The net debt position of the Group comprises the following elements:

	2016 £m	2015 £m
Cash	12	17
Bank loans and overdrafts	-	(14)
Net debt (excluding finance leases)	12	3
Obligations under finance leases	(162)	(154)
Net debt (including finance leases)	(150)	(151)

The decrease in net debt in 2016 was primarily as a result of the Group fully repaying its bank borrowings. One new home opened in 2016 which is subject to a new finance lease, hence the increase in finance lease obligations year on year.

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Balance sheet

Net assets at the year-end increased to £112.0 million (2015: £110.1 million), the reconciliation of the movement is shown in the consolidated statement of changes in equity on page 20.

Financial instruments

Treasury policy is that deposits will only be made and other financial instruments entered into, with parties other than the Bank, which have been approved by the Bank.

Proposed dividend

The Directors do not recommend the payment of a dividend (2015: £Nil).

Acquisitions and disposals

There were no acquisitions or disposals made during the year.

Political donations

The Group made no political donations during the year.

Directors of the Group

The Directors who held office during the year were as follows:

John Coleman - Chairman

John Bateson

Anthony Bourne

Keith Browne

Pete Calveley

David Edmonds

Mark Hazlewood

John Hegarty

Trish Morris-Thompson - Director (resigned 28 February 2017)

The following Director was appointed after the year end:

Michael O'Reilly - Company Secretary and Director (appointed 3 April 2017)

Non-Executive Chairman

~~John Coleman joined the Board on 1 March 2015 as Chairman of Barchester Healthcare Limited and of Grove Limited (Jersey), its parent. John has 15 years of experience acting as a Non-Executive Director on the Boards of various companies in different sectors, including builders merchants, travel/leisure and retail, including the value fashion retail segment. As well as acting as a Non-Executive Director, John worked as CEO of House of Fraser between 1996 and 2006 and as CEO of Texas Homecare at Ladbrokes between 1993 and 1995. Before that he was Managing Director of Dorothy Perkins from 1991 to 1993, Managing Director of Top Man and Top Shop from 1990 to 1991 and Managing Director of Top Shop from 1986 to 1990, all at the Burton Group. John is a qualified accountant and received a BAcc, in Accountancy and Economics from the University of Glasgow in 1974.~~

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Executive Directors

Dr Pete Calveley was appointed to the Board of Barchester Healthcare Limited on 1 June 2014, as Chief Executive Officer. He was formerly CEO of Four Seasons Healthcare and has had a distinguished career in the NHS. Pete is a member of the Department of Health Forward Thinking Group which informs policy decisions. He has been central to building awareness of the capability of independent operators to provide services that complement the NHS and in making the case for a joined up approach to health and social care funding. Pete's strategy saw Four Seasons Healthcare take a lead in development of higher dependency care, including an award winning dementia care programme that is studied internationally. He led the restructuring of the company's complex debt - which he inherited - whilst transforming quality of care to among the best in class; improving occupancy against the sector trend and growing capacity by 40%.

Dr Mark Hazlewood is Chief Financial Officer and was appointed to the Board on 1 April 2014. Mark has a Bachelor of Science degree from Aston University and a PhD from the Immunology Department at Birmingham Medical School. Having qualified with Coopers & Lybrand as a Chartered Accountant in 1996, Mark joined South Staffordshire Group Plc in 1997. Initially starting as a project accountant, he progressed through a number of roles to become Director of Finance in 2000. Mark was Commercial Finance Director for Homeserve Emergency Services, from 2002, where he led a number of acquisitions, conducting commercial negotiations and post-acquisition integration. He was also heavily involved in process and system developments to drive improved operational efficiency and integration. Prior to joining the Company, Mark was Group Finance Director for May Gurney Plc, where he was also a member of the Board.

Dr Michael O'Reilly was appointed to the Board of Barchester Healthcare Limited on 3 April 2017. Michael commenced his career as an engineer, with the leading international consultancy firm Arup, and later as an academic, teaching at the Universities of Nottingham and Sheffield and was from 1996 - 2000 Professor and Head of Civil Engineering at Kingston University. From 2000 he practiced construction, commercial and regulatory law as a barrister, appearing in a significant number of reported cases. He is now a solicitor. In February 2011 he was appointed by Four Seasons Health Care as Senior Legal Counsel and also took on the role of Risk Management Director. He joined Barchester in April 2017 as General Counsel and Director of Care, Risk and Compliance. He is also Company Secretary and acts as the responsible individual for healthcare regulation.

