

Company Registration No 06061481

Orchard Care Homes.Com (Holdings) Limited

STATUTORY FINANCIAL STATEMENTS

for the year ended

31 March 2011

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COMPANIES HOUSE

Orchard Care Homes.Com (Holdings) Limited

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P C Mancey
I Warner
P Tomlinson

SECRETARY

J Daniels

REGISTERED OFFICE

2150 Century Way
Thorpe Park
Leeds
West Yorkshire
LS15 8ZB

AUDITOR

Baker Tilly UK Audit LLP
2 Whitehall Quay
Leeds
LS1 4HG

BANKERS

National Westminster Bank plc
8 Market Place
Huddersfield
West Yorkshire
HD1 2AL

SOLICITORS

Pinsent Masons LLP
1 Park Row
Leeds
LS1 5AB

Orchard Care Homes.Com (Holdings) Limited

DIRECTORS' REPORT

The directors submit their report and the Group financial statements of Orchard Care Homes Com (Holdings) Limited for the year ended 31 March 2011

PRINCIPAL ACTIVITIES

The Company's principal activity during the period was to act as a holding company. The principal activities of its subsidiary companies continued to be the provision of residential, nursing and dementia care for the elderly.

BUSINESS REVIEW

In May 2010, following a period of negotiations with its major creditors, the Company's subsidiary Orchard Care Homes com Limited ("Orchard") delivered a Company Voluntary Arrangement (CVA) proposal to its creditors and convened a meeting on the 13th May 2010. The proposal was approved with an overwhelming majority and a cash injection of £0.6 million was immediately delivered into Orchard as part of the proposals. Simultaneously a CVA proposal was similarly approved for the Company. A distribution pot of £1.5 million was created for creditor claims across both CVA's. This distribution has been netted off CVA creditor adjustments shown at Note 5. These proposals left the Group in a debt free position.

Under the terms of the revised rental agreements, landlords had the option to request their lease and operations to be transferred to a new operator. The landlords of 590 beds took advantage of that option and as a result, the scale of the operations of the Group decreased from 2,262 beds to 1,672 beds by the year-end. The current year results and prior year comparatives of these transferred beds are thus shown as discontinued operations within the profit and loss account. The narrative below focuses only on continuing operations.

Turnover from group continuing operations increased 11.2% in the year to £36.8 million. Average occupancy in the continuing portfolio increased to 87.9% (2010: 79.1%). Year end occupancy was 86.8% (89.6% when excluding the short term lease to be exited in August 2011 detailed below). The entire portfolio of the Group has now been trading for 2 years or more.

Group operating losses on continuing operations before exceptional items reduced to £0.3 million (2010: £8.1 million loss). If the trading results of the short term lease detailed below are excluded, the Group is now trading profitably. The Group had cash reserves of over £1 million at the year-end, with the majority held in a deposit bond detailed at Note 14.

During the year, Her Majesty's Revenue and Customs (HMRC) concluded an enquiry into the tax return submitted by the Company's subsidiary Tri-care Limited (TCL) for the period 1 April 2003 to 31 March 2004, (a period when the Company was under the ultimate ownership of Lawrence Neil Tomlinson). TCL had entered into a Capital Redemption Contract (CRC) in that period to mitigate tax on the capital gains made on the sale and leaseback of all the properties that the Company owned. HMRC's conclusion was that the disposal of the CRC did not give rise to losses that could be set against the chargeable gains under s 8, Taxation of Chargeable Gains Act 1992. The consequence of this conclusion was an additional net corporation tax charge of £2.44 million plus a further £1.0 million in outstanding interest as at the balance sheet date.

On 8th June 2007, the entire issued share capital of TCL was bought by Orchard Care Homes com (Holdings) Limited ("Holdings") from Nice Day 2010 Limited ("Nice Day") (formerly LNT Group Limited). Under the terms of the share purchase agreement, Nice Day provided an indemnity in respect of any pre-completion tax liabilities and covenanted to pay to Holdings an amount equivalent to any such liabilities (including interest) and consequent legal costs.

