

**Barchester Healthcare Limited**

**Annual Report and consolidated  
financial statements**

**Registered number 02792285  
31 December 2013**

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## Contents

	<b>Page</b>
Company information	1
Chairman's statement	2
Group Strategic report	5
Group Directors' report	7
Statement of directors' responsibilities in respect of the Annual Report and the financial statements	13
Independent auditor's report to the members of Barchester Healthcare Limited	14
Consolidated statement of comprehensive income	16
Consolidated statement of changes in equity	17
Consolidated statement of financial position	18
Consolidated statement of cash flows	19
Notes	20
Company balance sheet	49
Company reconciliation of movements in shareholders' funds	50
Notes	51

## Company Information

<b>Directors</b>	Baroness Margaret Ford (Chairman) John Bateson Anthony Bourne Mark Hazlewood John Hegarty Trish Morris-Thompson Richard Stockford David Edmonds CBE Dr Peter Calveley
<b>Secretary</b>	Ian Portal
<b>Registered office</b>	Suite 201 Design Centre East Chelsea Harbour London SW10 0XF
<b>Auditor</b>	KPMG LLP 100 Temple Street Bristol BS1 6AG
<b>Solicitors</b>	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
<b>Bankers</b>	The Royal Bank of Scotland plc AIB Group Barclays Bank Plc

## Chairman's statement

Dear Shareholder

### Introduction

2013 has been a year of change and consolidation in Barchester Healthcare Limited ("Barchester" and "Company"). During 2013, the Company said farewell to its founder, Mike Parsons, who retired as CEO after outstanding service to Barchester. We were also pleased to appoint Dr Pete Calveley as our new CEO, who joined the Company on 1<sup>st</sup> June 2014. We were incredibly fortunate to have secured the services of Willie MacDiarmid as our Interim CEO and it has been an absolute pleasure to work with Willie during an important transition where he has led the business with great authority.

Barchester continues to place an absolute premium on safe, high quality care, delivered with compassion and respect for each individual. Over twenty years we have grown by focussing on what really matters to our residents and families – high quality care in a safe, secure and homely environment. In the two years since I became Chairman, I have had the pleasure of meeting many residents across many of our homes.

### Board

Also during 2013 Edward Irwin, a long standing Director, retired from the Board having made an outstanding contribution over many years and we are very grateful to him for his wise, consistent counsel. Since the end of this reporting period, Mike Parsons retired from the Board and there have been some further changes to the Board amongst our Non-Executive colleagues. Keith Browne, a former Partner of KPMG with extensive knowledge of the healthcare sector, was appointed to replace Edward Irwin.

David Duncan, an Executive Director of Barchester has also stepped down from the Board as he moves to a different role within Barchester. We also thank David for his long service and contribution as Finance Director over many years. He was replaced on the Board by Mark Hazlewood, who was appointed as Chief Financial Officer (on 1st April 2014).

Details of all current Directors are set out on page 8.

### Corporate Governance

Barchester Healthcare Limited 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 nine times during the year and has further meetings where required. It considers clinical governance, safety, strategy and policy, approval of business plans, significant capital expenditure and other matters of strategic significance such as the financing process which successfully concluded in 2013.

To reflect the very significant five year capital investment plan which the Board has approved, we have set up a separate Investment Committee of the Board. This is chaired by David Edmonds and its members are John Bateson, Anthony Bourne, Keith Browne and Mark Hazlewood. The Committee's role is to prioritise and approve the investment programme across all our Estate. The quality of our environment is very important ingredient in the overall standard of care offered at Barchester and we aim to have the best quality homes in the sector.

The Board also has Audit, Remuneration and Nominations Committees, which comply with best practice corporate governance principles. The Committees' Terms of References are available from the Company Secretary and available on our Company website [www.Barchester.com](http://www.Barchester.com).

### Audit Committee

The Committee comprises the Non-Executive Chairman, John Bateson, and two Non-Executive Directors; David Edmonds CBE, and Tony Bourne. The members have significant financial experience due to the senior positions they hold or have held in the past. Others may also be invited to attend the meetings when appropriate. The Audit Committee held three meetings during the year to coincide with key dates in the Company's financial reporting cycle. It reports and makes recommendations to the Board. Its duties include approval of the accounting policies and reviewing, before submission to the Board, the annual report and accounts before submission to the Board. It reviews the internal controls of the Company, the internal audit function and the Company's risk management. In addition it reviews the effectiveness, independence and objectivity of the external auditors.

## **Chairmans Statement** *(continued)*

### **The Remuneration Committee**

The Remuneration Committee held six meetings during the year. The Committee comprises the Non-Executive Chairman, David Edmonds CBE, and three Non-Executive Directors; John Bateson, Richard Stockford and Keith Browne. 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.

### **The Nominations Committee**

The Nominations Committee is comprised of the Non-Executive Chairman, Baroness Ford, and six other Non-Executive Directors; John Bateson, Tony Bourne, David Edmonds CBE, Professor John Hegarty, Keith Browne and Richard Stockford. The Committee met once during the year. 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 Committees. During the year the Committee recommended the appointment of William MacDiarmid as an interim Chief Executive Officer and Executive Director.

### **The Quality & Clinical Governance Committee**

The Quality & Clinical Governance Committee's membership consists of a Non-Executive Chairman, Richard Stockford, and two Non-Executive Directors - David Edmonds CBE and Professor John Hegarty, and the Executive Director of Quality and Clinical Governance, Trish Morris-Thompson. Others are invited to attend as appropriate. The Committee met six times during 2013. The Committee 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 makes recommendations to the Board.

### **The Quality & Clinical Governance Review Panel**

The Quality & Clinical Governance Review Panel was established in January 2013 as an immediate response to the Francis enquiry. The Panel's membership consists of a Non-Executive Chairman, Richard Stockford, and one Non-Executive Director, David Edmonds CBE, and the Executive Director of Quality and Clinical Governance, Trish Morris-Thompson. Others are invited to attend as appropriate. The Panel met eight times during the year. The Panel was established to: provide an opportunity to review in detail, the performance of each region against a range of quality and governance key performance indicators; review in detail the key performance indicators on clinical and quality governance in preparation for the Quality & Clinical Governance Committee; agree which items to highlight to the Quality & Clinical Governance Committee. The Panel has completed a forensic analysis of quality and governance key performance indicators in all regions and has assisted with the development of data presentations to a high standard, which aids formal scrutiny by the Quality & Clinical Governance Committee. The executive part of the business, provides scrutiny on the Company performance against quality and governance key performance indicators. The Panel stood down, as planned, in January 2014, with its remit now fully embedded within the Quality & Clinical Governance Committee and the executive team.

### **The Investment Committee**

The Investment Committee held its first meeting on 25 November 2013. Its membership consists of a Non-Executive Chairman, David Edmonds CBE, three Non-Executive Directors, John Bateson, Tony Bourne, Keith Browne and Investment Director, David Duncan. Others are invited to attend as appropriate. The Committee met once during the year, with six meetings planned for 2014. The Committee was established in order to: approve the identified additional capital expenditure amount and to approve any projects in excess of £100K; to approve any new builds projected in accordance with the new build development process up to a maximum of five annually; and to make investment decisions, under delegated authority, granted by the Committee by the Board. The Committee makes and reports recommendations to the Board.

## **Chairmans Statement** *(continued)*

### **Conclusion**

2013 has been a hugely significant year in the growth and development of Barchester. As Government rightly continues to raise standards of care across the sectors, we continue to respond and adapt our practices, not just to comply with expected standards, but to excel and to exceed against those standards. Care is about culture and compassion and continually enhancing and safeguarding a genuinely caring culture must always be our top priority.

Our Parent Company, Grove Limited, successfully completed the refinancing of the business in 2013, repaying the vast majority of the previous debt. This leaves us amongst the best capitalised Group in our sector with no significant debt and free to invest in our staff and in the quality of our homes.

May I thank my Board and Executive colleagues for their tremendous work, and acknowledge the very strong support from our Shareholders. Finally, and on behalf of the Shareholders and the Board, may I sincerely thank all of our staff for the continuing excellent care they provide for those residents and families who entrust their care to us.

Yours faithfully

**Margaret Ford**  
Chairman

June 2014

## Group Strategic Report

The directors present their strategic report, the directors' report and the audited financial statements for the year ended 31 December 2013.

Barchester commands a leading position in the UK long term care sector and is in the UK's top four largest providers. Barchester provides in excess of 11,700 registered beds, spread across its portfolio of over 200 high quality homes with a national footprint across the UK, the largest proportion located within London and the South East and the remainder evenly spread throughout the UK. The Group has a significant number of private pay residents.

The Group's strategy is one of continued growth through the extension of existing facilities and also through the appropriate acquisitions of nursing homes of a suitable quality. The Group is especially focused on the private pay market and also on residents with specialist care needs.