Non-Executive Directors

John Bateson joined Barchester Healthcare Limited in October 2006. John is a graduate of Trinity College Dublin and, having qualified with KPMG, is a fellow of the Institute of Chartered Accountants in Ireland. He is also a member of the Chartered Institute for Securities & Investment. In 1995 John joined International Investment and Underwriting ("IIU"), Dermot Desmond's private equity investment company. As a senior investment executive since its inception, and now Managing Director, John has been intimately involved in the creation of the current portfolio of investments and has been responsible for the identification, assessment, negotiation and structuring of prospective investments and subsequent to an investment being made, the monitoring and reporting of its performance. He has also led the negotiations for many successful exits. Prior to joining IIU, John spent six years with the corporate finance arm of NCB Group.

Anthony Bourne was appointed as a Non Executive Director to the Board in December 2011. Tony is currently a Non Executive Director at various companies including Spire Healthcare, the leading UK listed (FTSE 250) private hospital and healthcare provider (Chair of the Remuneration Committee), Totally plc, which provides clinical health coaching for people with long term conditions and Chelsea and Westminster Health Charity (Chair), one of the largest NHS charities. For nine years up to late 2013, he was Chief Executive of the British Medical Association. Prior to joining the BMA as Chief Executive, Tony was in investment banking for over 25 years, most recently as a partner at Hawkpoint. Previously, he was at BNP Paribas where he was Global Head of the Equities Division, a member of the Managing Board of the Group and a member of its four-person worldwide Corporate Finance Committee. Prior to that he was at Merrill Lynch both in London and New York. Tony has also held Non Executive Director positions with various organisations including Bioquell Plc, Southern Housing Group and Scope.

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Keith Browne was appointed to the Board as a Non-Executive Director on 28 January 2014. He holds a Bachelor of Commerce Degree from University College Dublin, from which he graduated in 1990. He became a member of the Institute of Chartered Accountants in 1994 and gained an MBA from University College Dublin in 1996. After joining KPMG Corporate Finance in 1996, Keith became a partner in KPMG in 2001 and Head of Corporate Finance in 2009. He then retired to operate as an Independent Consultant in 2011.

David Edmonds CBE joined Barchester Healthcare Limited on 1 July 2012 as a Non-Executive Director and is Chairman of the Remuneration Committee and the Quality & Clinical Governance, Investment and Nomination Committees. He was educated at the University of Keele, from which he received an Honorary Doctor of Letters degree in 2007.

He is Chairman of NHS Shared Business Services Limited, a joint venture company between the Department of Health and Steria PLC. He is Chairman of the Governing Board of Kingston University. He is a Board Member of the Trinity Laban Conservatoire, where he chairs the Audit Committee. He is also Chairman of the Phone-paid Services Authority, the UK regulator for content, goods and services charged to a phone bill.

After a career in the senior civil service, for seven years he was Chief Executive of The Housing Corporation. He spent seven years as a Managing Director within the NatWest Group. For five years, David was Director General of Telecommunications for the United Kingdom and for two years was a founding member of the Board of Ofcom. He was appointed as the inaugural Chairman of the Legal Services Board in 2008, a position he held until 2014 and was the Chair of the Board of NHS Direct from 2003-2008. David also held the position of a Commissioner at the Legal Service Commission for four years. He was Chairman of Wincanton PLC from August 2008- December 2011. He was a Board Member, Deputy Chairman and the Chairman of the London Legacy Development Corporation from 2011-2016.

Professor John Edward Hegarty, MD FRCPI FRCP joined the Board on 20 September 2011. He is a Consultant Physician/Hepatologist at St.Vincent's University Hospital, & Newman Professor of Clinical Research at University College Dublin, Medical Director at the National Liver Transplant Unit at St.Vincent's University Hospital, Medical Director of the Hepatitis C Unit at St.Vincent's University Hospital and Co Director Liver Research Group University College Dublin/Trinity College Dublin. His Post Graduate Training was at Hammersmith Hospital, St Bartholomew's Hospital and King's College Hospital London. Professor Hegarty is the author of one hundred and fifty peer reviewed scientific abstracts.

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Board committees

1. Quality & Clinical Governance Committee

- David Edmonds (Chairman)
- Anthony Bourne
- John Hegarty
- Trish Morris-Thompson

2. Investment Committee

- David Edmonds (Chairman)
- John Bateson
- Anthony Bourne
- Keith Browne
- Mark Hazlewood
- John Coleman

3. Remuneration Committee

- David Edmonds (Chairman)
- John Bateson
- Keith Browne

4. Nominations Committee

- John Coleman (Chairman)
- John Bateson
- Anthony Bourne
- Keith Browne
- David Edmonds
- John Hegarty

Independent Non-Executive Directors

- Anthony Bourne
- David Edmonds

Employee involvement

The Directors recognise the importance of human resources. Practices to provide good communications and relations with employees include providing them with information on matters of concern to them as employees. Employees or their representatives are consulted on a regular basis so that their views can be taken into account in making decisions which are likely to affect their interests.