Orchard Care Homes.Com (Holdings) Limited

DIRECTORS' REPORT

As required under the terms of the tax covenant, following a request by Nice Day, TCL appealed the decision of HMRC to the First-tier Tribunal (Tax Chamber). Also in accordance with the terms of the covenant, Holdings and Nice Day jointly obtained the advice of a tax expert on the prospects of success of the appeal. On the 11th November 2011, the tax expert advised that there was no prospect of success in the appeal and that it was not reasonable in all the circumstances to continue to contest the appeal. That opinion of the tax expert is, under the tax covenant, binding on Nice Day and Holdings. Subsequently on 16th November 2011, Holdings served a petition to wind up Nice Day.

The winding up petition was due to be heard on 16th January 2012. Following the service of the petition, the members of Nice Day appointed Howard Smith and Mark Firmin of KPMG LLP as Joint Liquidators on 21st December 2011. Holdings has contested their appointment and continues to pursue its winding up petition to ensure that a full investigation of a relevant entity reorganisation carried out in 2010 is undertaken.

FUTURE DEVELOPMENTS

The financial future of the Group subsidiary TCL could be dependent on the outcome of the above petition and the ability of TCL to recover some or all of the balances outstanding from the relevant entities under the control of Lawrence Neil Tomlinson, including Nice Day. Whilst the appeal remains before the First-tier Tribunal, TCL will continue to trade as a going concern. Any risk associated with TCL does not impact the going concern status of the parent nor any other Group subsidiaries listed at Note 10.

On the 12th April 2012, TCL sold the entire share capital of its subsidiary Tri-care Homes Limited (TCHL) to Freegold Developments Limited. A fellow Group subsidiary, Orchard Care Homes com Limited has entered into a management contract with TCHL to ensure continuity of care following the sale.

Within Orchard Care Homes com Limited, one further short term operating lease for 90 beds expired in August 2011. The operation was generating annual trading losses in excess of £300,000 and was thus not renewed, with operations being transferred to the landlord in a consensual deal. The operational losses and a provision for dilapidations of £200,000 are shown within the continuing operations results for 2011.

In September 2011, Orchard Care Homes com (3) Limited, ("Orchard 3") entered into a management agreement to operate 2,163 beds formerly operated by Southern Cross Healthcare PLC. Orchard 3 took over regulatory responsibility for 1,387 beds in England on the 30th September 2011 and the balance of 776 beds in Scotland and Northern Ireland on the 31st October 2011.

Under the terms of the agreement, the Group receives a fixed management fee from Orchard 3 for providing the management oversight and support services for the portfolio.

PRINCIPAL RISKS

The going concern risk highlighted above in respect to the tax balance in TCL is the single biggest risk the Group faces although as previously detailed, the impact is limited to TCL. Wider liquidity risk is much reduced from previous years due to the successful restructuring of the Group achieved by the CVA's. It is however important to note that fee pressure exerted by local authorities continues to have a downward impact on margins, with many authorities freezing rates in their 2010-11 settlements at a time when cost inflation is increasing by up to 5%.

Orchard Care Homes.Com (Holdings) Limited

DIRECTORS' REPORT

The principal risk other than the liquidity risk mentioned above is the compliance risk arising from operations. The risk is primarily the non-compliance with regulatory standards as set out by the industry regulator, the Care Quality Commission (CQC). The Group is committed to maintaining an open dialogue with CQC and has dedicated operational resources at Group level which has the responsibility for developing policy and implementing best practice consistently across the Group to ensure policy compliance. The Group has also further expanded its compliance review team during the year. Additionally, the Group continues to forge strong links with local authorities to keep up to date with current issues and promote our services as a first class provider of residential, nursing and dementia care.

FINANCIAL RISK MANAGEMENT

Following the restructure, the Group's operations are no longer exposed to the effect of changes in interest rates on debt.

The Group's principal financial instruments comprise sterling cash and bank deposits with trade debtors and trade creditors arising directly from operations.

The Group has no market price or foreign currency risk as it holds no listed equity investments or foreign currency balances and has no inputs subject to significant market price fluctuations. The credit risk attributable to trade debtors is minimal as the majority of fees are paid by local authorities and the incidence of bad debt on private fee payers has been minimal. The Group has a well defined process of debt collection to pursue any accounts where payment difficulties arise.

