

Registered number: 03983561

MODUS CARE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2020

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MODUS CARE LIMITED

COMPANY INFORMATION

Directors	J Godden K J G Hillen P R Lawes
Registered number	03983561
Registered office	Minton Place Victoria Street Windsor SL4 1EG
Independent auditor	Nexia Smith & Williamson Chartered Accountants & Statutory Auditors 25 Moorgate London EC2R 6AY

MODUS CARE LIMITED

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MODUS CARE LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2020

The directors present their report and the financial statements of Modus Care Limited (the "Company") for the year ended 31 March 2020.

Business overview and review of year using key performance indicators

The Company's principal activity throughout the year continued to be providing residential care for people with challenging and complex needs, many of whom will have a diagnosis of an Autism Spectrum Disorder (ASD).

In assessing the performance of the Company, the directors principally review revenues and profitability.

The Company made total revenues of £9,296,000 for the year, a £1,035,000 increase on £8,261,000 for the prior year. This increase is due to improved occupancy and a move towards higher acuity service users.

The Company's profit for the year was £701,000, a £349,000 increase on a profit of £352,000 for the prior year. In addition to the increase in revenue detailed above, this was due to one-off costs incurred in the prior period and early savings from the restructured support services function allowing for greater synergies and economies of scale.

As at 31 March 2020, the Company held net assets of £5,691,000. This is an increase of £701,000 on £4,990,000 as at 31 March 2019, due to the profit for the year.

Principal risks and uncertainties

Operational and financial impacts of COVID-19

A discussion of the impacts of COVID-19 and the mitigating factors in place, including future risks arising, is included in note 2.3.

The UK's departure from the European Union ("Brexit")

Although the Company has no non-UK trade, the future shape of Brexit could cause significant economic uncertainty within the UK which could affect the cost and quantum of labour, financing and goods & services available to the Company. The directors have diversified the Company's supply of these inputs, and to the greatest extent possible have factored the prevailing uncertainty into the Company's financial planning. The wider group holds interest rate swaps in order to minimise any disruption to the cost of the group's financing, and therefore of the Company's intra-group financing.

Public sector financial constraints

In an environment of tighter fiscal policy the directors are acutely aware of the risks to any company, such as the Company, that trades primarily with public sector bodies. The Company has a diverse mix of public sector funders for its service users and this mix is monitored to ensure there is no one customer to which the Company has a potentially problematic level of exposure. Exposure to specific high-risk funders, such as local authorities with funding shortages, is monitored and limited where possible. To the date of the authorisation of these financial statements, the Company has not experienced funding issues amongst public sector bodies as a result of the impact of COVID-19. The directors will continue to monitor this position closely.

Regulatory changes

The directors pride themselves on provision of a high quality of care for the Company's service users, and always aim to proactively respond to, and exceed, any regulatory requirements affecting the Company's operations. Major changes to these regulatory requirements can result in significant cost to the Company, and the Company therefore seeks to maintain a dialogue with regulators to properly plan for any such changes. No regulatory changes having a materially adverse effect on the Company's activities are anticipated at this time.

MODUS CARE LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

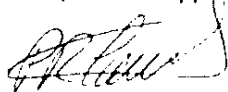
Financial risksCredit risk

The Company has a diversified customer base across local authority entities, and enjoys good relationships with its customers. However from time to time some debts are not recoverable, often for reasons of documentation or rate discrepancies. In order to manage this, the Company is investing in systems and processes to better track its documentation and contractual obligations, and is ensuring that good communication is maintained with its customers. As at 31 March 2020, the provision in place for potential bad debt was £16,000 (2019: £nil).

Liquidity risk

The Company continues to invest heavily in its operations and therefore has to closely monitor its liquidity in order to ensure working capital requirements are met in addition to the cost of this investment. Cash forecasts are maintained which include a range of possible outcomes and scenarios, with the outputs discussed at operational and board levels such that any operational or financing requirements are agreed in advance of any large spend.

This report was approved by the board on 17 July 2020 and signed on its behalf.



P R Lawes
Director

MODUS CARE LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2020**

The directors present their report and the financial statements for the year ended 31 March 2020.

Dividends

No dividend is proposed in respect of the year (2019: £nil).