Barchester Healthcare Limited

Directors' Report for the Year Ended 31 December 2016 (continued)

Employment of disabled persons

It is Group policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to their employment. Wherever practicable, the Group continues 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 aptitudes and abilities.

Whistle blowing policy

The employees of the Company are encouraged to express concerns or complaints, if they believe that someone may be at risk of harm, an offence has been committed, a person has failed with legal obligations, a miscarriage of justice has occurred or an individual's health and safety has been endangered. Protection is provided for those that 'blow the whistle'. The whistle blowing policy of the Company can be found on the intranet of the Company and employees have access to a free phone independent counselling and advice line.

Going concern

The Directors have reasonable expectation that the Group and Company have adequate resources to continue in operation for the foreseeable future. The Directors therefore believe that it is appropriate to prepare the financial statements on a going concern basis. Further details are in note 2 to the financial statements.

Policy for paying creditors

It is the Group's policy to pay its providers and other creditors in accordance with agreed terms and conditions.

Directors' insurance

As at the date of this report, indemnities are in force, under which the Company has agreed to indemnify the Directors and certain senior managers, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

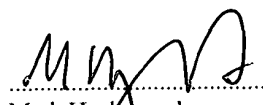
Disclosure of information to the auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

The auditor KPMG LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 26 June 2017 and signed on its behalf by:


.....
Mark Hazlewood
Director

Barchester Healthcare Limited

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 the 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 profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Barchester Healthcare Limited

Independent Auditor's Report to the members of Barchester Healthcare Limited

We have audited the financial statements of Barchester Healthcare Limited for the year ended 31 December 2016 set out of pages 16 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

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 31 December 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Barchester Healthcare Limited

Independent Auditor's Report to the members of Barchester Healthcare Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Nicola Quayle

.....
Nicola Quayle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St. Peter's Square
Manchester
M2 3AE

27 June 2017

Barchester Healthcare Limited

Consolidated Profit and Loss Account for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	3	563,937	535,612
Cost of sales		<u>(501,824)</u>	<u>(482,183)</u>
Gross profit		62,113	53,429
Administrative expenses		<u>(41,247)</u>	<u>(35,323)</u>
Operating profit	4	<u>20,866</u>	<u>18,106</u>
Interest receivable and similar income	5	3	10
Interest payable and similar charges	6	<u>(17,130)</u>	<u>(15,153)</u>
		<u>(17,127)</u>	<u>(15,143)</u>
Profit before tax		3,739	2,963
Taxation	10	<u>(1,793)</u>	<u>(2,207)</u>
Profit for the financial year		<u>1,946</u>	<u>756</u>
Profit attributable to:			
Owners of the Company		<u>1,946</u>	<u>756</u>

The above results were derived from continuing operations.

The Group has no recognised gains or losses for the year other than the results above.

Barchester Healthcare Limited

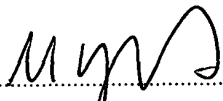
**Consolidated Statement of Comprehensive Income for the Year Ended 31 December
2016**

	2016	2015
	£ 000	£ 000
Profit for the year	<u>1,946</u>	<u>756</u>
Total comprehensive income for the year	<u>1,946</u>	<u>756</u>
Total comprehensive income attributable to:		
Owners of the Company	<u>1,946</u>	<u>756</u>

Barchester Healthcare Limited
(Registration number: 02792285)
Consolidated Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Intangible assets	11	47,800	53,962
Tangible assets	12	<u>244,149</u>	<u>236,081</u>
		<u>291,949</u>	<u>290,043</u>
Current assets			
Stocks	14	4,106	5,514
Debtors	15	92,465	87,020
Cash at bank and in hand		<u>12,267</u>	<u>17,451</u>
		108,838	109,985
Creditors: Amounts falling due within one year	16	<u>(125,279)</u>	<u>(133,235)</u>
Net current liabilities		<u>(16,441)</u>	<u>(23,250)</u>
Total assets less current liabilities		275,508	266,793
Creditors: Amounts falling due after more than one year	16	(160,929)	(153,592)
Provisions for liabilities	17	<u>(2,599)</u>	<u>(3,139)</u>
Net assets		<u>111,980</u>	<u>110,062</u>
Capital and reserves			
Share capital	19	12,913	12,913
Share premium reserve		6,643	6,643
Capital redemption reserve		186	186
Profit and loss account		<u>92,238</u>	<u>90,320</u>
Equity attributable to owners of the Company		<u>111,980</u>	<u>110,062</u>
Total equity		<u>111,980</u>	<u>110,062</u>