OUR EMPLOYEES

The Group's goal is to create a strong care-centred culture whilst promoting an inclusive environment where all employees feel they have the opportunity to succeed. The Group has a strong culture built on its core values and recognises employees' contributions and achievements through its performance management and reward and recognition processes.

The Group believes in open communication with its employees. This is achieved through a variety of channels including regular home manager conferences, staff surveys, weekly email news delivery to homes via the Orchard Cascade and the publication of the Team Talk magazine covering a wide range of topical issues and recognising achievement. Employees are encouraged to undertake NVQ training and also have a structured program of mandatory and developmental training programmes to help them achieve their goals.

The business also gives sympathetic consideration to applications for employment vacancies from disabled persons. Successful applicants are given appropriate assistance and training and have the same career prospects as other employees. Should employees become disabled during their employment, every assistance is given to enable them to continue their career.

We value our employees and as such we pay close attention to their health, safety, and wellbeing, having particular regard to the Health and Safety at Work Act 1974.

RESULTS, DIVIDENDS AND KEY PERFORMANCE INDICATORS

The profit for the group for the year, after taxation, amounted to £34,725,936 (2010 £9,512,830 loss). The directors do not recommend payment of a dividend.

The directors use a number of financial and non financial key performance indicators which have been referred to earlier in this report to manage the day to day activities of the Group. These include occupancy rates at the homes, operating profits and cash reserves held within the Group. Given the significant events in the current and previous year and the stage of development of the business, the directors are satisfied with the performance of the underlying business.

Orchard Care Homes.Com (Holdings) Limited

DIRECTORS' REPORT

DIRECTORS

The following directors have held office since 1 April 2010


P C Mancey
I Warner
P Tomlinson
AUDITOR

Baker Tilly UK Audit LLP, Chartered Accountants, has indicated its willingness to continue its service

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

By order of the board



I Warner
Director

26 April 2012

Orchard Care Homes.Com (Holdings) Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- d 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORCHARD CARE HOMES COM (HOLDINGS) LIMITED

We have audited the group and parent company financial statements (the financial statements) on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 more fully explained 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. 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2011 and of the group's 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year 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 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.

Baker Tilly UK Audit LLP

Andrew Allchin (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

2 Whitehall Quay

Leeds

LS1 4HG

26 April 2012

Orchard Care Homes.Com (Holdings) Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2011

	Notes	2011 Before exceptional items £	2011 Exceptional items £	2011 £	2010 £
TURNOVER					
Continuing operations	1	36,774,281	-	36,774,281	33,070,276
Discontinued		6,064,346	-	6,064,346	10,509,483
		<u>42,838,627</u>	<u>-</u>	<u>42,838,627</u>	<u>43,579,759</u>
Cost of sales	2	(26,941,440)	-	(26,941,440)	(28,303,433)
		<u>15,897,187</u>	<u>-</u>	<u>15,897,187</u>	<u>15,276,326</u>
Gross profit					
Other operating income		-	-	-	1,249,383
Administrative expenses	2,5	(16,350,181)	27,202,952	10,852,771	(25,670,265)
OPERATING PROFIT/ (LOSS)	3				
Continuing operations		(337,447)	27,202,952	26,865,505	(8,080,252)
Discontinued		(115,547)	-	(115,547)	(1,064,304)
		<u>(452,994)</u>	<u>27,202,952</u>	<u>26,749,958</u>	<u>(9,144,556)</u>
Exceptional Items	5	-	-	-	1,374,986
Profit/(Loss) on ordinary activities before interest				26,749,958	(7,769,570)
Interest receivable	4			5,699	2,070
Interest payable	6			(234,599)	(1,745,330)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION				<u>26,521,058</u>	<u>(9,512,830)</u>
Taxation	9			8,204,878	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	21			<u>34,725,936</u>	<u>(9,512,830)</u>