### Results for the year ended 31 December 2013

A review of the business of the Group and Company can be found in the Chairman's Statement, page 2 and the Financial Review on page 7. 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 (KPI's)

The Board analyse key risks to the business and monitor exposure to these risks through a series of 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 Company's infrastructure is as fully and efficiently utilised as possible to provide appropriate returns to shareholders.

#### Reputational risk

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 are 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)

#### Health & Safety

We believe that no serious injury to staff, residents, their guests or anyone else on our premises is acceptable. Everyone in our business has accountability for health and safety, but 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:

- RIDDOR frequency
- 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

## Group Strategic Report *(continued)*

### Principal Risks and uncertainties & Key Performance Indicators (KPI's) *(continued)*

#### 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.

KPI's used:

- Staff turnover
- 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

### Future Prospects

The directors are pleased with the performance of the group for the year ended 31 December 2013 and expect to see continued growth in the coming year.



By order of the board

**Ian Portal**  
*Secretary*

Suite 201  
Design Centre East  
Chelsea Harbour  
London  
SW10 0XF

27 June 2014



## Group Directors' Report

### Financial results

#### Overview

Total revenues for the year to December 2013 were £495.5m (2012: £463.2m), an increase of 7%. This improvement was driven primarily by a greater number of residents, with a greater number of available beds and higher occupancy.

Operating profit for 2013 was £23.2m (2012: £31.0m) a decrease of 25%. The improved revenue figures outlined above, were primarily offset by an increase in external rental costs and increases in overheads.

#### EBITDAR

The EBITDAR margin was 30.5%, compared to 31.6% in 2012.

#### Profit before Tax

Profit before tax reduced by 24%, from £27.1m to £20.7m. This was due to the reasons described above, net of a benefit of £1.4 million from reduced financing costs.

#### Cash and Debt

The net debt position of the Company comprised the following elements:

	2013 £000	2012 £000
Cash	13,570	10,193
Loans		
- Bank loans	(20,000)	(15,000)
- Eurobond	(7,000)	(7,000)
	<u>(27,000)</u>	<u>(22,000)</u>
<b>Net debt (excl finance leases)</b>	<b>(13,430)</b>	<b>(11,807)</b>
Obligations under finance leases	(3,832)	(4,757)
<b>Net debt</b>	<b><u>(17,262)</u></b>	<b><u>(16,564)</u></b>

At the end of the year there was a revolving credit facility of £20.0m in place with RBS, of which £20.0m was fully drawn down in October 2013. A previous loan of £15.0m from Goldman Sachs was repaid in July 2013.

At the end of the year there was £7.0m (2012: £7.0m) outstanding on the Eurobond. This was repaid in January 2014.

#### Balance Sheet

Following the financial restructuring of the Group undertaken in the year, the balance sheet has a different structure. Total equity and liabilities have fallen to £311m (2012: £459m), the largest change being the waiver of an inter-company balance of £111.1m, to facilitate the sale of Bluehood Limited by the Grove Group.

#### Accounting Policies

All our policies are IFRS compliant and remain consistent with the previous year.

#### Financial instruments

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

## **Group Directors Report** *(continued)*

### **Proposed dividend**

A dividend in specie of £111,131,000 was paid during the year (2012: £nil), this was in the form of an waiver of intercompany indebtedness. The Directors do not recommend the payment of a further (2012: £nil).

### **Acquisitions and disposals**

Details of the acquisitions and disposals made during the year are shown in note 21.

### **Political contributions**

The Group made no political donations during the year.

### **Corporate governance responsibilities**

The Corporate Governance statement can be found in the Chairman's Statement, on page 2.

### **Employees**

The Directors recognise the importance of human resources. Practices to provide good communications and relations with employees includes providing them with information on matters of concern. 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.

It is a 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, we 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 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.

### **Board of Directors**

#### ***Non-Executive Chairman***

**Baroness Margaret Ford** joined the Board in December 2011 as Chairman of Barchester Healthcare Limited and of Grove Limited (Jersey) its parent.

She is also the Chairman of STV Group Plc and a Non-Executive Director of Grainger Plc, SEGRO Plc and Taylor Wimpey Plc. She is an Honorary Professor of Real Estate at Glasgow University and an Honorary Member of the Royal Institution of Chartered Surveyors.

In 2006 Margaret was elevated to the Peerage as The Baroness Ford of Cuninghame.

#### ***Executive Directors***

**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.

## Group Directors Report (*continued*)

### *Executive Directors (continued)*

**Professor Trish Morris-Thompson RN RM MBA BA (Hons)** was appointed to the Board of Barchester Healthcare Limited as Director of Quality and Clinical Governance on the 1 April 2013. She has over 30 years experience working in the NHS, with over 12 years as an executive director. Trish's extensive experience was undertaken in London, East Midlands, West Midlands and South Australia before returning to London in 2002. She was Chief Nurse in NE London Strategic Health Authority from 2003 to 2006. She was appointed as Chief Nurse for NHS London in October 2006. She was awarded a professor of nursing and midwifery leadership at Bucks New University in 2012. Trish is trustee to the Florence Nightingale Foundation and was a Florence Nightingale Foundation Burdett Scholar 2011/12. She is also an established author. Trish was awarded a clinical fellowship by the Royal College of Nursing for services to nursing and patient care in 2012 and she has an honorary contract with Kingston NHS Trust to practice midwifery.

**Dr Peter Calveley** was appointed to the Board of Barchester Healthcare Limited on the 1 June 2014. He was formally CEO of Four Seasons Healthcare and has had a distinguished career in the NHS. Peter 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. Peter'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%.

### *Non-Executive Directors*

**John Gerard Bateson** joined Barchester Healthcare Limited in October 2006 and is Chairman of the Audit Committee. 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 five 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 on 13 December 2011. Tony is currently a Non-Executive Director at Bioquell Plc, a London Stock Exchange listed company with a leading position in bio-decontamination and in testing, regulatory and compliance services. 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. He has also held the position of Global Head of the Equities Division, was a member of the Managing Board and also a member of the four person worldwide Corporate Finance Committee, at Paribas. Tony has worked for Merrill Lynch, both in London and New York. Tony has also held Non-Executive Director positions with various organisations including Southern Housing Group, one of the country's largest providers of social housing, where he served on the main board for nine years until 2013 and chaired the Audit Committee, the Finance Committee and the Remuneration and Nominations Committee as well as serving as a member of the Treasury Committee and Scope, which focused on cerebral palsy and is one of the UK's largest charities.

**David Edmonds CBE** joined Barchester Healthcare Limited on 1 July 2012 as a Non-Executive Director and is Chairman of the Remuneration Committee. He is also Chairman of Swanton Care and Community Limited. 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 and of E20 LLP, the company rebuilding the Olympic Stadium. He holds a number of Non-Executive Directorships, one of which is with the London Legacy Development Corporation. He is Chairman of the Governing Board of Kingston University. 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 2008m 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.

**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 peer reviewed scientific abstracts and is involved in the regular supervision of PhD and MD personnel.

## **Group Directors Report** *(continued)*

### **Non-Executive Directors** *(continued)*

**Richard Peter Heydon Stockford** was appointed Non-Executive Director on 22 November 2011 and is Chairman of the Quality and Clinical Governance Committee. He is also Patron of Social Action for Health and is Founder and Chair of Growing Points, a charity to support leadership for people from excluded communities. Richard has an Economics Degree from the University of London, a Diploma in Management Studies, a professional qualification in Business Coaching from Strathclyde University and a Post-graduate Diploma in Conflict Resolution from Lancaster University. He holds an honorary position at De Montford University Leicester. Richard coaches NHS Chief Executives, Executive Teams and Boards. He works regularly in Scandinavia and the USA leading study programmes. Richard is also author of three books on social policy, including 'Integrating Care Systems', published by Longmans in 1998.

