Mimosa Healthcare Limited

Directors' report and financial statements

Registered number 03788573

31 May 2012

Contents

Company information

Directors	AGK Massouras J Redpath
Registered office	Mimosa Healthcare Holdings Limited New Vernon House Vernon Avenue Beeston Nottingham NG9 2NS
Company number	03788573
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ

Directors' report
for the period ended 31 May 2012

The directors present their report together with the audited financial statements for the year ended 31 May 2012

Results and dividends

The attached profit and loss account shows the result for the period

The directors do not recommend the payment of the dividend *(2011 £nil)*

Principal activities, trading review and future developments

The company is a subsidiary of Mimosa Healthcare Holdings Limited The group provides residential care services for the elderly and detoxification and rehabilitation services for alcohol dependency The directors do not believe a trading review of the company in isolation would be meaningful and so have set out below their commentary on the performance for the group as a whole

Key performance indicators

The groups key performance indicators were as follows -

	31 May 12	31 May 11
Occupancy	**78.9%**	82 8%
EBITDA (also before rent and exceptional items) as a % of Sales	**9.0%**	18 0%

Outlook

With a majority of the clients that the group supports funded through the public sector, the continued constraints on public sector expenditure is hampering growth in occupancy levels With clients being placed with increasing acuity of need and higher levels of respite placements, overall occupancy levels have fallen although client flow has increased This is further compounded by intense scrutiny from both CQC and local authorities who are more likely to implement temporary suspensions on placement

The group has seen the quality of the outcome of its' inspection rise from CQC and we remain committed to delivering a high standard of care as essential to the welfare of our clients and a key differentiator in a competitive market With strong quality underpinnings it is our expectation that this will produce sustainable improvements in occupancy levels delivering improved financial performance The group however, continues to work closely with its landlords to ensure that each location remains fit for purpose and is economically viable in the medium term, this has again resulted in the group closing a care home in a saturated market and returning the property to the landlord for alternative use We continue to invest in our colleagues to deliver higher qualities of dementia and palliative care to enable the group to best meet the strongest areas of service demand over the coming years

Further discussion is provided around the going concern uncertainties in note 1 to these financial statements

Directors

The directors who served during the period and at the date of this report were as follows

A G K Massouras
J Redpath

Directors' report
for the period ended 31 May 2012 (continued)

Disclosure of information to auditors

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

Charitable donations

During the period the group paid charitable donations totalling £nil *(2011 £nil)*

Auditors

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

By order of the Board

AGK Massouras
Director

Dated 27 February 2013

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the 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 company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

KPMG

Independent auditor's report to the members of Mimosa Healthcare Limited

We have audited the financial statements of Mimosa Healthcare Limited for the year ended 31 May 2012 set out on pages 6 to 14 The financial reporting framework that has been applied in their preparation 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 May 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern The group has breached its banking covenants and as a result of the performance of certain of its care homes it is currently unable to pay the full rent on certain of its properties Whilst the directors of the company and the group believe the Bank and the landlord will continue to support the group thereby allowing the group to continue to operate, these conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

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

Philip Charles *(Senior Statutory Auditor)*

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham NG1 6FQ

Date 27 February 2013

Profit and loss account
for the period ended 31 May 2012

	Note	**Year to 31 May 2012 £000**	17 months to 31 May 2011 £000
Turnover	2	**980**	9,394
Cost of sales		**(778)**	(7,134)
Gross profit		**202**	2,260
Administrative expenses			
- other		**(181)**	(1,714)
- exceptional item impairment of tangible fixed assets		**-**	(52)
Total administrative expenses		**(181)**	(1,766)
Operating profit	4	**21**	494
Loss on disposal of fixed assets		**-**	(1,110)
Interest payable and similar charges	5	**-**	(618)
Profit/(loss) on ordinary activities before taxation		**21**	(1,234)
Tax on profit/(loss) on ordinary activities	6	**-**	-
Profit/(loss) on ordinary activities after taxation	12	**21**	(1,234)

In both the current period and preceding year, the company made no material acquisitions and had no discontinued operations

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented

Balance sheet
as at 31 May 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Tangible assets	*7*		**1,053**		1,072
Investments	*8*		**-**		-
			1,053		1,072
Current assets					
Debtors	*9*	**52**		598	
Cash at bank and in hand		**72**		1	
		124		599	
Creditors amounts falling due within one year	*10*	**(393)**		(908)	
Net current liabilities			**(269)**		(309)
Net assets			**784**		763
Capital and reserves					
Called up share capital	*11*		**-**		-
Profit and loss account	*12*		**784**		763
Shareholder's funds	*13*		**784**		763

The financial statements were approved by the board of directors on 27 February 2013 and were signed on its behalf by