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account

Orchard Care Homes.Com (Holdings) Limited

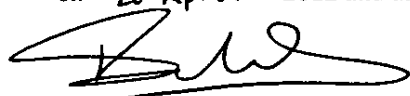
CONSOLIDATED BALANCE SHEET

31 March 2011

Company Registration No 06061481

	Notes	2011 £	2010 £
FIXED ASSETS			
Intangible assets	11	-	9,379,003
Tangible assets	12	728,358	565,511
		<u>728,358</u>	<u>9,944,514</u>
CURRENT ASSETS			
Debtors	13	9,590,057	13,035,211
Investments – term deposits	14	1,000,000	-
Cash at bank and in hand		358,616	446,711
		<u>10,948,673</u>	<u>13,481,922</u>
CREDITORS Amounts falling due within one year	15	(9,972,463)	(21,951,353)
NET CURRENT ASSETS/(LIABILITIES)		<u>976,210</u>	<u>(8,469,431)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,704,568</u>	<u>1,475,083</u>
CREDITORS Amounts falling due after more than one year	16	(4,733,045)	(41,366,343)
NET LIABILITIES		<u>(3,028,477)</u>	<u>(39,891,260)</u>
CAPITAL AND RESERVES			
Called up share capital	18	3,080	1,598
Merger reserve	19	6,270,740	6,270,740
Share premium account	20	9,673,470	7,538,105
Profit and loss account	21	(18,975,767)	(53,701,703)
DEFICIT OF SHAREHOLDERS' FUNDS	22	<u>(3,028,477)</u>	<u>(39,891,260)</u>

The financial statements on pages 8 to 26 were approved by the board of directors and authorised for issue on 26 April 2012 and are signed on its behalf by



I Warner Director

Orchard Care Homes.Com (Holdings) Limited

COMPANY BALANCE SHEET

31 March 2011

Company Registration No 06061481

	Notes	2011 £	2010 £
FIXED ASSETS			
Investments	10	2,520,176	37,862,381
CURRENT ASSETS			
Debtors	13	1,524,540	121,198
Cash at bank and in hand		152	189
		<u>1,524,692</u>	<u>121,387</u>
CREDITORS Amounts falling due within one year	15	(34,748)	(34,606,264)
NET CURRENT ASSETS / (LIABILITIES)		<u>1,489,944</u>	<u>(34,484,877)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,010,120</u>	<u>3,377,504</u>
CREDITORS Amounts falling due after more than one year	16	-	(36,458,000)
NET ASSETS / (LIABILITIES)		<u>4,010,120</u>	<u>(33,080,496)</u>
CAPITAL AND RESERVES			
Called up share capital	18	3,080	1,598
Share premium account	20	9,673,470	7,538,105
Profit and loss account	21	(5,666,430)	(40,620,199)
SURPLUS/(DEFICIT) OF SHAREHOLDERS' FUNDS	22	<u>4,010,120</u>	<u>(33,080,496)</u>

The financial statements on pages 8 to 26 were approved by the board of directors and authorised for issue on 26 April 2012 and are signed on its behalf by


I Warner Director

Orchard Care Homes.Com (Holdings) Limited

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2011

RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<i>Notes</i>	2011 £	2010 £
Operating profit/(loss)		26,749,958	(9,144,556)
Depreciation charge		207,805	155,824
Amortisation of goodwill		546,350	832,969
Impairment of goodwill		8,832,653	4,920,293
Loss on sale of fixed assets		67,838	-
Decrease in stocks		-	390,011
Decrease /(increase) in debtors		2,729,698	(377,187)
(Decrease)/increase in creditors		(216,045)	2,919,072
Other non-cash movements		(39,003,486)	-
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(85,229)	(303,574)

CASH FLOW STATEMENT

	<i>Notes</i>	2011 £	2010 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(85,229)	(303,574)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	23	3,006	(739,946)
MANAGEMENT OF LIQUID RESOURCES	23	(1,000,000)	-
TAXATION	23	(624,229)	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	23	(518,490)	7,975,053
FINANCING	23	2,136,847	(6,854,000)
(DECREASE)/INCREASE IN CASH		(88,095)	77,533

Orchard Care Homes.Com (Holdings) Limited
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 March 2011