**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.

### **Board Committees**

#### **Remuneration Committee**

- David Edmonds CBE (Chairman)
- John Gerard Bateson
- Keith Browne
- Richard Peter Heydon Stockford

#### **Audit Committee**

- John Gerard Bateson (Chairman)
- Anthony Bourne
- David Edmonds CBE

#### **Nominations Committee**

- Baroness Margaret Ford (Chairman)
- John Gerard Bateson
- Anthony Bourne
- David Edmonds CBE
- Professor John Edward Hegarty
- Richard Peter Heydon Stockford
- Keith Browne

#### **Quality & Clinical Governance Committee**

- Richard Peter Heydon Stockford (Chairman)
- David Edmonds CBE
- Professor John Edward Hegarty
- Trish Morris-Thompson

## **Group Directors Report** *(continued)*

### **Board Committees** *(continued)*

#### **Investment Committee**

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

#### **Independent Non-Executive Directors**

- Anthony Bourne
- David Edmonds CBE
- Richard Peter Heydon Stockford

#### **Directors appointed during the period**

- Trish Morris-Thompson, Executive Director, was appointed on 1 April 2013
- William MacDiarmid, Executive-Director, was appointed on 27 September 2013

#### **Directors appointed after the period**

- Keith Browne, Non-Executive Director, was appointed on 28 January 2014
- Mark Hazlewood, Executive Director, was appointed on 1 April 2014
- Peter Calveley, Executive Director, was appointed on 1 June 2014

#### **Directors who retired during the period**

- Edward Joseph Irwin, Non-Executive Director, retired on 16 December 2013

#### **Directors who retired after the period**

- Michael Dennis Parsons, Executive Director, retired on 9 January 2014
- David Duncan, Executive Director, retired on 1 April 2014

#### **Directors' Insurance**

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.

#### **Going concern**

The Directors are pleased with the performance of the Group for the year ended 31 December 2013 and confirm that they are satisfied that the Company and the Group has adequate resources to continue in operation for the foreseeable future. They continue to adopt the going concern basis in preparing the financial statements.

#### **Directors' Responsibilities**

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

## Group Directors Report *(continued)*

### Disclosure of information to auditor

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

### Auditor

Pusuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



**Ian Portal**  
*Secretary*

Suite 201  
Design Centre East  
Chelsea Harbour  
London  
SW10 0XF

**27** June 2014

## **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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.



**KPMG LLP**  
100 Temple Street  
Bristol  
BS1 6AG  
United Kingdom

## **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 2013 set out on pages 16 to 54. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 Directors' Responsibilities Statement 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 Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

- 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 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



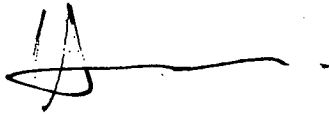
# **Independent auditor's report to the members of Barchester Healthcare Limited**

*(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.



**Nicholas Hall (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
100 Temple Street  
Bristol  
BS1 6AG

27 June 2014

## Consolidated statement of comprehensive income

for year ended 31 December 2013

	Note	2013 £000	2012 £000
<b>Revenue</b>			
Continuing operations		495,472	463,161
Acquisitions	21	18	-
	1,2	495,490	463,161
Cost of sales		(440,258)	(397,524)
<b>Gross profit</b>		55,232	65,637
Other operating income	3	21	9
Administrative expenses		(32,083)	(34,662)
<b>Operating profit / (loss) comprising:</b>			
Continuing operations		23,211	30,984
Acquisitions	21	(41)	-
		23,170	30,984
Finance income	6	42	95
Finance expenses	6	(2,496)	(3,991)
<b>Net financing expenses</b>		(2,454)	(3,896)
<b>Profit before tax</b>	4	20,716	27,087
Taxation	7	(4,471)	(7,554)
<b>Total comprehensive income for the year</b>	18	16,245	19,533
<b>Attributable to:</b>			
Equity shareholders of the parent		16,245	19,533

There were no discontinued activities in either year.

There is no difference between the results as stated above and the results on a historical cost basis.

The notes on pages 20 to 48 form part of these financial statements.

## Consolidated statement of changes in equity

for year ended 31 December 2013

### Attributable to equity shareholders of the Company

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2012	12,913	6,643	186	226,083	245,825
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	19,533	19,533
Total comprehensive income for the year	-	-	-	19,533	19,533
<b>Transactions with owners, recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Share-based payment transactions	-	-	-	(195)	(195)
Total contributions by and distributions to owners	-	-	-	(195)	(195)
<b>Balance at 31 December 2012</b>	<b>12,913</b>	<b>6,643</b>	<b>186</b>	<b>245,421</b>	<b>265,163</b>
Balance at 1 January 2013	12,913	6,643	186	245,421	265,163
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	16,245	16,245
Total comprehensive income for the year	-	-	-	16,245	16,245
<b>Transactions with owners, recorded directly in equity</b>					
<i>Contributions by and distributions to owners</i>					
Share-based payment transactions	-	-	-	158	158
Waiver of intercompany indebtedness*	-	-	-	(111,131)	(111,131)
Transactions with shareholders	-	-	-	(110,973)	(110,973)
<b>Balance at 31 December 2013</b>	<b>12,913</b>	<b>6,643</b>	<b>186</b>	<b>150,693</b>	<b>170,435</b>

\*During the year Barchester Healthcare Limited waived an intercompany receivable due from Bluehood Limited. This was to facilitate the sale of Bluehood Limited by the Grove Limited Group.

The notes on pages 20 to 48 form part of these financial statements.

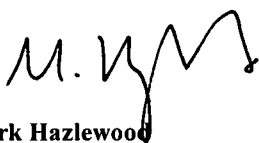
## Consolidated statement of financial position

at 31 December 2013

	Note	2013 £000	2012 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	85,623	87,734
Intangible assets	9	130,693	139,119
<b>Total non-current assets</b>		<b>216,316</b>	<b>226,853</b>
<b>Current assets</b>			
Inventories	12	6,429	7,046
Trade and other receivables	13	75,384	215,350
Cash and cash equivalents	14	13,570	10,193
<b>Total current assets</b>		<b>95,383</b>	<b>232,589</b>
<b>Total assets</b>		<b>311,699</b>	<b>459,442</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	15	13,359	16,413
Trade and other payables	16	99,539	154,051
Tax payable		3,342	6,018
Provisions	17	290	267
<b>Total current liabilities</b>		<b>116,530</b>	<b>176,749</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	15	17,933	10,344
Provisions	17	873	863
Deferred tax liabilities	11	5,928	6,323
<b>Total non-current liabilities</b>		<b>24,734</b>	<b>17,530</b>
<b>Total liabilities</b>		<b>141,264</b>	<b>194,279</b>
<b>Equity</b>			
Share capital	19	12,913	12,913
Share premium	18	6,643	6,643
Capital redemption reserve	18	186	186
Retained earnings	18	150,693	245,421
<b>Total equity</b>		<b>170,435</b>	<b>265,163</b>
<b>Total equity and liabilities</b>		<b>311,699</b>	<b>459,442</b>

The notes from pages 20 to 48 form a part of the financial statements.

These financial statements were approved by the board of directors on 27 June 2014 and were signed on its behalf by:



**Mark Hazlewood**

Director

Company Number: 02792285

## Consolidated statement of cash flows

for year ended 31 December 2013

	2013 £000	2012 £000
<b>Cash flows from operating activities</b>		
Profit for the year	16,245	19,533
<i>Adjustments for:</i>		
Depreciation, amortisation and impairment	18,717	17,749
Financial income	(42)	(93)
Financial expense	2,496	3,991
Equity-settled share-based payment (income)/expense	158	(195)
Profit on sale of property, plant and equipment	(21)	(9)
Taxation	4,471	7,554
	<u>42,024</u>	<u>48,530</u>
Increase in trade and other receivables	68,986	4,427
Increase in inventories	1,109	7
Decrease in trade and other payables	(95,172)	(3,691)
Decrease/ (increase) in provisions and employee benefits	33	(2,533)
	<u>16,980</u>	<u>46,740</u>
<b>Cash generated from operations</b>		
Interest paid	(2,556)	(4,372)
Tax paid	(7,543)	(4,885)
	<u>6,881</u>	<u>37,483</u>
<b>Net cash inflow from operating activities</b>		
<i>Cash flows from investing activities:</i>		
Proceeds from sale of property, plant and equipment	286	783
Interest received	42	95
Acquisition of trade, net of cash acquired	-	-
Acquisition of property, plant and equipment	(7,544)	(12,845)
	<u>(7,216)</u>	<u>(11,967)</u>
<b>Net cash outflow from investing activities</b>		
<i>Cash flows from financing activities:</i>		
Proceeds from new loan	20,000	15,000
Repayment of borrowings	(15,000)	(45,714)
Payment of finance lease liabilities	(1,288)	(1,371)
	<u>3,712</u>	<u>(32,085)</u>
<b>Net cash inflow/(outflow) from financing activities</b>		
<i>Net increase/(decrease) in cash and cash equivalents</i>	<u>3,377</u>	<u>(6,569)</u>
Cash and cash equivalents at 1 January	10,193	16,762
<b>Cash and cash equivalents at 31 December</b>	<u><u>13,570</u></u>	<u><u>10,193</u></u>

14

The notes on pages 20 to 48 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Barchester Healthcare Limited (the "Company") is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its Group.

#### *Statement of compliance*

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 49 to 54.

#### *Basis of preparation*

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by Group entities, except as noted below.