Directors

The directors who served during the year and to date of signing this report were:

J Godden
K J G Hillen
P R Lawes

Future developments

The directors intend to continue to seek investment opportunities within the complex care industry and to grow the Company's activities organically through further improvements to care provision. No changes to the Company's principal activities are foreseen at the time of writing, and the directors, having considered the impact of COVID-19 as detailed in note 2.3, are aware of no significant threats to the Company's ability to continue to operate.

Research and development activities

The Company undertakes various activities, such as investment in system architecture and development of care plans and care home features, that constitute research and development. The directors consider the pursuit of increasingly effective ways to improve the lives of the people we support as central to our purpose and offering.

MODUS CARE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2020

Engagement with employees

It is the Company's policy that the selection of employees for recruitment, training, development and promotion should be determined solely on their skills, abilities and other requirements that are relevant to the job, regardless of their sex, race, religion or disability.

The Company recognises the value of its employees and places importance on communications with employees which take place at many levels throughout the organisation on both a formal and informal basis. The personal development of employees is closely monitored so that appropriate training programmes can be designed with a view to assisting employees to achieve their own objectives as well as those of the Company.

The primary methods that the Company has used to engage with employees and to have regard to employees' interests, and the primary ways that this has affected principal decisions in the year, are as follows:

Primary methods of engagement:

- Regular employee pulse surveys and annual feedback cycle;
- Weekly email bulletins and quarterly newsletters regarding new developments and key messages;
- Annual service manager conference;
- Whistleblowing facilities.

Primary outcome targets with regard to employees' interests:

- Fair and equal treatment of all employees;
- Employee views taken into consideration when decisions made that affect them;
- Meaningful development and career progression opportunities offered;
- Fair remuneration provided.

Primary effects on principal decisions in the year as a result of this consideration:

- Pay reviews over and above statutory legislation wherever possible, based on employee engagement research, to reward our employees fairly;
- Implementation of bonus schemes which allow key employees at all levels to participate in the success of the Group;
- Invested in a learning and development team to develop our employees and drive excellence in care and quality delivery.

Disabled employees

The Company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for development exist for each disabled person. Arrangements are made wherever possible for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Safeguarding

The Company has two safeguarding policies: one for adults and one for children. The policies are reviewed by a Designated Safeguarding Lead and scrutinised annually via a Policies and Practices committee. The annual review allows for the reflection of changing good practice and regulation to be incorporated swiftly into policy. Each revised policy is then subject to group-wide dissemination, and is informed by external consultant advice and the ongoing training of the Designated Lead especially around advice from the Child Exploitation and Online Safety Command (CEOPS), a Police agency. A key element of the policy is the expectation that each service learns and complies with their local stakeholders' reporting procedures.

MODUS CARE LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020**

Directors' indemnity insurance

The Company has in place third-party indemnity insurance for the benefit of its directors which was in place throughout the year and remains in place at the date of this report.

Matters covered in the strategic report

The following items are included within the Strategic Report:

- Reviews of the Company's results;
- The Company's principal risks and uncertainties.

Disclosure of information to auditor

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

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

Post balance sheet events

No material events have occurred since the balance sheet date.

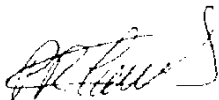
Going concern

Information regarding the Company's status as a going concern, including any current and potential future impacts from COVID-19, is included within note 2.3.

Auditor

The auditor, Nexia Smith & Williamson, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board on 17 July 2020 and signed on its behalf.



P R Lawes
Director

MODUS CARE LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MODUS CARE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MODUS CARE LIMITED

Opinion

We have audited the financial statements of Modus Care Limited (the 'Company') for the year ended 31 March 2020 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Cash Flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Emphasis of matter – impact of COVID-19

We draw attention to note 2.3 of the financial statements which describes the impact of COVID-19 on the Company. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

MODUS CARE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MODUS CARE LIMITED

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

MODUS CARE LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MODUS CARE LIMITED

Use of our report

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.