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN DEBT

	2011 £	2010 £
AT BEGINNING OF YEAR	(36,011,289)	(49,478,019)
(Decrease)/increase in cash in the year	(88,095)	77,533
Cash inflow from increase in debt and lease financing	-	4,616,000
Loan Note repayments	-	2,238,000
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(88,095)	6,931,533
Write off of loan note debt and accrued interest	36,458,000	-
Conversion to equity of accrued and unpaid loan interest	-	7,538,509
Loan interest accrued	-	(1,003,312)
	<hr/>	<hr/>
NET FUNDS/(DEBT) AT 31 MARCH	358,616	(36,011,289)
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Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards

GOING CONCERN

The accounts have been prepared on a going concern basis for the reasons outlined below

In May 2010, following a period of negotiations with its major creditors, the Company's subsidiary Orchard Care Homes com Limited ("Orchard") delivered a Company Voluntary Arrangement (CVA) proposal to its creditors and convened a meeting on the 13th May 2010. The proposal was approved with an overwhelming majority and a cash injection of £0.6 million was immediately delivered into Orchard as part of the proposals. Simultaneously a CVA proposal was similarly approved for the Company. A distribution pot of £1.5 million was created for creditor claims across both CVAs. This distribution has been netted off CVA creditor adjustments shown at Note 5. These proposals left the Group in a debt free position.

During the year, Her Majesty's Revenue and Customs (HMRC) concluded an enquiry into the tax return submitted by the Company's subsidiary Tri-care Limited (TCL) for the period 1 April 2003 to 31 March 2004, (a period when the Company was under the ultimate ownership of Lawrence Neil Tomlinson). TCL had entered into a Capital Redemption Contract (CRC) in that period to mitigate tax on the capital gains made on the sale and leaseback of all the properties that the Company owned. HMRC's conclusion was that the disposal of the CRC did not give rise to losses that could be set against the chargeable gains under s 8, Taxation of Chargeable Gains Act 1992. The consequence of this conclusion was an additional net corporation tax charge of £2.44 million plus a further £1.0 million in outstanding interest as at the balance sheet date.

On 8th June 2007, the entire issued share capital of TCL was bought by Orchard Care Homes com (Holdings) Limited ("Holdings") from Nice Day 2010 Limited ("Nice Day") (formerly LNT Group Limited). Under the terms of the share purchase agreement, Nice Day provided an indemnity in respect of any pre-completion tax liabilities and covenanted to pay to Holdings an amount equivalent to any such liabilities (including interest) and consequent legal costs.

As required under the terms of the tax covenant, following a request by Nice Day, TCL appealed the decision of HMRC to the First-tier Tribunal (Tax Chamber). Also in accordance with the terms of the covenant, Holdings and Nice Day jointly obtained the advice of a tax expert on the prospects of success of the appeal. On the 11th November 2011, the tax expert advised that there was no prospect of success in the appeal and that it was not reasonable in all the circumstances to continue to contest the appeal. That opinion of the tax expert is, under the tax covenant, binding on Nice Day and Holdings. Subsequently on 16th November 2011, Holdings served a petition to wind up Nice Day.

The financial future of the subsidiary Tri-care Limited (TCL) and its subsidiary Tri-care Homes Limited could be dependent on the outcome of the above petition and the ability of the TCL to recover some or all of the balances outstanding from the relevant entities under the control of Lawrence Neil Tomlinson, including Nice Day. Whilst the appeal remains before the First-tier Tribunal, TCL will continue to trade as a going concern, whilst the sale of the entire share capital of the TCH concluded on 12th April 2012.

The Group directors have taken appropriate legal and professional advice which has confirmed that the extent of any successful claim made by HMRC against TCL is restricted to TCL and hence the liability is ring fenced within this company. No cross guarantees exist between TCL and the other members of the Group which could be called into force in respect of this position and hence impact on the wider going concern position of the Group. The position in TCL does therefore not jeopardise the going concern position of the other Group subsidiaries as detailed at Note 10 nor the parent undertaking.