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

#### *Going Concern*

The directors believe that the Group is well placed to manage its business risks successfully. The Group is party to a number of financing arrangements (see note 15). The Group's forecasts and projections, sensitised to take into account all reasonably foreseeable changes in trading performance, show that the Group has sufficient funding and headroom within its current financing arrangements which expire in October 2016.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

#### *Adoption of new and revised International Financial Reporting Standards*

At the date of approval of these financial statements, the following standards, amendments and interpretations were issued but were not yet mandatory for the company and early adoption has not been applied.

- IAS 36 Amendment- Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Amendment- Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IFRS 10, IFRS 12, and IAS 27- Investment Entities
- IAS 32 Amendment- Offsetting Financials Assets and Financial Liabilities

It is not anticipated that these standards, amendments and interpretations will have a significant impact on these financial statements of the Group.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Basis of consolidation*

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

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### *Revenue*

Revenue relates to income received from residents of the Group's nursing and care homes and from the sale of close care units, and arises entirely in the United Kingdom and Jersey. Revenue from residents of the Group's nursing and care homes is recognised, as earned, through the provision of contracted services.

Each new finance lease which is granted on the close care units is recognised as a sale. Revenue from the sale of close care units is recognised on grant of lease when substantially all risks and rewards of ownership are transferred to the lessee. All rentals are received upfront.

#### *Segmental reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Board of Directors. All revenue from transactions with other operating segments of the same entity has been eliminated.

#### *Expenses*

##### *Operating lease payments*

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

##### *Finance lease payments*

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

##### *Net financing costs*

Net financing costs comprise interest payable, finance charges on finance leases, interest receivable on funds invested and dividend income (see derivative financial instruments and hedging accounting policy).

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

#### *Employee benefits*

##### *Defined contribution pension plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

##### *Share-based payment transactions*

The share option programme allows Group employees to be granted shares of the ultimate parent company, Grove Limited. These awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding adjustment to equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Income tax*

Income tax on the profit or loss for the year comprises current, group relief and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### *Property, plant and equipment*

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses.

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

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described above.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognised net within 'other operating income' in the income statement.

Depreciation is charged to the income statement to write off the cost less the estimated residual value on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful economic lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful economic lives are as follows:

Leasehold improvements	Over the life of the lease
Freehold buildings	50 years
Plant and equipment	4 to 10 years
Assets in the course of construction	Not depreciated
Land	Not depreciated

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### *Policy for interest and capitalisation*

The cost of land and buildings includes interest on the capital employed in nursing home developments and development costs associated with initiating and monitoring the construction of nursing homes. Such interest is capitalised only until the date of completion of the relevant home. The rate of interest used is the applicable cost of funds during the period.



## Notes (continued)

### 1 Accounting policies (continued)

#### *Intangible assets and goodwill*

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries. In respect of business combinations that have occurred since 1 January 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangible assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Negative goodwill arising on an acquisition is recognised in the income statement.

#### *Other intangibles*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

#### *Amortisation of intangibles*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful economic lives are as follows:

- Intellectual property 10 years

Intellectual property is defined as processes, procedures and know-how that enhance the performance of the Group and consists largely of computer software and design rights.

The valuation of intellectual property is based on a fully-loaded royalty relief method.

#### *Impairment*

The carrying amounts of the Group's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *Inventory*

Close care units are stated at the lower of cost and net realisable value. Costs are expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

Consumables are held at the lower of cost and estimated value in use.

#### *Trade and other receivables*

Trade and other receivables are stated at amortised cost.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts, that are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### *Classification of financial instruments issued by the Group*

##### *Objectives and policies*

Following the adoption of IAS 32, "financial instruments presentation", financial instruments issued by the Group are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's or Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's or Group's own equity instruments or is a derivative that will be settled by the Company's or Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's or 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.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

#### *Derivative financial instruments and hedging*

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counter parties.

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the derivative financial instrument is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

##### *Interest-bearing borrowings*

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

##### *Provisions*

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Notes (continued)

### 2 Operating segments

The Group has adopted IFRS 8 'Operating Segments' which determines and presents operating segments based on information presented to the Group's Chief Operating Decision Maker ("CODM"), the Board of Directors. The Group is operated and managed on a home by home basis. The homes are similar in characteristics, and offer similar generic products and services. Given the number of homes, the CODM receives information on an aggregated basis in respect of homes, forming one reportable segment, and information relating to close care units as another reportable segment. In accordance with IFRS 8, the close care units have not been disclosed separately since they do not meet the threshold for a separate reporting segment.

All revenues relate to the provision of services and can be split by geographic region as follows:

	2013 £000	2012 £000
<i>Geographic region</i>		
Jersey	6,147	4,586
UK	489,343	458,575
	<u>495,490</u>	<u>463,161</u>

The Board reviews the performance of the business in terms of both net profit before tax and Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA). As such the Board has included a reconciliation of EBITDA to the profit before tax:

	2013 £000	2012 £000
Profit before tax	20,716	27,087
Net finance expense	2,454	3,898
Depreciation of plant, property and equipment	10,293	9,369
Profit on sale of plant, property and equipment	(21)	(9)
Amortisation of intangibles	8,426	8,380
EBITDA	<u>41,868</u>	<u>48,725</u>

There are no differences between the measurements of the reportable segment's assets or liabilities and the entity's assets or liabilities in either year.

### 3 Other operating income

	2013 £000	2012 £000
Net profit on disposal of property, plant and equipment	<u>21</u>	<u>9</u>

The profit in the year relates mainly to the sale of assisted living units which were previously being rented.

## Notes (continued)

### 4 Profit before tax

Included in profit before tax are the following:

	2013 £000	2012 £000
Amortisation of intangibles	8,426	8,380
Movement in provisions	(217)	(2,533)
Depreciation of plant, property and equipment	10,293	9,369
Operating lease payments	108,498	98,185
	<u>108,498</u>	<u>98,185</u>

Auditor's remuneration:

	2013 £000	2012 £000
Group - audit of these financial statements	16	16
- audit of financial statements of subsidiaries	158	175
	<u>158</u>	<u>175</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 Grove Limited consolidated financial statements.

### 5 Staff numbers and costs

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

	2013	2012
Directors	10	10
Office staff	1,562	713
Care staff	16,230	15,525
	<u>17,802</u>	<u>16,248</u>

The aggregate payroll costs of these persons were as follows:

	2013 £000	2012 £000
Wages and salaries	230,507	213,050
Share based payments	158	(195)
Social security costs	16,672	16,100
Pension	2,654	1,623
	<u>249,991</u>	<u>230,578</u>

Remuneration of directors:

	2013 £000	2012 £000
Wages and salaries	2,240	1,712
Company contribution to money purchase pension schemes	137	113
	<u>2,377</u>	<u>1,825</u>

No directors exercised share options during the current or prior year. The company makes contributions into money purchase pension schemes on behalf of the directors. The aggregate emoluments of the highest paid director were £738,000 (2012: £958,000) and company pension contributions of £61,000 (2012: £63,000) were made to a money purchase pension scheme on their behalf.

## Notes (continued)

### 6 Finance income and expense

	2013 £000	2012 £000
<i>Financial income</i>	42	95
<i>Interest expense</i>		
On bank loans and overdrafts	(1,082)	(2,154)
On Eurobonds	(644)	(856)
Other financing costs	(104)	(121)
Amortised loan issue costs	-	(193)
Finance charges payable in respect of finance leases	(666)	(667)
<i>Financial expenses</i>	(2,496)	(3,991)
<i>Net financial expense</i>	(2,454)	(3,896)

The amount of interest capitalised in the year was £nil (2012: £nil) as disclosed in note 8.