Nexia Smith & Williamson

Andrew Bond

Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

17 July 2020

MODUS CARE LIMITED

**STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 MARCH 2020**

	Note	2020 £000	2019 £000
Revenue	4	9,296	8,261
Cost of sales		(6,036)	(5,443)
Gross profit		3,260	2,818
Administrative expenses		(2,004)	(1,981)
Operating profit	5	1,256	837
Finance costs	9	(203)	(261)
Profit before tax		1,053	576
Tax on profit	10	(352)	(224)
Profit after tax		701	352
Accumulated losses at the beginning of the year		(1,710)	(2,062)
Profit for the year		701	352
Accumulated losses at the end of the year		(1,009)	(1,710)

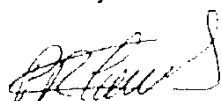
There was no other comprehensive income for 2020 (2019: £Nil).

MODUS CARE LIMITED
REGISTERED NUMBER: 03983561

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Note	2020 £000	2019 £000
Non-current assets			
Intangible assets	11	-	47
Property, plant and equipment	12	10,396	10,034
Investments	13	-	-
		<u>10,396</u>	<u>10,081</u>
Current assets			
Trade and other receivables	14	1,650	542
Cash at bank and in hand		376	633
		<u>2,026</u>	<u>1,175</u>
Trade and other payables	15	(1,063)	(624)
Net current assets		<u>963</u>	<u>551</u>
Total assets less current liabilities		<u>11,359</u>	<u>10,632</u>
Non-current trade and other payables	16	(5,530)	(5,616)
Provisions for liabilities			
Deferred tax	18	(138)	(26)
		<u>(138)</u>	<u>(26)</u>
Net assets		<u><u>5,691</u></u>	<u><u>4,990</u></u>
Capital and reserves			
Called up share capital	19	6,650	6,650
Capital redemption reserve	20	50	50
Accumulated losses	20	(1,009)	(1,710)
		<u>5,691</u>	<u>4,990</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 17 July 2020.



P R Lawes
 Director

MODUS CARE LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020**

	2020 £000	2019 £000
Cash flows from operating activities		
Profit for the financial year	701	352
Adjustments for:		
Amortisation of intangible assets	47	229
Depreciation of tangible assets	440	340
Loss on disposal of tangible assets	-	39
Finance costs	203	261
Taxation charge	352	224
(Increase)/decrease in trade and other receivables	(1,108)	178
Increase/(decrease) in trade and other payables	74	(151)
Corporation tax paid	-	(255)
Net cash generated from operating activities	709	1,217
Cash flows from investing activities		
Purchase of property, plant & equipment	(804)	(599)
Net cash used in investing activities	(804)	(599)
Cash flows from financing activities		
Proceeds from sale and leaseback transaction	-	4,734
Repayment of finance lease liabilities	(162)	(144)
Repayment of loans from group companies	-	(4,734)
Net cash used in financing activities	(162)	(144)
Net (decrease)/increase in cash at bank and in hand	(257)	474
Cash at bank and in hand at beginning of year	633	159
Cash at bank and in hand at end of year	376	633

MODUS CARE LIMITED

**ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 MARCH 2020**

	At 1 April 2019 £000	Cash flows £000	Other non- cash changes £000	At 31 March 2020 £000
Cash at bank and in hand	633	(257)	-	376
Amounts owed to group undertakings in over 1 year	(881)	-	(360)	(1,241)
Finance leases due after 1 year	(4,723)	162	30	(4,531)
Finance leases due within 1 year*	-	-	(163)	(163)
Unamortised debt fees	-	-	242	242
	<u>(4,971)</u>	<u>(95)</u>	<u>(251)</u>	<u>(5,317)</u>

Other non-cash changes relate to:

- the capitalisation of interest charges of £116,000 and the transfer of debt fees (as explained further in note 16) of £244,000 to the Company leading to a £360,000 total increase in amounts owed to group undertakings due in over 1 year;
- the reclassification of finance leases falling due within 1 year of £163,000 (as explained further in note 15) and the unwinding of discounting on finance leases of £133,000 leading to a net decrease of £30,000 in finance leases due after 1 year;
- the amortisation of debt fees of £2,000 being applied to the recognition of unamortised debt fees of £244,000, leading to a net increase of £242,000 in unamortised debt fees during the year.