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

As highlighted at Note 14, the Group had cash reserves of over £1 million at the year-end, with the majority held in a deposit bond by Orchard. The development of the management contracts in September 2011 with Orchard 3 and in April 2012 with Tri-care Homes Limited provide more than sufficient working capital resources to supplement the current break-even operational status of the remainder of the Group following the transfer of the loss making short term lease site back to its landlord in August 2011.

With significant reserves in hand, the commencement of the new management contracts and the knowledge that the issues surrounding TCL cannot impact the wider Group, 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 of accounting in preparing the annual financial statements.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of Orchard Care Homes Com (Holdings) Limited and all of its subsidiary undertakings for the year. Subsidiaries acquired during the year are consolidated using the acquisition method. Their results are incorporated from the date that control passes. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable net assets acquired is capitalised and written off on a straight line basis over its estimated economic life. Provision is made for any impairment. All financial statements are made up to 31 March 2011.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

PURCHASED GOODWILL

Goodwill representing the excess of the purchase price compared with the fair value of net assets acquired is capitalised and written off evenly over 20 years as in the opinion of the directors this represents the period over which the goodwill is effective.

Goodwill is reviewed at least on an annual basis for impairment or more frequently when there are indicators that impairment may have occurred. These impairment reviews involve the use of discounted cash flow forecasts in respect of the cash generating units to which the goodwill relates.

TANGIBLE FIXED ASSETS

Fixed assets are stated at cost.

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life as follows -

Land	not depreciated
Short Leasehold Improvements	10% - 20% straight line
Fixtures and Fittings	10% - 33% straight line
Motor Vehicles	25% straight line

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries are stated in the Holding Company balance sheet at the consideration paid to acquire the investment, less any provision considered necessary by the directors for diminution in value

PENSIONS

The Group makes available a Group Personal Pension Plan to its employees – no contributions are made by the Group

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

REVENUE RECOGNITION

Revenue is recognised at the point at which services are supplied to residents. Where services are performed gradually over time, revenue is recognised as the activity progresses by reference to the value of the services provided.

OPERATING LEASES

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Held within other debtors are amounts relating to rent deposits and retentions in respect of operating leases. These are recoverable at the earlier of the end of the lease term or on the meeting of certain performance criteria.

RELATED PARTY TRANSACTIONS

Exemption from related party transactions disclosure is being claimed in accordance with FRS8 in respect of group transactions with wholly owned subsidiaries.

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

1 TURNOVER

Turnover represents the value of goods and services supplied by the company Turnover is attributable to continuing and discontinued activity and originates entirely from the United Kingdom

2 ANALYSIS OF COST OF SALES AND NET OPERATING EXPENSES

	Continuing Operations £	Discontinued Operations £	Total £
Year Ended 31st March 2011			
Cost of sales	22,672,137	4,269,303	26,941,440
Administrative expenses	12,763,363	1,910,592	10,852,771
Year Ended 31st March 2010			
Cost of sales	21,166,209	7,137,224	28,303,433
Administrative expenses	21,233,972	4,436,293	25,670,265

3 OPERATING PROFIT/(LOSS)

	2011 £	2010 £
This is stated after charging		
Depreciation of owned fixed assets	207,805	155,824
Staff costs	21,774,917	22,270,025
Operating lease rentals – land and buildings	10,951,416	14,209,825
Operating lease rentals – other	48,808	66,814
Impairment of goodwill	8,832,653	4,920,293
Amortisation of goodwill	546,350	832,969
Loss on sale of fixed assets	67,839	-
Auditors remuneration		
Audit services		
- statutory audit of parent and consolidated accounts	12,000	10,000
- statutory audit of subsidiary accounts	22,000	20,000
- taxation	12,780	25,235
	<u>46,780</u>	<u>55,235</u>