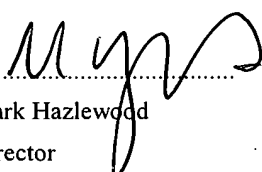
Approved and authorised by the Board on 26 June 2017 and signed on its behalf by:


 Mark Hazlewood
 Director

Barchester Healthcare Limited
(Registration number: 02792285)
Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Investments	13	8,556	8,556
Current assets			
Debtors	15	477,860	477,860
Cash at bank and in hand		8,246	8,246
		<u>486,106</u>	<u>486,106</u>
Creditors: Amounts falling due within one year	16	<u>(467,985)</u>	<u>(469,489)</u>
Net current assets		<u>18,121</u>	<u>16,617</u>
Net assets		<u>26,677</u>	<u>25,173</u>
Capital and reserves			
Share capital	19	12,913	12,913
Share premium reserve		6,643	6,643
Capital redemption reserve		186	186
Profit and loss account		<u>6,935</u>	<u>5,431</u>
Total equity		<u>26,677</u>	<u>25,173</u>

Approved and authorised by the Board on 26 June 2017 and signed on its behalf by:


.....
Mark Hazlewood
Director

Barchester Healthcare Limited

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2016	12,913	6,643	186	90,320	110,062
Profit for the year	-	-	-	1,946	1,946
Total comprehensive income	-	-	-	1,946	1,946
Share based payment transactions	-	-	-	(28)	(28)
At 31 December 2016	12,913	6,643	186	92,238	111,980

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 January 2015	12,913	6,643	186	89,691	109,433
Profit for the year	-	-	-	756	756
Total comprehensive income	-	-	-	756	756
Share based payment transactions	-	-	-	(127)	(127)
At 31 December 2015	12,913	6,643	186	90,320	110,062

The notes on pages 23 to 42 form an integral part of these financial statements.

Barchester Healthcare Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	12,913	6,643	186	5,431	25,173
Profit for the year	-	-	-	1,504	1,504
Total comprehensive income	-	-	-	1,504	1,504
At 31 December 2016	12,913	6,643	186	6,935	26,677

	Share capital £ 000	Share premium £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	12,913	6,643	186	5,057	24,799
Profit for the year	-	-	-	374	374
Total comprehensive income	-	-	-	374	374
At 31 December 2015	12,913	6,643	186	5,431	25,173

Barchester Healthcare Limited

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Cash flows from operating activities			
Profit for the year		1,946	756
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	4	27,293	25,124
Loss/(profit) on disposal of tangible assets		461	(44)
Finance income	5	(3)	(10)
Finance costs	6	17,130	15,153
Share based payment transactions		(28)	(127)
Income tax expense	10	1,793	2,207
		<u>48,592</u>	<u>43,059</u>
Working capital adjustments			
Decrease in stocks	14	1,408	293
(Increase)/decrease in trade debtors	15	(5,222)	830
Increase/(decrease) in trade creditors	16	7,524	(196)
Decrease in provisions	17	(305)	(59)
		<u>51,997</u>	<u>43,927</u>
Cash generated from operations		51,997	43,927
Income taxes paid		<u>(3,390)</u>	<u>(3,600)</u>
Net cash flow from operating activities		<u>48,607</u>	<u>40,327</u>
Cash flows from investing activities			
Interest received		3	10
Acquisitions of tangible assets		<u>(22,389)</u>	<u>(16,929)</u>
Net cash flows from investing activities		<u>(22,386)</u>	<u>(16,919)</u>
Cash flows from financing activities			
Interest paid		(1,004)	(1,197)
Repayment of bank borrowing		(13,900)	(587)
Payments to finance lease creditors		<u>(16,501)</u>	<u>(15,210)</u>
Net cash flows from financing activities		<u>(31,405)</u>	<u>(16,994)</u>
Net (decrease)/increase in cash and cash equivalents		(5,184)	6,414
Cash and cash equivalents at 1 January		<u>17,451</u>	<u>11,037</u>
Cash and cash equivalents at 31 December		<u>12,267</u>	<u>17,451</u>

The notes on pages 23 to 42 form an integral part of these financial statements.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

The Company is incorporated in England and Wales.

These financial statements were authorised for issue by the Board on 26 June 2017.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The amendments to Financial Reporting Standard 102 issued in July 2015 have been applied. The presentation currency of these financial statements is sterling.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that, as disclosed in the accounting policies, certain items are shown at fair value.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time; and
- No separate parent company Cash Flow Statement with related notes is included.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2016.

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Profit and Loss Account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The purchase method of accounting is used to account for business combinations that result in the acquisition of subsidiaries by the Group. The cost of a business combination is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the business combination. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Summary of disclosure exemption

As the Company is a wholly owned subsidiary of Grove Limited, by virtue of FRS 102 Section 33.1A the Company has not disclosed transactions with wholly owned entities which form part of the Group.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Going concern

Notwithstanding the net current liabilities of £16,441,000 (2015: £23,250,000), the Group is profitable and has the long-term support of the ultimate parent company, Grove Limited.