MODUS CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. Statutory information

Modus Care Limited (the "Company") is a private company limited by shares, registered in England and Wales under the Companies Act to provide residential care for individuals with learning and other disabilities. The Company's registered office is Minton Place, Victoria Street, Windsor SL4 1EG.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

Except where otherwise stated, all figures presented in the financial statements are rounded to the nearest thousand of the Company's functional currency, sterling.

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

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Salutem LD Bidco Limited as at 31 March 2020 and these financial statements may be obtained from Minton Place, Victoria Street, Windsor SL4 1EG.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.3 Going concern

The directors have prepared forecasts for the foreseeable future, being a period of not less than 12 months from the date of approval of these financial statements. These forecasts show profitable growth and the wider group operating within agreed banking covenants.

COVID-19 presents a number of operational and financial risks which the Company needs to control and mitigate. To the date of signing these financial statements, the Company has successfully managed to protect the people we support, having minimised the cases in our services such that to the date of the authorisation of these financial statements the Company has suffered no deaths attributable to COVID-19. Our response has included strict enforcement of social distancing and hygiene measures, including closing services to non-essential visits in early March ahead of the national lockdown, and sourcing additional suppliers of personal protective equipment ("PPE") and testing kits in order to ensure resilience to supply chain disruption and price increases.

Prior to the pandemic, the Company had successfully completed a number of stages of our integration plan and as such has excellent local management structures and central support processes, as well as a strong financial position, which has allowed us to react quickly and effectively to the situation. The Company has also taken advantage of certain elements of the government's financial support for care providers, such as additional payments made for placements. These factors have allowed the Company to minimise the financial impact of the crisis, and will continue to allow the Company to adapt to any future events arising from COVID-19 in future.

For these reasons, the directors consider there to be reasonable assurance that the Company is a going concern and accordingly, the financial statements have been prepared on that basis.

2.4 Revenue

The Company's revenue is derived from provision of care services, which are typically priced on the basis of an agreed daily or weekly fee. Revenue is recognised according to the number of days' care provided, multiplied by the applicable rate for that care user, regardless of whether that fee has been billed by the end of the period. This is considered to be the point at which probable economic benefits are reliably estimable and due to the Company. Any timing differences between care hours provided and bills raised are recognised or derecognised as applicable within accrued or deferred income in the Statement of Financial Position.

2.5 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of Income and Retained Earnings on a straight line basis over the lease term.

2.6 Finance leases: the Company as lessee

Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Statement of Income and Retained Earnings so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.7 Sale and leaseback

Where a sale and leaseback transaction results in a finance lease, no gain is immediately recognised for any excess of sales proceeds over the carrying amount of the asset. Instead, the proceeds are presented as a liability and subsequently measured at amortised cost using the effective interest method.

2.8 Research and development

The Company's research and development activities allow the Company to better serve the people we support and to continually improve the efficiency and effectiveness of our operations, but do not result in identifiable and separable assets. Although the improvements achieved may result in increased sales and improved pricing, the resultant cash flows are not separable. As such the Company expenses the entire cost of its research and development activities as they are incurred, except to the extent that development work results in an otherwise identifiable asset such as software.

2.9 Finance costs

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

2.10 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.11 Current and deferred taxation

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

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

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

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

Group relieved losses are paid for by the company taking relief at the value of the losses taken.

2.12 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Income and Retained Earnings over its useful economic life of 5 years.

2.13 Property, plant and equipment

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.13 Property, plant and equipment (continued)

The estimated useful lives range as follows:

Freehold property	- 50 years
Long-term leasehold property	- 50 years
Motor vehicles	- 5 years
Fixtures, fittings and equipment	- 3 to 10 years

Assets under construction are not depreciated until they are in a location and condition necessary for them to be capable of operating in the manner intended by management.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

The land element of freehold property and long-term leasehold property is not depreciated. Where the cost of land is not separately identifiable, it is estimated to be 20% of the total cost of the property asset.

2.14 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.15 Trade and other receivables

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

2.16 Cash at bank and in hand

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

In the Statement of Cash Flows, cash at bank and in hand is shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.17 Trade and other payables

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

2. Accounting policies (continued)

2.18 Provisions for liabilities

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

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

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

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

In preparing these financial statements, the directors have necessarily made use of judgments and estimates. This results in a certain degree of uncertainty. The primary judgments and estimates applied are as follows:

Judgments

Classification of leases

The Company operates two material lease arrangements, and the classification of these leases is a material judgment.