AGK Massouras
Director

Company number 03788573

Notes
(forming part of the financial statements)

1 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold and leasehold land and buildings and in accordance with applicable accounting standards

The company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of s400 of the Companies Act 2006 These financial statements therefore present information about the company as an individual undertaking and not about its group

Going concern

The company is a subsidiary of Mimosa Healthcare Holdings Limited and is party under cross guarantees to both the group banking facilities, including the current £3 million working capital facility, and the lease obligation for certain of the group's care homes The performance of Mimosa Healthcare Holdings Limited and its subsidiary undertakings ('the group') has been adversely affected by the current economic conditions resulting in a decline in the underlying profitability

The group completed a major financial restructuring in May 2011 and primary landlord, Quintain Estates and Developments plc and its subsidiaries ('Quintain') acquired further freehold properties from the group and the proceeds were utilised to repay some of the group's outstanding debt to the Bank As part of this transaction the Bank agreed to exchange £14 million of debt for a warrant of the holding company shares, to provide a continuing loan of £2 3 million and to increase the working capital facilities to £3 million £2 8 million was drawn down against this facility at the year end (£2 9 million at 26 February 2013)

Following the transaction the economic environment in the remainder of 2011 and throughout 2012 has remained challenging and the financial performance of certain of the group's care homes has not met the forecasts anticipated at the date of the financial restructuring As a result the group has breached covenants in relation to its working capital facilities and has been unable to pay the full rent on certain properties and arrears as of the year end are approximately £700,000

The directors of the company and the group have prepared forecasts including cash flow forecasts for at least twelve months from the date of approval of these financial statements The forecasts indicate that to remain within its working capital facilities the group will need to agree with its landlord an exit from the four Bristol homes and waiver of rents outstanding together with the continued payment of a reduced rent on certain homes in 2013 The payment of full rent is forecast to commence again during 2014 but this is reliant on the performance of the homes improving The landlord is negotiating with the group and a new tenant the exit of the Bristol homes, for which contracts have been exchanged, and the waiver of a significant proportion of the outstanding rentals Additionally, whilst the landlord has not formally agreed to the continuation of the reduced rentals it has indicated its continued support of the group to allow the directors to achieve the necessary turnaround in performance Additionally, the Bank has indicated that they will continue to provide the £3 million working capital facility despite the breach of banking covenants

On the basis of indications from the landlord and Bank, there can be no certainty of their continued support, the directors consider that the use of the going concern basis is appropriate, although they have concluded that the combination of the above circumstances represents a material uncertainty that casts significant doubt over the company's and group's ability to continue as a going concern The company and group may therefore not be able to continue realising their assets and discharging their liabilities in the normal course of business Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the group and therefore the company will have adequate resources to continue in operational existence for the foreseeable future For these reasons the financial statements have been prepared on a going concern basis The financial statements do not include any adjustments that would result from this basis of preparation being inappropriate

Cash flow

The company, as a wholly owned subsidiary company of a group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of value added tax and trade discounts

Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Freehold property	- 2% straight line
Plant and machinery	- 25% straight line
Fixtures, fittings and equipment	- 25% straight line
Motor vehicles	- 25% straight line

No depreciation is provided on freehold land

Revaluation of tangible fixed assets

FRS 15 requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date To achieve this land and buildings are subject to a full valuation every five years The profit or loss on disposal of revalued properties is calculated by reference to net book value and any realised revaluation surplus is transferred to the profit and loss through reserves

Investments

Investments in subsidiaries are valued at cost less provision for impairment

Taxation

The charge for taxation is based on the result for the period and takes into account taxation 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

Related party transactions

As the company is a wholly owned subsidiary, the company has taken advantage of the exemption contained within FRS 8 'Related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Mimosa Healthcare Holdings Limited, within which the company is included, can be obtained from the address given in note 15

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the period

2 Turnover

Turnover arose entirely within the United Kingdom and represents fees charged to customers at invoiced amounts in accordance with the principal activity To the extent that invoices are raised in advance of the services being performed the income is deferred and the amounts are treated as payments received on account within creditors

Notes *(continued)*

3 Staff numbers and costs

The average number of persons employed by the company (including the directors) during the period was as follows

	Year to 31 May 12 Number	17 months to 31 May 11 Number
Administrative and care home staff	33	335

The aggregate payroll costs of these persons were as follows

	Year to 31 May 12 £000	17 months to 31 May 11 £000
Staff costs consist of		
Wages and salaries	559	5,042
Social security costs	33	342
	592	5,384

The directors received no remuneration from the company in the period *(2011 £nil)* The directors were remunerated by other group companies