Grove Limited is, at the date of signing these financial statements, undergoing a renegotiation of its financing. The Directors of the Company have made appropriate enquiries to satisfy themselves that the Group has suitable offers of finance in place from external lenders, and shareholder support for shareholder loan notes, as required. As with any company placing reliance on shareholder support, there can be no guarantee that this will continue. However, as at the date of signing these financial statements, the Directors of the Company have no reason to believe that this support to the Group will not be forthcoming if required. The Directors therefore have a reasonable expectation that the Company and Group have adequate resources to continue in operation for the foreseeable future and thus continue to adopt the going concern assumption in these financial statements.

Companies within the Grove Limited group have confirmed that any amounts due from Group undertakings will not be demanded within the next year.

Judgements

Goodwill is required to be assessed for impairment each year. The Directors form an opinion on whether the carrying amount of goodwill can be supported using various KPI's. Particular focus is given to EBITDAR and the future outlook of the relevant services to which the goodwill is attributed.

The Company makes an estimate of the recoverable value of amounts owed by the group undertakings and other debtors. When assessing impairment of group and other debtors, Management considers factors including the aging profile of debtors and historical experience. See note 15 for the net carrying amount of the debtors and any associated impairment provision.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when:

- the amount of revenue can be reliably measured;
- it is probable that future economic benefits will flow to the entity;
- and specific criteria have been met for each of the Group's activities.

Tax

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

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 Group operates and generates taxable income.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and on unused tax losses or tax credits in the Group. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets

Tangible assets is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the historical cost, valuation or acquired fair value of assets less their estimated residual value, other than land and properties under construction, over their estimated useful lives, as follows:

Asset class

Freehold land and buildings
Long leasehold land and buildings
Plant and equipment

Depreciation method and rate

Straight line over 50 years
Straight line over the lease term
Straight line over 4 - 10 years

Goodwill

Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class

Goodwill

Amortisation method and rate

Straight line over 20 years

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Stocks

Close care units are classified as assets held for resale and are stated at the lower of cost and net realisable value. Costs are expenditure incurred in acquiring the close care units and bringing them to their existing condition. Net realisable value is the estimated selling price less the estimated costs of completion and selling expenses.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Group does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Group has an obligation at the reporting date as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised at the lower of their fair value at inception of the lease and the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance costs in the Profit and Loss Account and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Group has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of Grove Limited, the ultimate parent company. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

3 Revenue

The Group's turnover arises from its principal activities, being the provision of nursing & care homes and close care units in order to offer residential nursing care services. The Directors consider therefore, that turnover arises solely from the rendering of services in this area. Turnover is generated in the UK and Jersey, which the Directors have considered to be one geographic segment for reporting purposes due to their economic similarities.

4 Operating profit

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	21,131	18,179
Amortisation expense	6,162	6,945
Operating lease expense - property	114,129	112,798
Loss/(gain) on disposal of tangible fixed assets	<u>461</u>	<u>(44)</u>

The amortisation expense comprises the amortisation of goodwill in the current year, and both the amortisation and the impairment of goodwill in the prior year - more details can be found in note 11.

5 Interest receivable and similar income

	2016 £ 000	2015 £ 000
Interest income on bank deposits	<u>3</u>	<u>10</u>

6 Interest payable and similar charges

	2016 £ 000	2015 £ 000
Interest on bank overdrafts and borrowings	209	505
Interest on obligations under finance leases and hire purchase contracts	16,580	14,523
Other finance costs	<u>341</u>	<u>125</u>
	<u>17,130</u>	<u>15,153</u>

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	259,842	249,671
Social security costs	19,067	17,779
Pension costs, defined contribution scheme	3,057	2,852
Redundancy costs	1,820	137
Share-based payment expenses	(28)	(127)
	<u>283,758</u>	<u>270,312</u>

The average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Directors	9	9
Administration and support	805	814
Care	<u>15,453</u>	<u>16,800</u>
	<u>16,267</u>	<u>17,623</u>

8 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2016 £ 000	2015 £ 000
Remuneration	1,581	1,541
Contributions paid to money purchase schemes	<u>29</u>	<u>91</u>
	<u>1,610</u>	<u>1,632</u>

In respect of the highest paid Director:

	2016 £ 000	2015 £ 000
Remuneration	<u>702</u>	<u>699</u>

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

9 Auditor's remuneration

	2016 £ 000	2015 £ 000
Audit of these financial statements	17	17
Audit of the financial statements of subsidiaries pursuant to legislation	131	131
	<u>148</u>	<u>148</u>

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

10 Taxation

Tax charged in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	3,408	3,430
UK corporation tax adjustment to prior periods	(1,379)	(1,069)
	<u>2,029</u>	<u>2,361</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(944)	(154)
Arising from changes in tax rates and laws	(369)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,077	-
Total deferred taxation	<u>(236)</u>	<u>(154)</u>
Tax expense in the income statement	<u>1,793</u>	<u>2,207</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.25%).