The first arrangement is a sale and leaseback transaction whereby freehold interests in land and buildings were sold to a third party and then leased back on 150-year leases. There are no material restrictions on the Company's right of use of these assets, and the Company has the right to buy back the properties at the end of the lease for a nominal sum, and as such the leases have been classified as finance leases.

The second arrangement is for the provision of motor vehicles whereby the Company pays a provider a regular fee in return for the use of motor vehicles. These motor vehicles are to a reasonable extent interchangeable within the arrangement, with the lessor retaining many of the risks and rewards of ownership such as having responsibility for maintenance, and the Company has no right to purchase the vehicles at the end of the lease. As such the leases have been classified as operating leases.

Estimates

Recoverability of current assets

Trade and other receivables are only recognised to the extent that they are considered recoverable. This estimate is derived from an extrapolation of receipts pattern since the end of the year but before the signing of these accounts. A provision of £16,000 (2019: £nil) has been made for any amounts where there is considered sufficient doubt not to meet this criteria, with a balance of £679,000 (2019: £355,000) remaining unprovided.

Useful economic lives of non-current assets

Useful economic lives have been assessed on the basis of the directors' experience of typical lives of similar assets in comparable use patterns. Occasionally assets will be used past a typical useful economic life, or else damaged or destroyed earlier than predicted. However, the lives applied are considered the directors' best available estimate.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

4. Turnover

The whole of the Company's revenue is attributable to the provision of residential care services, and arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2020 £000	2019 £000
Charge for provisions against bad and doubtful receivables	16	-
Loss on disposal of property, plant & equipment	-	12
Depreciation of tangible fixed assets	440	340
Amortisation of intangible assets, including goodwill	47	229
Defined contribution pension cost	134	94
Other operating lease rentals	135	163
	<u>135</u>	<u>163</u>

6. Auditor's remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	19	17
	<u>19</u>	<u>17</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent company.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

7. Employees

Staff costs were as follows:

	2020 £000	2019 £000
Wages and salaries	5,667	5,007
Social security costs	430	332
Cost of defined contribution scheme	134	94
	<u>6,231</u>	<u>5,433</u>

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

	2020 No.	2019 No.
Care staff	296	282
Management and administration	14	8
	<u>310</u>	<u>290</u>

The services of directors and management & administration staff are provided to the Company by Saludem Shared Services Limited under service agreements. The amounts and employee numbers disclosed above relate to the Company's share of such provision, which is believed to give the most true and fair view of where the benefits of the employees' employment is realised. In the year ended 31 March 2019, the employee numbers disclosed related to employees contracted to be paid by Modus Care Limited.

8. Directors' remuneration

The directors of the Company act as directors of a number of companies in the wider group. An apportionment of directors' remuneration relating to the Company is approximately £39,000 (2019: £57,000).

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

9. Finance costs

	2020	2019
	£000	£000
Interest on finance leases	133	133
Interest payable to parent company	68	128
Amortisation of debt fees	2	-
	203	261

See note 17 for key terms of finance leases.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

10. Taxation

	2020	2019
	£000	£000
Corporation tax		
Group relief payable	236	186
Adjustments in respect of previous periods	4	-
Total current tax	240	186
Deferred tax		
Origination and reversal of timing differences	73	38
Adjustments in respect of previous periods	32	-
Changes to tax rates	7	-
Total deferred tax	112	38
Tax on profit	352	224

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

10. Taxation (continued)**Factors affecting tax charge for the year**

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

	2020 £000	2019 £000
Profit on ordinary activities before tax	1,053	576
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	200	109
Effects of:		
Capital allowances for year in excess of depreciation	136	112
Changes to tax rates	7	(3)
Adjustments to tax charge in respect of prior periods	36	6
Non-taxable income	(27)	-
Group relief claimed	(236)	(186)
Payment made for group relief	236	186
Total tax charge for the year	352	224

Factors that may affect future tax charges

A research and development ("R&D") tax credit asset has not been recognised in relation to the year ended 31 March 2020 as the appropriate report with which to support this R&D tax credit claim has not been finalised and therefore the amount of the claim and the total profit & loss charge for the year cannot be reliably estimated.