### 7 Income tax expense recognised in the statement of comprehensive income

	2013 £000	2012 £000
<i>Current tax expense</i>		
Current year tax expense	6,264	9,852
Group relief	1,337	-
Adjustments in respect of prior year	(2,736)	(93)
	4,865	9,759
<i>Deferred tax credit</i>		
Origination and reversal of temporary differences	(3,025)	(2,000)
Adjustments in respect of prior year	3,196	344
Effects of change in corporation tax rate	(565)	(549)
	(394)	(2,205)
Total tax in statement of comprehensive income	4,471	7,554
<i>Reconciliation of effective tax rate</i>		
Profit before tax	20,716	27,087
Tax using the UK corporation tax rate of 23.25% (2012: 24.5%)	4,816	6,636
<i>Effects of:</i>		
Non-deductible expenses	91	864
Non-qualifying depreciation and amortisation	454	453
Impact of different tax rates	(213)	61
Group relief not paid for	(2,466)	(27)
Transfer pricing adjustments with no compensating payment	557	(130)
Adjustment in respect of prior years	459	251
Loss on disposal of qualifying assets	-	(5)
Effects of change in corporation tax rate	(565)	(549)
Long funded leases rental disallowed	1,338	-
	4,471	7,554

## Notes (continued)

### 7 Income tax expense recognised in the statement of comprehensive income(continued)

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

### 8 Property, plant and equipment

	Freehold land and buildings £000	Leasehold improvements £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
<b>Cost</b>					
Balance at 1 January 2012	7,649	28,739	71,759	3,704	111,851
Additions	-	5	10,880	4,033	14,918
Transfers	-	2,794	2,617	(5,411)	-
Disposals	-	(119)	(1,685)	(220)	(2,024)
<b>Balance at 31 December 2012</b>	<b>7,649</b>	<b>31,419</b>	<b>83,571</b>	<b>2,106</b>	<b>124,745</b>
Balance at 1 January 2013	7,649	31,419	83,571	2,106	124,745
Additions	-	9	8,031	761	8,801
Transfers	-	157	568	(725)	-
Disposals	-	(287)	(1,260)	-	(1,547)
<b>Balance at 31 December 2013</b>	<b>7,649</b>	<b>31,298</b>	<b>90,910</b>	<b>2,142</b>	<b>131,999</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2012	3,293	980	24,617	-	28,890
Depreciation charge for the year	58	831	8,480	-	9,369
Disposals	-	-	(1,248)	-	(1,248)
<b>Balance at 31 December 2012</b>	<b>3,351</b>	<b>1,811</b>	<b>31,849</b>	<b>-</b>	<b>37,011</b>
Balance at 1 January 2013	3,351	1,811	31,849	-	37,011
Depreciation charge for the year	58	1,054	9,181	-	10,293
Disposals	-	-	(928)	-	(928)
<b>Balance at 31 December 2013</b>	<b>3,409</b>	<b>2,865</b>	<b>40,102</b>	<b>-</b>	<b>46,376</b>
<b>Net book value</b>					
At 1 January 2012	4,356	27,759	47,142	3,704	82,961
At 31 December 2012 and 1 January 2013	4,298	29,608	51,722	2,106	87,734
<b>At 31 December 2013</b>	<b>4,240</b>	<b>28,433</b>	<b>50,808</b>	<b>2,142</b>	<b>85,623</b>

## Notes (continued)

### 8 Property, plant and equipment (continued)

#### *Capitalised interest*

The amount of interest capitalised in the year was £nil (2012: £nil). Accumulated interest capitalised in the cost of plant is £2,499,000 (2012: £2,499,000).

#### *Leased plant and equipment*

Included in the total net book value of plant is £3,667,000 (2012: £4,551,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets in the year was £1,288,000 (2012: £2,728,000).

#### *Security*

Bank loans and other loans are secured over all buildings of the Group by way of fixed and floating charges.

#### *Assets in the course of construction*

The additions to property, plant and equipment under construction is primarily in relation to construction of new facilities or extensions to existing facilities.

#### *Impairment*

During the year ended 31 December 2013, the Group reviewed property, plant and equipment for impairment. An impairment of £nil (2012: £nil) has been recognised.

## Notes (continued)

### 9 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
<b>Cost</b>			
Balance at 1 January 2012	124,154	83,800	207,954
Balance at 31 December 2012	124,154	83,800	207,954
Balance at 1 January 2013	124,154	83,800	207,954
Additions	-	-	-
<b>Balance at 31 December 2013</b>	<b>124,154</b>	<b>83,800</b>	<b>207,954</b>
<b>Amortisation and impairment</b>			
Balance at 1 January 2012	-	60,455	60,455
Amortisation for the year	-	8,380	8,380
Balance at 31 December 2012	-	68,835	68,835
Balance at 1 January 2013	-	68,835	68,835
Amortisation for the year	-	8,426	8,426
<b>Balance at 31 December 2013</b>	<b>-</b>	<b>77,261</b>	<b>77,261</b>
<b>Net book value</b>			
At 1 January 2012	124,154	23,345	147,499
At 31 December 2012 and 1 January 2013	124,154	14,965	139,119
<b>Balance at 31 December 2013</b>	<b>124,154</b>	<b>6,539</b>	<b>130,693</b>

The amortisation and impairment charges are recognised in the administrative expenses line within the income statement.

The recoverability of goodwill and intellectual property is assessed in comparison to the Group as a whole. The Group has restructured since the acquisition of Westminster and the cash generating unit acquired has been assumed into that of the wider Group and is no longer separately identifiable.

Intellectual property is defined as processes, procedures and know-how that enhance the performance of the Group. It includes computer software and design rights.

Goodwill is tested at least annually for impairment in accordance with IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets'.

#### Impairment testing

An impairment review at 31 December 2013 indicated that the income generating unit's market value of operating trade (deemed to be future earnings and hence equated to goodwill) exceeded its carrying amount; therefore the exercise resulted in no charge to goodwill impairment expense within the income statement.

Impairment calculations used earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets and forecasts approved by management.



## Notes (continued)

### 10 Investments in subsidiaries

#### *Interests in subsidiary undertakings:*

The directors are of the opinion that the number of undertakings in respect of which disclosure is required would lead to a statement of excessive length. Therefore, only undertakings whose results or financial position principally affect figures in the accounts have been disclosed below.

The results of all companies listed below are consolidated into those of the Group from the date of acquisition.

The main trading company of the group is Barchester Healthcare Homes Limited. The results of the company are included in the consolidated accounts. The profit for the relevant period and net assets are presented in the individual accounts of the company.

Subsidiary undertaking	Registered in	Principal activity during the year	Class and percentage of shares held	
			Group	Company
Barchester Healthcare Homes Limited	England and Wales	Management of nursing and care homes	Ordinary - 100%	Ordinary - 100%
Lakeside Residential Home Limited	Jersey	Management of care homes	Ordinary - 100%	-
Mermaid Tavern (2002) Limited	Jersey	Management of a Public house	Ordinary - 100%	-
Barchester Assisted Living Properties Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Chorleywood) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Edgbaston) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Southgate) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Stamford Bridge) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Gorseway) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Chacombe) limited	England and Wales	Senior living services	Ordinary - 100%	-

## Notes (continued)

### 11 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	£000	£000	£000	£000	£000	£000
Property, plant & equipment	-	-	2,612	3,051	2,612	3,051
Long funding leases	-	-	2,063	-	2,063	-
Intangible assets	-	-	1,373	3,442	1,373	3,442
Provisions	(21)	(30)	-	-	(21)	(30)
Tax value of loss carry-forwards	(99)	(140)	-	-	(99)	(140)
	<u>(120)</u>	<u>(170)</u>	<u>6,048</u>	<u>6,493</u>	<u>5,928</u>	<u>6,323</u>

#### Movement in deferred tax during the year

	1 January 2013	Recognised in income	31 December 2013
	£000	£000	£000
Property, plant and equipment	3,051	1,624	4,675
Intangible assets	3,442	(2,069)	1,373
Provisions	(30)	9	(21)
Tax value of loss carry-forwards	(140)	41	(99)
	<u>6,323</u>	<u>(395)</u>	<u>5,928</u>

#### Movement in deferred tax during the prior year

	1 January 2012	Recognised in income	31 December 2012
	£000	£000	£000
Property, plant and equipment	2,783	268	3,051
Intangible assets	5,836	(2,394)	3,442
Provisions	(24)	(6)	(30)
Tax value of loss carry-forwards	(67)	(73)	(140)
	<u>8,528</u>	<u>(2,205)</u>	<u>6,323</u>

## Notes (continued)

### 12 Inventories

	2013	2012
	£000	£000
Raw materials and consumables	807	795
Assets held for resale	5,622	6,251
	<u>6,429</u>	<u>7,046</u>

Assets held for resale have been developed by the Group and are held pending resale under long term lease arrangements. The units held in inventory at year end are held at the lower of cost and market value less costs to sell, based on management's best estimate.

The inventory value of close care units that has been recognised within cost of sales in the profit and loss account for the current year is £5,299,000 (2012: £2,415,253). This is in relation to revenue recognised on the sale of close care units during the year. There are no provisions held in respect of either raw materials and consumables or close care units (2012: £nil).

### 13 Trade and other receivables

	2013	2012
	£000	£000
Trade receivables	9,869	7,888
Receivables due from group undertakings	33,193	179,595
Other receivables and prepayments	32,322	27,867
	<u>75,384</u>	<u>215,350</u>

The amounts due from group undertakings are unsecured and not subject to any fixed repayment date.

The Group's exposure to credit risks are disclosed in note 20.

### 14 Cash and cash equivalents

	2013	2012
	£000	£000
Cash and cash equivalents per balance sheet and cash flow statement	<u>13,570</u>	<u>10,193</u>

The Group's exposure to interest rate risk is disclosed in note 20.