The differences are reconciled as follows:

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Taxation (continued)

	2016 £ 000	2015 £ 000
Profit before tax	<u>3,739</u>	<u>2,963</u>
Corporation tax at standard rate	748	600
Effect of expense not deductible in determining taxable profit	1,298	1,786
UK deferred tax expense relating to changes in tax rates or laws	(368)	11
Deferred tax expense from unrecognised temporary difference from a prior period	1,077	778
Decrease in UK and foreign current tax from adjustment for prior periods	(1,379)	(1,069)
Tax decrease arising from group relief	(118)	(400)
Tax increase from transfer pricing adjustments	<u>535</u>	<u>501</u>
Total tax charge	<u>1,793</u>	<u>2,207</u>

Reductions in the UK corporation tax rate from 21% to 20% were effective from 1 April 2015. The further reductions to 19% and 17% from 1 April 2017 and 1 April 2020 respectively will reduce the Company's future tax liabilities accordingly.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

10 Taxation (continued)

Deferred tax

Group

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000
2016		
Difference between accumulated depreciation and amortisation and capital allowances	-	2,128
Other timing differences	-	40
Losses	80	-
	<u>80</u>	<u>2,168</u>
2015	Asset £ 000	Liability £ 000
Difference between accumulated depreciation and amortisation and capital allowances	-	2,373
Other timing differences	-	44
Losses	94	-
	<u>94</u>	<u>2,417</u>

11 Intangible assets

Group

	Goodwill £ 000	Total £ 000
Cost or valuation		
At 1 January 2016	<u>124,154</u>	<u>124,154</u>
At 31 December 2016	<u>124,154</u>	<u>124,154</u>
Amortisation		
At 1 January 2016	70,192	70,192
Amortisation charge	<u>6,162</u>	<u>6,162</u>
At 31 December 2016	<u>76,354</u>	<u>76,354</u>
Carrying amount		
At 31 December 2016	<u>47,800</u>	<u>47,800</u>
At 31 December 2015	<u>53,962</u>	<u>53,962</u>

The amortisation charge is included within administrative expenses.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

12 Tangible assets

Group

	Land and buildings £ 000	Plant and equipment £ 000	Properties under construction £ 000	Total £ 000
Cost or valuation				
At 1 January 2016	196,510	116,720	486	313,716
Additions	6,716	21,834	555	29,105
Disposals	(83)	(3,275)	-	(3,358)
Transfers	1,055	502	(487)	1,070
At 31 December 2016	204,198	135,781	554	340,533
Depreciation				
At 1 January 2016	21,891	55,744	-	77,635
Charge for the year	6,054	15,077	-	21,131
Eliminated on disposal	(6)	(2,376)	-	(2,382)
At 31 December 2016	27,939	68,445	-	96,384
Carrying amount				
At 31 December 2016	176,259	67,336	554	244,149
At 31 December 2015	174,619	60,976	486	236,081

Included within the net book value of land and buildings above is £Nil (2015 - £Nil) in respect of freehold land and buildings £176,259,000 (2015 - £174,619,000) in respect of long leasehold land and buildings and £Nil (2015 - £Nil) in respect of short leasehold land and buildings..

Assets held under finance leases and hire purchase contracts

The net carrying amount of tangible assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2016 £ 000	2015 £ 000
Land and buildings	145,935	144,158
Plant and equipment	4,090	3,696
	150,025	147,854

Capitalised borrowing costs

Within the cost of plant and equipment are capitalised borrowing costs of £2,499,000 (2015 - £2,499,000).

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Investments

Company

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2016	8,556
At 31 December 2016	8,556
Carrying amount	
At 31 December 2016	8,556
At 31 December 2015	8,556

Details of undertakings

Details of the investments in which the Company holds any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2016	2015
Subsidiary undertakings				
Barchester Healthcare Homes Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Stamford Bridge) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living (Chacombe) Limited	England and Wales	Ordinary	100%	100%
Gorseway Care Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living (Gorseway) Limited	England and Wales	Ordinary	100%	100%
The Mount House (Coach House) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Chorleywood) Limited	England and Wales	Ordinary	100%	100%
Barchester Assisted Living Properties (Edgbaston) Limited	England and Wales	Ordinary	100%	100%