4 Operating profit

	Year to 31 May 12 £000	17 months to 31 May 11 £000
Operating profit is stated after charging		
Depreciation	33	594
Loss on disposal of tangible fixed assets	-	1,110
Impairment of tangible fixed assets	-	52
Auditors' remuneration		
- audit of these financial statements	-	-
- other services relating to taxation	-	-

In both the current period and prior year the auditors were remunerated by other group companies

5 Interest payable and similar charges

	Year to 31 May 12 £000	17 months to 31 May 11 £000
On inter-company loans	-	618
	-	618

Notes *(continued)*

6 Taxation on profit/(loss) on ordinary activities

Analysis of charge in the period

	Year to 31 May 12 £000	17 months to 31 May 11 £000
UK corporation tax		
Current tax	-	-
Tax on profit/(loss) on ordinary activities	-	-

Factors affecting the tax charge for the period

The current tax charge for the period is lower *(2011 lower)* than the standard rate of corporation tax in the UK of 25 7% *(2011 28%)* The differences are explained below

	Year to 31 May 12 £000	17 months to 31 May 11 £000
Profit/(loss) on ordinary activities before taxation	**21**	(1,234)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25 7% *(2011 28%)*	**5**	(345)
Expenses not deductible for tax purposes	**8**	433
Capital allowances (in excess of)/less than depreciation	**1**	(29)
Group relief claimed	**(14)**	(59)
	-	-

Deferred tax

Deferred tax assets of £198,000 *(2011 £145,000)* relating to accelerated capital allowances have not been recognised as the directors do not consider it more likely than not that there will be suitable taxable profits in the foreseeable future against which they can be relieved

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014, and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge accordingly

Notes *(continued)*

7 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Furniture, fittings and equipment £000	Total £000
Cost or valuation				
At 1 June 2011	1,163	52	102	1,317
Additions	-	11	7	18
Disposals	-	-	(4)	(4)
At 31 May 2012	1,163	63	105	1,331
Accumulated depreciation				
At 1 June 2011	108	42	95	245
Charge for the period	23	6	4	33
Depreciation on disposals	-	-	-	-
Impairment loss	-	-	-	-
At 31 May 2012	131	48	99	278
Net book value				
At 31 May 2012	**1,032**	**15**	**6**	**1,053**
At 31 May 2011	1,055	10	7	1,072

The company's remaining freehold land and building is being actively marketed for sale and is held at its forecast net realisable value There is a bank loan of £1 05 million within the financial statements of the company's parent undertaking secured against this property

8 Fixed asset investments

	Shares in group undertakings £000
Net book value	
At 31 May 2011 and 31 May 2012	-

The Good Shepherd Limited is a wholly owned subsidiary undertaking The aggregate of the share capital and reserves as at 31 May 2012 and of the profit or loss for the period then ended on that date for the subsidiary was

Subsidiary undertakings

Name	Aggregate of share capital and reserves £	Profit/(loss) £
Good Shepherd Limited	300	-

Notes *(continued)*

9 Debtors

	2012 £000	2011 £000
Trade debtors	32	559
Other debtors	-	1
Prepayments and accrued income	20	38
	52	598

10 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Bank loans and overdrafts	-	85
Trade creditors	39	105
Amounts owed to group undertakings	267	81
Other taxes and social security costs	5	67
Other creditors	17	124
Accruals and deferred income	65	446
	393	908

11 Share capital

	2012 £000	2011 £000
Allotted, called up and fully paid		
2 Ordinary shares of 1p each	-	-

12 Reserves

	Profit and loss account £000
At 1 June 2011	763
Profit for the period	21
At 31 May 2012	**784**

Notes *(continued)*

13 Reconciliation of movements in shareholder's funds

	2012 £000	2011 £000
Profit/(loss) for the period	**21**	(1,234)
Net movement in shareholder's funds	**21**	(1,234)
Opening shareholder's funds	**763**	1,997
Closing shareholder's funds	**784**	763

14 Contingent liabilities

The company is party to working capital facilities and loans offered by its bankers to the group and it has jointly and severally with other companies given a cross guarantee, by right of set-off, in favour of the bank At the period end, the group's net overdraft and loan balance was £5 1 million *(2011 £5 1 million)* Additionally, the company has agreed a cross guarantee for the lease obligations on certain of the group's care homes to the group's primary landlord

15 Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking is Mimosa Healthcare Holdings Limited

The largest group in which the results of the company are consolidated is that headed by Mimosa Healthcare Holdings Limited The consolidated financial statements of Mimosa Healthcare Holdings Limited may be obtained from Mimosa Healthcare Holdings Limited, at the registered address shown on page 1

The company is ultimately controlled by Mr AGK Massouras by virtue of his majority shareholding in Mimosa Healthcare Holdings Limited