## Notes (continued)

### 15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 20.

	2013 £000	2012 £000
<b>Non-current liabilities</b>		
Secured bank loans	15,000	-
Finance lease liabilities	2,933	3,344
Eurobonds	-	7,000
	<u>17,933</u>	<u>10,344</u>
<b>Current liabilities</b>		
Current portion of secured bank loans	5,000	15,000
Current portion of finance lease liabilities	1,359	1,413
Current portion of Eurobonds	7,000	-
	<u>13,359</u>	<u>16,413</u>

## Notes (continued)

### 15 Interest-bearing loans and borrowings (continued)

#### Terms and debt repayment schedule

Analysis of total borrowings (excluding other financial liabilities, finance leases and interest bearing inter-company borrowings):

	2013 £000	2012 £000
Bank loans and other loans falling due:		
In one year or less	12,000	15,000
Between one and two years	-	7,000
Between two and five years	15,000	-
	<u>27,000</u>	<u>22,000</u>

The bank loans and Eurobonds are secured over certain assets of the Group by way of fixed and floating charges, and obligations under finance leases are secured over the assets to which they relate. The Eurobonds bear interest with reference to LIBOR.

The Goldman Sachs bank loan was fully repaid on 31 July 2013.

A new RBS facility was drawn down on 5 October 2013. £5,000,000 must be repaid by 5 October 2014, and the loan must be fully repaid by 5 October 2016.

The bank loans all bear interest at a margin over LIBOR (see below). The following were the rates applying at the year end:

	Amount outstanding at 2013 year end £000	Amount outstanding at 2012 year end £000	Margin %
Bank loans (gross of unamortised finance costs)			
RBS Revolving facility	20,000	-	2.75
Goldman Sachs	-	15,000	4.00
	<u>20,000</u>	<u>15,000</u>	

#### Finance lease liabilities

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2013 £000	2012 £000
Within one year	1,822	2,013
In the second to fifth years	3,516	4,764
	<u>5,338</u>	<u>6,777</u>
Less future finance charges	(1,046)	(2,020)
	<u>4,292</u>	<u>4,757</u>

## Notes (continued)

### 16 Trade and other payables

	2013 £000	2012 £000
<i>Current</i>		
Trade payables	5,882	5,235
Non-trade payables and accrued expenses	35,067	36,470
Interest payable	607	667
Payables due to group undertakings	57,983	111,679
	<u>99,539</u>	<u>154,051</u>

The amounts owed to group undertakings are unsecured, interest free and not subject to any fixed repayment date.

### 17 Provisions

	Onerous lease £000	Deferred tax £000	Total £000
Balance at 1 January 2013	1,130	6,323	7,453
Provisions utilised during the year	(357)	(395)	(752)
Provisions (released)/provided during the year	390	-	390
<b>Balance at 31 December 2013</b>	<b>1,163</b>	<b>5,928</b>	<b>7,091</b>
Current	290	-	290
Non-current	873	5,928	6,801
	<u>1,163</u>	<u>5,928</u>	<u>7,091</u>

#### *Expected timing of any resulting outflows*

##### **Onerous lease**

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

##### **Deferred tax**

The deferred tax liability at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date (see note 11 for further analysis).

## Notes (continued)

### 18 Capital and reserves

#### Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	12,913	6,643	186	226,083	245,825
Total comprehensive income for the year	-	-	-	19,533	19,533
Adjustment in respect of IFRS2, equity settled share adjustment	-	-	-	(195)	(195)
Balance at 31 December 2012	<u>12,913</u>	<u>6,643</u>	<u>186</u>	<u>245,421</u>	<u>265,163</u>
Balance at 1 January 2013	12,913	6,643	186	245,421	265,163
Total comprehensive income for the year	-	-	-	16,245	16,245
Waiver of intercompany indebtedness*	-	-	-	(111,131)	(111,131)
Adjustment in respect of IFRS2, equity settled share adjustment	-	-	-	158	158
Balance at 31 December 2013	<u>12,913</u>	<u>6,643</u>	<u>186</u>	<u>150,693</u>	<u>170,435</u>

\*During the year Barchester Healthcare Limited waived an intercompany receivable due from Bluehood Limited. This was to facilitate the sale of Bluehood Limited by the Grove Limited Group.

### 19 Share capital

	2013 £000	2012 £000
Ordinary shares of 25p each		
<i>Allotted, called up and fully paid</i>		
51,650,824 shares (2012: 51,650,824)	<u>12,913</u>	<u>12,913</u>

## Notes (continued)

### 20 Financial instruments

The financial instruments note is in relation to Barchester Healthcare Limited and its subsidiaries (*The Group*).

The Group has exposure to the following risks from its normal course of the business:

- Credit risk
- Liquidity risk
- Interest rate risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group obtains finance from a mixture of bank loans and capital market issues in sterling at fixed and floating rates of interest. Facilities are monitored against predicted borrowing levels and are increased or cancelled as necessary to ensure that there is sufficient committed headroom to accommodate foreseen operational requirements. Uncommitted bank facilities are maintained and used to provide flexibility and more advantageous terms. The Group's main financial covenants in longer term facilities are in respect of interest cover.

The Treasury policy is that deposits will only be made, and other financial instruments entered into, with bank counter parties that have been approved by the board.

#### **Capital risk management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of the business.

The capital structure of the Group consists of debt which includes the borrowings disclosed in note 15 and shareholder's equity comprising issued share capital, reserves and retained earnings disclosed in notes 18 and 19.

The capital structure of the Group is reviewed annually with reference to the costs applicable to each element of capital, future requirements of the Group, flexibility of capital drawdown and availability of further capital should it be required.

The Group's borrowings allow developments to existing properties without the need to secure specific funding for individual projects.

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customers domicile has less of an influence on credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain predetermined amount. The majority of the Group's customers are required to pay for services in advance.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.



## Notes (continued)

### 20 Financial instruments (continued)

#### Credit risk (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2013	2012
	£000	£000
Loans and receivables*	44,092	188,593
Cash and cash equivalents	13,570	10,193
	<u>57,662</u>	<u>198,786</u>

\* This balance represents trade and other receivables net of interest bearing loans and borrowings.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	2013	2012
	£000	£000
<i>Geographic region</i>		
Jersey	104	223
UK	9,765	7,665
	<u>9,869</u>	<u>7,888</u>

The maximum exposure to credit risk for trade receivables at the balance sheet date by type of counterparty was:

	2013	2012
	£000	£000
<i>Type of counterparty</i>		
Public sector	7,787	5,482
Individuals	2,082	2,406
	<u>9,869</u>	<u>7,888</u>

The ageing of trade receivables that have not been provided for are:

	2013	2012
	£000	£000
<i>Not yet due</i>		
Current	1,121	1,365
<i>Overdue</i>		
1-29 days	4,201	2,887
30-59 days	1,391	1,096
60-89 days	370	392
90-119 days	461	370
120 days +	2,325	1,778
	<u>9,869</u>	<u>7,888</u>

Based in historic payment profiles, the Board of Directors are confident that the overdue amounts are fully recoverable.

## Notes (continued)

### 20 Financial instruments (continued)

#### Credit risk (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2013 £000	2012 £000
Balance at beginning of year	1,297	1,451
Impairment increased/(reversed)	133	(154)
Balance at end of year	<u>1,430</u>	<u>1,297</u>

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group uses financial instruments, comprising bank overdraft and various items including trade receivables and trade payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by overdraft facilities and the RBS revolving credit facility.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2013					2012				
	Carrying amount	Contractual cash flows	1 year or less	1 to <2years	2 to <5years	Carrying amount	Contractual cash flows	1 year or less	1 to <2years	2 to <5years
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Non-derivative financial liabilities</b>										
Secured bank loans	20,000	21,723	5,625	626	15,470	15,000	15,188	15,188	-	-
Finance lease liabilities	4,293	5,856	1,805	1,806	2,243	4,757	6,777	2,013	2,013	2,751
Trade and other payables	99,539	99,539	99,539	-	-	154,053	154,053	154,053	-	-
	<u>123,832</u>	<u>127,118</u>	<u>106,969</u>	<u>2,432</u>	<u>17,713</u>	<u>173,810</u>	<u>176,018</u>	<u>171,254</u>	<u>2,013</u>	<u>2,751</u>

The above assumes that interest rates remain constant at the year end rate. See below for sensitivity analysis regarding fluctuations in interest rates.

#### Interest rate risk

Interest rate risk is the risk that the Group will be susceptible to large fluctuations in interest rates and hence the interest payable on its bank debts.

The Group has floating interest rates on bank debts.

## Notes (continued)

### 20 Financial instruments (continued)

#### Sensitivity analysis

An increase of 100 basis points in interest rates at the balance sheet date would have decreased equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis as for the year ended 31 December 2013.

	2013 £000	2012 £000
Equity Decrease	-	-
Profit Decrease	(147)	(427)

#### Interest rate profile of financial instruments at the year end

The interest rate profile of the financial liabilities of the Group is set out in the table below.