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

13 Investments (continued)

Barchester Assisted Living Properties (Southgate) Limited	England and Wales	Ordinary	100%	100%
Lakeside Residential Home Limited	Jersey	Ordinary	100%	100%
Lakeside Residential Home (2002) Limited	Jersey	Ordinary	100%	100%
Mermaid Tavern (2002) Limited	Jersey	Ordinary	100%	100%
Westminster Health Care Holdings Limited	England and Wales	Ordinary	100%	100%
Westminster Health Care (UK) Limited	England and Wales	Ordinary	100%	100%
Westminster Health Care Group Limited	England and Wales	Ordinary	100%	100%
Westminster Securitisation Limited	England and Wales	Ordinary	100%	100%
Westminster Health Care New Limited	England and Wales	Ordinary	100%	100%
Barchester Nominee (No.1) Limited	England and Wales	Ordinary	100%	100%

Subsidiaries disclosed above but with no principal activity description below were dormant in the current and preceding year.

The registered office address of those companies registered in England and Wales is 3rd Floor, The Aspect, 12 Finsbury Square, London, EC2A 1AS.

The registered office address of those companies registered in Jersey is Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES.

14 Stocks

Group

	2016 £ 000	2015 £ 000
Consumables	832	848
Assets held for resale	3,274	4,666
	<u>4,106</u>	<u>5,514</u>

Assets held for resale consist of close care units which have been developed by the Group and are held pending resale under long-term lease arrangements. Assets held for resale are stated net of provisions of £43,000 (2015: £119,000).

The cost of stocks recognised as an expense in the year amounted to £3,321,000 (2015 - £4,667,000).

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

15 Debtors

	Group		Company	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Trade debtors	25,952	24,408	-	-
Amounts owed by related parties	37,171	33,419	477,860	477,860
Other debtors	592	1,305	-	-
Prepayments	26,473	25,834	-	-
Income tax asset	2,277	2,054	-	-
	<u>92,465</u>	<u>87,020</u>	<u>477,860</u>	<u>477,860</u>

Amounts due from related parties stated above are legally due on demand and are thus recoverable within one year. It is not expected that a demand for these amounts will be made within the next year.

16 Creditors

	Group		Company	
	2016	2015	2016	2015
	£ 000	£ 000	£ 000	£ 000
Due within one year				
Loans and borrowings	609	14,433	-	-
Trade creditors	7,389	5,912	-	-
Amounts due to related parties	60,060	62,717	467,985	467,984
Social security and other taxes	6,527	6,066	-	-
Outstanding defined contribution pension costs	447	403	-	-
Other payables	12,697	13,550	-	-
Accrued expenses and deferred income	37,550	30,154	-	-
Income tax liability	-	-	-	1,505
	<u>125,279</u>	<u>133,235</u>	<u>467,985</u>	<u>469,489</u>
Due after one year				
Loans and borrowings	<u>160,929</u>	<u>153,592</u>	<u>-</u>	<u>-</u>

Amounts due to related parties are legally due on demand and are thus due within one year, although it is not expected that a demand for these amounts will be made within the next year.

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

17 Deferred tax and other provisions

Group

	Onerous lease £ 000	Deferred tax £ 000	Total £ 000
At 1 January 2016	816	2,323	3,139
Increase in existing provisions	-	(235)	(235)
Provisions used	(305)	-	(305)
At 31 December 2016	<u>511</u>	<u>2,088</u>	<u>2,599</u>

The onerous lease relates to rent due on a building that is no longer required. The lease runs to 2018.

18 Pension and other schemes

Defined contribution pension scheme

Certain Group companies operate defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The pension charge for the year represents contributions payable by the Group to the scheme and amounted to £3,057,000 (2015 - £2,852,000).

Contributions totalling £447,000 (2015 - £403,000) were payable to the scheme at the end of the year and are included in creditors.

19 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No.	£ 000	No.	£ 000
Ordinary shares of £0.25 each	<u>51,650,824</u>	<u>12,913</u>	<u>51,650,824</u>	<u>12,913</u>

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

20 Loans and borrowings

	Group	
	2016	2015
	£ 000	£ 000
Current loans and borrowings		
Bank borrowings	-	13,900
Finance lease liabilities	609	533
	<u>609</u>	<u>14,433</u>

	Group	
	2016	2015
	£ 000	£ 000
Non-current loans and borrowings		
Finance lease liabilities	160,929	153,592

Group

Bank borrowings

The revolving credit facility is denominated in sterling with a nominal interest rate of 2.75% above LIBOR, and the final instalment is due on 1 August 2019. The carrying amount at year end is £Nil (2015 - £13,900,000).