At Budget 2020, the government announced that the corporation tax main rate (for all profits except ring fence profits) for the years starting 1 April 2020 and 2021 would remain at 19%.

The Company has not recognised potential deferred tax assets of £5,000 (2019: £4,000) relating to unrelieved capital losses carried forward of £26,000 (2019: £26,000), on the basis that recovery is not considered sufficiently probable.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

11. Intangible assets

	Goodwill £000
At 1 April 2019	2,323
Disposals	(2,323)
At 31 March 2020	-
At 1 April 2019	2,276
Charge for the year	47
Disposals	(2,323)
At 31 March 2020	-
Net book value	
At 31 March 2020	-
At 31 March 2019	47

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

12. Property, plant and equipment

	Freehold property £000	Long-term leasehold property £000	Motor vehicles £000	Fixtures, fittings and equipment £000	Assets under construction £000	Total £000
Cost or valuation						
At 1 April 2019	1,199	7,505	127	2,255	66	11,152
Additions	-	-	11	409	384	804
Disposals	-	-	(113)	(83)	-	(196)
Transfers	-	-	-	450	(450)	-
At 31 March 2020	1,199	7,505	25	3,031	-	11,760
Depreciation						
At 1 April 2019	49	324	110	635	-	1,118
Charge for the year	20	128	9	283	-	440
Disposals	-	-	(113)	(81)	-	(194)
At 31 March 2020	69	452	6	837	-	1,364
Net book value						
At 31 March 2020	1,130	7,053	19	2,194	-	10,396
At 31 March 2019	1,150	7,181	17	1,620	66	10,034

The carrying amount of long-term leasehold properties are all held under finance lease.

13. Investments

The Company holds an investment of 100% of the ordinary share capital of Modus Care (Plymouth) Limited, a dormant company with registered office of Minton Place, Victoria Street, Windsor, England, SL4 1EG. The investment had a value of £110 as at 31 March 2019 and at 31 March 2020.

For the year ended 31 March 2020, Modus Care (Plymouth) Limited has taken advantage of the exemption from audit as conferred by s480 of the Companies Act 2006.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

14. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	679	355
Amounts owed by group undertakings	863	104
Prepayments and accrued income	82	58
Other receivables	26	25
	<u>1,650</u>	<u>542</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

15. Trade and other payables

	2020 £000	2019 £000
Trade payables	126	63
Accruals and deferred income	467	344
Other taxation and social security	87	90
Amounts owed to group undertakings	23	15
Obligations under finance leases	163	-
Other payables	197	112
	<u>1,063</u>	<u>624</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

A current portion of obligations under finance leases was not presented in the 2019 financial statements. Had this amount been presented, it would have been £162,000, with the non-current amount disclosed below being £4,561,000.

See note 17 for key terms of finance leases.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

16. Non-current trade and other payables

	2020 £000	2019 £000
Obligations under finance leases	4,531	4,723
Unamortised debt fees	(242)	-
Amounts owed to group undertakings	1,241	881
Other payables	-	12
	<u>5,530</u>	<u>5,616</u>

Unamortised debt fees are costs associated with the arrangement of bank loans and finance leases which are being recognised in finance costs in the Statement of Income and Retained Earnings over the remaining course of the debt. In the prior year, these were held in the Company's parent company, Salutem LD Bidco Limited, on the basis that that company arranged the leases. Had they been presented within the Company's results consistent with the above, the balance as at 31 March 2019 would have been £244,000.

Non-current amounts owed to group undertakings are unsecured and attract interest at 3.75% + LIBOR. The amounts are repayable, along with interest, on 21 April 2027.

See note 17 for key terms of finance leases.

17. Finance leases

Minimum lease payments under finance leases fall due as follows:

	2020 £000	2019 £000
Within one year	163	162
Between 1-5 years	652	661
Over 5 years	23,310	54,156
	<u>24,125</u>	<u>54,979</u>

The leases reflected above are on a 150-year term, with initial rent of £158,000 and current rent of £162,000. This rent is subject to a compounding inflationary increase, based on the general retail prices index and subject to a maximum increase of 5%. The arrangement has therefore been calculated at an initial effective interest rate of 3.5%. Any assets held under the finance lease arrangements, if disposed of, must be replaced with similar valued properties under the terms of the leases.