	2013 £000	2012 £000
Floating rate financial liabilities	30,832	28,777

The floating rate borrowings bear interest at rates based on LIBOR for periods ranging from one day to six months.

The interest rate profile of the financial assets of the Group is set out in the table below:

	2013 £000	2012 £000
Floating rate assets	13,570	10,193

The cash and liquid resources, where interest bearing, attract interest at floating rates based on LIBOR for three months or less.

## Notes (continued)

### 20 Financial instruments (continued)

#### Fair value

The estimated fair value of the Group's financial instruments is set out below:

#### Financial assets

	2013		2012	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Trade and other receivables	75,384	75,384	215,350	215,350
Cash and cash equivalents	13,570	13,570	10,193	10,193
	<u>88,954</u>	<u>88,954</u>	<u>225,543</u>	<u>225,543</u>

#### Financial liabilities

	2013		2012	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Borrowings due within one year	13,359	13,359	16,413	16,413
Borrowings due after one year	17,933	17,933	10,344	10,344
	<u>31,292</u>	<u>31,292</u>	<u>26,757</u>	<u>26,757</u>

#### Cash at bank and liquid resources

The carrying value approximates to fair value because of the short maturity of obtaining the cash.

	Carrying amount and fair value 2013 £000	Carrying amount and fair value 2012 £000
<b>IAS 39 categories of financial instruments</b>		
Other financial liabilities measured at amortised cost (note 15)	4,293	4,757
Trade and other payables (note 16)	99,539	154,053
Other interest-bearing loans and borrowings (note 15)	27,000	22,000
	<u>130,832</u>	<u>180,810</u>

## Notes (continued)

### 21 Acquisitions

a) Barchester Healthcare Homes Limited acquired Barchester Assisted Living Properties (Gorseway) Limited on 13 September 2013. The net assets acquired and consideration paid is set out below:

	Book value and fair value £000
<b>Fixed assets</b>	
Investments	-
<b>Current assets</b>	
Stock	102
Debtors	25,712
<b>Total assets</b>	<u>25,814</u>
<b>Creditors</b>	<u>(141)</u>
<b>Net Assets</b>	25,673
<b>Goodwill</b>	-
<b>Purchase consideration and costs of acquisition</b>	<u><u>25,673</u></u>

The acquisition was accounted for by the acquisition method of accounting.

The purchase consideration was settled via inter-company.

For the period ended 31 December 2013, Barchester Assisted Living Properties (Gorseway) Limited reported audited turnover of £12,000 and a profit after tax of £151,000.

b) Barchester Healthcare Homes Limited acquired Barchester Assisted Living Properties (Chacombe) Limited on 13 September 2013. The net assets acquired and consideration paid is set out below:

	Book value and fair value £000
<b>Current assets</b>	
Stock	390
Debtors	13,113
<b>Total assets</b>	<u>13,503</u>
<b>Creditors</b>	<u>-</u>
<b>Net Assets</b>	13,503
<b>Goodwill</b>	-
<b>Purchase consideration and costs of acquisition</b>	<u><u>13,503</u></u>

The acquisition was accounted for by the acquisition method of accounting.

The purchase consideration was settled via inter-company.

For the period ended 31 December 2013, Barchester Assisted Living Properties (Chacombe) reported audited turnover of £5,000 and a loss after tax of £52,000.

## Notes *(continued)*

### 21 Acquisitions *(continued)*

c) Barchester Healthcare Homes Limited acquired Gorseway Care Limited on 13 September 2013. The net assets acquired and consideration paid is set out below:

	Book value and fair value £000
<b>Current assets</b>	
Debtors	1,325
	<hr/>
<b>Total assets</b>	1,325
	<hr/>
<b>Creditors</b>	-
	<hr/>
<b>Net Assets</b>	1,325
<b>Goodwill</b>	-
	<hr/>
<b>Purchase consideration and costs of acquisition</b>	1,325
	<hr/>

The acquisition was accounted for by the acquisition method of accounting.

The purchase consideration was settled via inter-company.

For the period ended 31 December 2013, Gorseway Care Limited reported audited turnover of £nil and a profit after tax of £nil.

## Notes (continued)

### 22 Employee share schemes

#### Share based payments - Group

The Company operates a programme that allows certain employees to acquire shares of the ultimate parent company, Grove Limited.

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	95,000	Vested	13.5 years
Approved Share Options grant to key management on 31 August 2004	589,414	14,000	Vested	14.5 years
Approved Share Options grant to key management on 8 February 2005	1,680,710	37,500	Vested	14 years
Approved Share Options grant to key management on 11 April 2006	214,570	146,428	Vested	12.5 years
Share Options grant to key management on 11 April 2006	86,430	58,572	Vested	12.5 years

The number and weighted average exercise prices of share options are as follows:

	2013 £ Weighted average exercise price	2013 Number of options	2012 £ Weighted average exercise price	2012 Number of options
Outstanding at the beginning of the year	2.72	365,500	4.88	1,014,000
Forfeited/expired during the year	1.75	(14,000)	6.15	(648,500)
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the period	2.76	351,500	2.72	365,500
Exercisable at the end of the period	2.76	351,500	2.72	365,500

The options outstanding at the year end have an exercise price in the range of £1.75 to £2.80.

The total expenses recognised for the year arising from share based payments are as follows:

	2013 £000	2012 £000
Approved Share Options granted between 2004 and 2006	135	(195)
Social Security expense linked to share based payments	24	-
Total expense recognised as employee costs	159	(195)
Total carrying amount of liabilities for cash settled arrangements	97	73
Total intrinsic value of liabilities in respect of vested benefits	656	301

## Notes (continued)

### 22 Employee share schemes (continued)

#### Share based payments - Company

Barchester Healthcare Limited, the Company had no share options granted or exercised and had no options which vested during the period. There are no outstanding options at the year end. Consequently, the charge for the year is £nil (2012: £nil).

### 23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 £000	2012 £000
Less than one year	119,589	103,531
Between one and five years	477,904	414,124
More than five years	2,243,727	2,040,838
	<u>2,841,220</u>	<u>2,558,493</u>

During the year £108,498,000 was recognised as an expense in the income statement in respect of operating leases (2012: £97,531,096).

Leases represent nursing homes leased from Barchester PropCo Limited, Barchester PropCo Two Limited, and Barchester PropCo Three Limited, which are related undertakings and Limecay International Limited which shares common controlling shareholders with Grove Limited. Leases have also been entered into with unrelated third party companies.

### 24 Capital commitments

Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2013 £000	2012 £000
Contracted but not provided (land and buildings)	<u>213</u>	<u>115</u>

### 25 Contingencies

Certain subsidiary companies have sold close care units under arrangements whereby the group could have to re-purchase the units, in certain circumstances, at the higher of a discount to the cost or a discount to the market value. As at 31 December 2013 the total potential repurchase commitment notified to the Group was £2,121,000 (2012: £2,415,000). Due to uncertainties relating to the amount and timing of outflow the aggregate potential maximum repurchase obligation is estimated at £34,640,000 (2012: £18,463,000). The directors do not estimate any impairment of the recoverable value of the underlying properties.

### 26 Pension scheme

Certain Group companies operate defined contribution pension schemes. The assets of the scheme are held separately from those of the company in an independently administered fund. The Group also pays amounts directly to other employees for contribution into their own pension funds. The pension cost charge for the year represents contributions payable by the Group and amounted to £2,654,000 (2012: £1,623,000).

At the year end there were £383,000 (2012: £131,000) of outstanding contributions.



## Notes (continued)

### 27 Accounting estimates and judgements

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

#### *Key sources of estimation uncertainty*

Note 8 and note 1 give detailed analysis about the useful economic lives of depreciable assets. Note 9 and note 1 give an analysis about goodwill. Note 22 gives detailed analysis about the assumptions given for employee share schemes.

#### *Critical accounting judgements in applying the Group's accounting policies*

Certain critical accounting judgements in applying the Group's accounting policies are described below:

The close care units, treat each new signing of a lease as a "sale", recognising the full amount of profit on completion.

The internal lease arrangement between the operating companies (subsidiaries of Barchester Healthcare Limited) and Bluehood Limited (sold by the Grove Limited Group during the year- see note 28) and Barchester PropCo Two Limited, which are related undertakings, is treated as an operating lease. The third party leases entered into in the current and preceding years are also treated as operating leases as per the criteria according to IAS 17.

The provision and assumptions in relation to the onerous lease are shown in note 17.

In recognising the tax losses an assumption has been made about the future profit of the group. It has been assumed that there will be sufficient profit to offset the prior losses.

It is appropriate not to recognise any impairment losses in relation to the intangible fixed assets and tangible fixed assets, except as otherwise stated.