Included in the loans and borrowings are the following amounts due after more than five years:

	2016	2015
	£ 000	£ 000
After more than five years by instalments	159,423	152,794
	<u>159,423</u>	<u>152,794</u>

Borrowings due after five years

The above represents the aggregate finance lease liability outstanding in five years in respect of the 21 (2015: 20) homes leased on finance leases to the Group.

21 Obligations under leases and hire purchase contracts

Group

Finance leases

The total of future minimum lease payments is as follows:

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

21 Obligations under leases and hire purchase contracts (continued)

	2016 £ 000	2015 £ 000
Not later than one year	16,909	14,745
Later than one year and not later than five years	75,861	72,437
Later than five years	423,506	424,265
	<u>516,276</u>	<u>511,447</u>

Operating leases

The total of future minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Not later than one year	114,828	113,274
Later than one year and not later than five years	457,403	451,316
Later than five years	1,742,721	1,831,681
	<u>2,314,952</u>	<u>2,396,271</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £114,129,000 (2015 - £112,798,000).

22 Share-based payments

Scheme details and movements

The Group operates a programme that allows certain employees to acquire shares of Grove Limited, the Company's ultimate parent. The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares.

Grant date / nature of scheme	Number of instruments	Number of instruments outstanding at the year end	Vesting conditions	Contractual life of options
Consultants Share Option grant to key management on 1 May 2005	120,000	55,000	Vested	13.5 years
Share Options grant to key management on 8 February 2005	1,680,710	-	Vested	14 years
Share Options grant to key management on 11 April 2006	301,000	20,000	Vested	12.5 years
Share Options grant to key management on 22 April 2014	176,500	55,500	Vested	4.5 years
Share Options grant to key management on 16 December 2014	50,000	50,000	Vested	4 years

The movements in the number of share options during the year were as follows:

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

22 Share-based payments (continued)

	2016 Number	2015 Number
Outstanding, start of period	258,500	383,000
Exercised during the period	(50,000)	-
Expired during the period	(28,000)	(124,500)
Outstanding, end of period	<u>180,500</u>	<u>258,500</u>

The movements in the weighted average exercise price of share options during the year were as follows:

	2016 £	2015 £
Outstanding, start of period	4.89	5.11
Exercised during the period	2.80	-
Expired during the period	6.25	5.57
Outstanding, end of period	<u>5.25</u>	<u>4.89</u>

Effect of share-based payments on profit or loss and financial position

The total credit recognised in profit or loss for the year was £28,000 (2015 - £127,000).

The total carrying amount of the liabilities arising from share-based payments at the end of the year was £43,000 (2015 - £77,000).

23 Commitments

Group

Close care units

The Group has committed to repurchase some close care units. The Directors do not envisage any impairment of the recoverable value of the underlying properties and are consequently of the opinion that no loss should be recognised by the Group in relation to these commitments.

The total of these commitments not provided in the financial statements was £2,417,000 (2015 - £2,200,000).

24 Contingent liabilities

Group

Certain subsidiary companies have sold close care units under lease arrangements that require the repurchase of the units. As at 31 December 2016 no (2015: 1) such lease arrangement remains, leaving the Group a potential repurchase obligation of £Nil (2015: £135,000).

Barchester Healthcare Limited

Notes to the Financial Statements for the Year Ended 31 December 2016 (continued)

25 Related party transactions

Group

Summary of transactions with other related parties

During the year, the Group made a charitable donation of £150,000 (2015: £150,000) to the Barchester Healthcare Foundation, of which Pete Calveley is a trustee.

The Group leased properties on operating leases from Limecay Limited which is owned by common controlling shareholders of Grove Limited. Rent payable to Limecay Limited in the year was £96,954,000 (2015: £95,834,000). As at the year end, the prepayment recognised in respect of rent payments by the Group to this related party was £22,289,000 (2015: £21,988,000).

The Group leased properties on finance leases from Garnett International SA which is owned by common controlling shareholders of Grove Limited. Lease payments made to Garnett International SA during the year totalled £3,111,000 (2015: £3,071,000). As at the year end, the finance lease liability recognised in respect of rent payments by the Group to this related party was £26,765,000 (2015: £27,186,000).

The Grove Group invoices the group headed up by Swanton Holdings (Jersey) Limited, a related party which shares common Directors and shareholders with Grove Limited, £60,000 (2015: £60,000) in respect of management charges, rental and IT services provided. As at the year end, the amount owed to the Group from this related party was £2,494,000 (2015: £1,947,000).

26 Parent and ultimate parent undertaking

The Company's immediate parent is Barchester Holdco (Jersey) Limited, incorporated in Jersey.

The ultimate parent and controlling party is Grove Limited, incorporated in Jersey. The most senior parent entity producing publicly available financial statements is Grove Limited. Its financial statements are available upon request from www.jerseyfsc.org.