The reason for the significant fall in the over 5 year commitment compared to 2019 is that the minimum lease payments have been re-calculated to exclude future inflationary increases on the basis that these are contingent rent. If this assumption had been used in the prior year, the minimum lease payments at 31 March 2019 would have been £23,574,000, with £22,783,000 falling due in over 5 years from 31 March 2019. This has no material impact on the lease liability disclosed in notes 15 and 16.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

18. Deferred taxation

	2020 £000	2019 £000
At beginning of year	(26)	12
Charged to profit or loss	(112)	(38)
At end of year	(138)	(26)

The provision for deferred taxation is made up as follows:

	2020 £000	2019 £000
Accelerated capital allowances	(153)	(38)
Other short term timing differences	15	12
	(138)	(26)

19. Share capital

	2020 £000	2019 £000
Allotted, issued and fully paid		
6,650,274 (2019 - 6,650,274) Ordinary shares of £1.00 each	6,650	6,650

20. Reserves**Capital redemption reserve**

The Capital redemption reserve relates to non-distributable amounts which have been transferred following the redemption or purchase of the Company's own shares.

Profit and loss account

Accumulated losses relate to the cumulative profits and losses of the Company less amounts distributed to shareholders.

MODUS CARE LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2020**

21. Contingent liabilities

A corporate cross guarantee of the senior debt borrowed by the Company's intermediate parent Salutem LD Bidco Limited exists between that company and the majority of its subsidiary undertakings, including the Company. The senior debt is secured over the whole of the assets of Salutem LD Bidco Limited and the majority of the assets of that group.

A potential provision has not been recognised in respect of the possible effect of the outcome of Royal Mencap Society vs Tomlinson-Blake, an ongoing legal appeal relating to payment of minimum wage for sleep-in hours. The directors do not consider the likelihood and outflow of economic benefits from the Company in respect of this event to be probable, and have not presented an estimate of the potential liability on the basis that having prepared a calculation, the directors conclude that any liability would not be material.

The Company recently commissioned a review of certain tax related matters which is in progress and to date has highlighted some possible improvements to the Company's financial position but has also identified some possible downside financial risk. The Directors believe it is unlikely this review will result in a material liability for the Company and for this reason, have not made a provision in respect of this matter. The assessment is yet to be completed and no reliable estimate can currently be made of the potential asset or liability which may arise when the review is complete.

22. Pension commitments

The Company makes contributions to a defined contribution pension scheme on behalf of its employees. During the year, contributions totalled £134,000 (2019: £94,000). As at the balance sheet date, the Company's pension liability was £25,000 (2019: £20,000).

23. Commitments under operating leases

At 31 March 2020 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £000	2019 £000
Not later than 1 year	97	96
Later than 1 year and not later than 5 years	160	79
Later than 5 years	389	-
	<u>646</u>	<u>175</u>

MODUS CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

24. Related party disclosures

The Company has taken advantage of the following exemptions available under FRS 102 in relation to related party transactions:

- the exemption from disclosing transactions with 100%-owned group companies;
- the exemption from disclosing remuneration of key management personnel, details of which are disclosed in the consolidated financial statements of the Company's parent, Saludem LD Bidco Limited.

During the year the Company recharged costs to a company owned and controlled by shareholders and directors of the wider group, totalling £38,000 (2019: £6,000), and received recharged costs of £52,000 (2019: £nil) from the same company. As at 31 March 2020, an amount of £9,000 was owed to that company (2019: £6,000 was due from that company) in respect of these transactions and is included in other payables (2019: other receivables). The balance is interest-free and repayable on demand.

25. Ultimate parent company

The Company is 100% owned and controlled by Saludem LD Bidco Limited ("Bidco"), which is the Company's immediate controlling party. Bidco is in turn 100% owned and controlled by Saludem LD Topco Limited ("Topco"), which is the Company's ultimate and immediate controlling party. The results of the Company are included in the consolidated financial statements of Bidco, which is the smallest group of undertakings for which group accounts are drawn up, and of Topco, which is the largest group of undertakings for which group accounts are drawn up. Topco's registered office is Minton Place, Victoria Street, Windsor SL4 1EG.