It is appropriate to measure the share based payments based on the assumption that they are equity settled.

### 28 Related parties

#### *Identity of related parties*

The Group has a related party relationship with its immediate and ultimate parent undertakings, the immediate and ultimate parents' subsidiaries, its own subsidiaries and with its directors.

Included in non-current interest-bearing loans and borrowings is £7,000,000 (2012: £7,000,000) due to the ultimate parent company, Grove Limited, in relation to long-term funding arrangements.

#### *Transactions with key management personnel*

There were no transactions with key management personnel, except for remuneration and share option transactions which are disclosed in note 22.

#### *Other related party transactions*

During the year, Barchester Healthcare Homes Limited made a charitable donation of £150,000 (2012: £150,000) to the Barchester Healthcare Foundation, of which Mike Parsons is a trustee.

The Group leased properties from Bluehood Limited, a 100% owned subsidiary of Grove Limited on an operating lease. Grove Limited disposed of Bluehood Limited in September 2013. The Group continues to lease properties from Bluehood Limited, renamed Limecay Limited post sale, which is now owned by common controlling shareholders of Grove Limited.

Rent payable to Bluehood Limited during the year was £59,522,000 (2012: £85,141,000) and rent payable to Limecay Limited was £25,575,000 (2012: £nil). Prepayments of £21,100,000 (2012: £nil) were outstanding at year end in respect of rent payments by the Group made to Limecay Limited.

Barchester PropCo Limited, Barchester PropCo Two Limited, and Barchester PropCo Three Limited, all 100% owned subsidiaries of Grove Limited, lease the properties to the Group on operating leases. The total amount payable to these related parties for rent during the year was £12,796,000 (2012: £12,390,000). Prepayments of £2,914,000 (2012: £2,825,000) were outstanding at year end in respect of rent payments by the Group to these related parties.

## Notes (continued)

### 28 Related parties (continued)

The Group leased properties from Garnett International SA which is owned by common controlling shareholders of Grove Limited. Rent payable to Garnett International SA during the year was £2,677,000 (2012: £1,135,000). Prepayments of £718,000 (2012: £449,000) were outstanding at year end in respect of rent payments by the Group made to Garnett International SA.

### 29 Ultimate parent company and parent company of larger group

The Company is a wholly owned subsidiary undertaking of Barchester HoldCo (Jersey) Limited, a company incorporated and registered in Jersey.

The Company's ultimate parent undertaking is Grove Limited, a company incorporated and registered in Jersey.

The smallest group in which the results of the Company are consolidated is that headed by Barchester Healthcare Limited. The largest group in which the results of the Company are consolidated is that headed by Grove Limited. The consolidated accounts of Grove Limited are available to the public and may be obtained from [www.jerseyfsc.org](http://www.jerseyfsc.org).

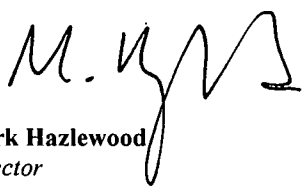
## Company balance sheet

at 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
<b>Fixed assets</b>					
Investments	35		8,556		8,556
<b>Current assets</b>					
Debtors	36	629,008		759,279	
Cash at bank and in hand		8,059		4,493	
		<u>637,067</u>		<u>763,772</u>	
<b>Creditors: amounts falling due within one year</b>	37	<u>(618,926)</u>		<u>(626,450)</u>	
<b>Net current assets</b>			<b>18,141</b>		<b>137,322</b>
<b>Total assets less current assets</b>			<b>26,697</b>		<b>145,878</b>
<b>Creditors: amounts falling due after more than one year</b>	38		-		(7,000)
<b>Net assets</b>			<b>26,697</b>		<b>138,878</b>
<b>Capital and reserves</b>					
Called up share capital	39		12,913		12,913
Share premium account	40		6,643		6,643
Capital redemption reserve	40		186		186
Profit and loss account	40		6,955		119,136
<b>Shareholder's funds</b>			<b>26,697</b>		<b>138,878</b>

The notes from pages 51 to 54 form a part of the financial statements.

These financial statements were approved by the board of directors on 27 June 2014 and were signed on its behalf by:



**Mark Hazlewood**  
Director

Company Number: 02792285

**Company reconciliation of movements in shareholder's funds**  
*for the year ended 31 December 2013*

	<b>2013</b> <b>£000</b>	2012 £000
<b>Loss for the financial year</b>	<b>(1,051)</b>	(2,102)
Waiver of intercompany indebtedness*	<b>(111,130)</b>	-
<b>Net decrease in shareholder's funds</b>	<b>(112,181)</b>	(2,102)
Opening shareholder's funds	<b>138,878</b>	140,980
<b>Closing shareholder's funds</b>	<b>26,697</b>	138,878

\*During the year Barchester Healthcare Limited waived an intercompany receivable due from Bluehood Limited. This was to facilitate the sale of Bluehood Limited by the Grove Limited Group.

The notes from pages 51 to 54 form a part of the financial statements.

## Notes (forming part of the financial statements)

### 30 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

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

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 '*related party disclosures*' and has therefore not disclosed transactions or balances with entities which form part of the Group.

The financial statements of the Company have been prepared on a going concern basis as the Company has net assets as well as the support of its ultimate parent company, Grove Limited.

#### *Going concern*

The directors believe that the Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

#### *Taxation*

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 '*Deferred tax*'.

#### *Classification of financial instruments issued by the Company*

Following the adoption of FRS 25, '*financial instruments*' issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds, are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

#### *Investments*

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

## Notes (continued)

### 31 Remuneration of directors

The directors received no emoluments for services to the Company during the year. The directors received remuneration for services to Grove Limited of which Barchester Healthcare Limited is a subsidiary undertaking, however the proportion attributable to their services to Barchester Healthcare Limited is not separately identifiable.

### 32 Staff numbers and costs

There were no persons employed by the Company during the year (2012: *nil*), except for directors.

### 33 Auditor remuneration

Amounts paid to the Company's auditor in respect of services to the Company are £16,000 (2012: 16,000).

### 34 Dividends

Dividends totalling £nil (2012: *£nil*) were received in the year. A dividend in specie totalling £111,130,000 (2012: *£nil*) was paid comprising of an intercompany receivable due from Bluehood Limited. This was to facilitate the sale of Bluehood Limited by the Grove Limited Group.

### 35 Fixed asset investments

	Shares in subsidiary undertakings £000
<i>Cost and net book value</i>	
At beginning and end of the year	8,556

Note 10 discloses key subsidiary undertakings.

### 36 Debtors

	2013 £000	2012 £000
Amounts owed by group undertakings	619,867	750,138
Other debtors	9,141	9,141
	<u>629,008</u>	<u>759,279</u>

## Notes (continued)

### 37 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Eurobonds*	7,000	-
Amounts owed to group undertakings	611,358	625,816
Accruals and deferred income	568	634
	<u>618,926</u>	<u>626,450</u>

### 38 Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Eurobonds*	-	7,000
	<u>-</u>	<u>7,000</u>

\*The Eurobonds were issued by Barchester Healthcare Limited and fully taken up by Grove Limited, the parent company, on 3 February 2005. The bonds initially matured on 26 February 2009 with interest payable at 8% per annum over LIBOR. During 2009, the Group negotiated that the Eurobonds would be extended for 5 years until 2014. The bonds were fully repaid on 31 January 2014.

Analysis of total borrowings (excluding interest bearing intercompany borrowings):

	2013 £000	2012 £000
Bank loans and other loans falling due (net of unamortised issue costs):		
In one year or less	7,000	-
Between one and two years	-	7,000
Between two and five years	-	-
	<u>7,000</u>	<u>7,000</u>

## Notes (continued)

### 39 Called up share capital

	2013 £000	2012 £000
<i>Allotted, called up and fully paid</i>		
51,650,824 (2012 : 51,650,824) Ordinary shares of £0.25 each	12,913	12,913
	<u>12,913</u>	<u>12,913</u>

### 40 Share premium and reserves

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At beginning of year	6,643	186	119,136
Loss for the year	-	-	(1,051)
Waiver of intercompany indebtedness*	-	-	(111,130)
<b>At end of year</b>	<u>6,643</u>	<u>186</u>	<u>6,955</u>

\*During the year Barchester Healthcare Limited waived an intercompany receivable due from Bluehood Limited. This was to facilitate the sale of Bluehood Limited by the Grove Limited Group

### 41 Guarantees

The Company has guaranteed the overdrafts of its subsidiaries; the amount outstanding at the year end was £6,027,000 (2012: £5,779,000). Where the Company has entered into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company consider these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### 42 Commitments

The Company has no capital commitments at the end of the financial year for which no provision has been made.

The Company has no annual commitments under non-cancellable operating leases.