4 INTEREST RECEIVABLE

	2011 £	2010 £
Bank interest receivable	5,699	2,070
	<u>5,699</u>	<u>2,070</u>

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

5	EXCEPTIONAL ITEMS	2011 £	2010 £
	Exceptional items included pre operating profit		
	CVA creditor adjustments	37,988,752	-
	Loss on the disposal of tangible fixed assets	(67,839)	-
	Interest on outstanding corporation tax	(1,001,044)	-
	CVA supervisor fees and legal costs	(884,264)	-
	Goodwill write off	(8,832,653)	(4,920,393)
		<u>27,202,952</u>	<u>(4,920,393)</u>
	Post operating profit exceptional items		
	Profit on disposal of tangible fixed assets	-	2,370,772
	Write down of tangible fixed assets	-	(995,786)
		<u>-</u>	<u>1,374,986</u>
6	INTEREST PAYABLE	2011 £	2010 £
	Bank loans and overdrafts	776	25,935
	Other loans	233,823	1,719,395
		<u>234,599</u>	<u>1,745,330</u>
7	STAFF COSTS	2011 £	2010 £
	Wages and salaries	20,260,905	20,704,213
	Social security costs	1,514,012	1,565,812
		<u>21,774,917</u>	<u>22,270,025</u>
	Average monthly number of employees during the year	2011 No	2010 No
	Administration	43	45
	Care staff	1,118	1,176
	Maintenance	6	6
		<u>1,167</u>	<u>1,227</u>

Orchard Care Homes.Com (Holdings) Limited
ACCOUNTING POLICIES
for the year ended 31 March 2011

8	DIRECTORS' REMUNERATION	2011 £	2010 £
	Aggregate emoluments	384,723	405,508

The emoluments of the highest paid director were £226,431 (2010 £231,339) No director has any accrued benefits under pension schemes

9	TAXATION	2011 £	2010 £
	Corporation tax		
	Over provision for the prior year	(8,204,878)	-

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK (28%) The differences are explained below

	2011 £	2010 £
Profit/(loss) on ordinary activities before tax	26,521,058	(9,512,830)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2010 28%)	7,425,896	(2,663,592)
Effects of		
Deferred tax not provided	152,710	-
Income not taxable / Expenses not deductible	(8,225,478)	1,722,726
Short term timing differences	-	(844,530)
Capital allowances in excess of depreciation	3,942	(18,523)
CVA adjustments	(3,125,672)	-
Capital gains	-	266,254
Tax losses carried forward	410,357	-
Group relief	-	1,537,665
Actual tax rate different to rate expected	15,253	-
Over provision in prior year	(8,204,878)	-
Permanently disallowed items	3,342,992	-
Current tax charge for the year	(8,204,878)	-

A deferred tax asset of £3.4 million (2010 £2.6 million) in respect of tax losses has not been recognised in the financial statements as there is uncertainty over the availability of the future tax profits to utilise the tax losses against

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

10 INVESTMENTS

<i>COMPANY</i>	£
Cost	
At 1 April 2010	37,862,381
Impairment in the year	(35,342,205)

As at 31 March 2011	<u>2,520,176</u>
---------------------	------------------

Analysis of subsidiary undertakings

	Tri Care Limited £	Orchard Care Homes Com Limited £	Total £
Cost			
At 1 April 2010	6,555,808	31,306,573	37,862,381
Impairment in the year	(6,555,808)	(28,786,397)	(35,342,205)
As at 31 March 2011	<u>-</u>	<u>2,520,176</u>	<u>2,520,176</u>

An impairment review has been undertaken by the directors. In the opinion of the directors, the value of the investments in subsidiaries is not less than the amount at which this item is shown in the balance sheet.

The names of the Company's subsidiaries (all of which have co-terminous year ends, and are included within the consolidation), together with their principal activities, are set out below. All companies are wholly owned, unless otherwise stated.

SUBSIDIARY UNDERTAKINGS

PRINCIPAL ACTIVITY

Orchard Care Homes com Limited	Provision of residential, nursing and EMI care for the elderly
Tri-care Limited	Provision of residential, nursing and EMI care for the elderly
Tri-care Homes Limited	Provision of residential, nursing and EMI care for the elderly
Orchard Care Homes com (2) Limited	Non-trading
Orchard Care Homes com (3) Limited	Non-trading
Orchard Care Homes com (4) Limited	Non-trading
Orchard Care Homes com (5) Limited	Non-trading
Orchard Care Homes com (6) Limited	Non-trading

The issued share capital of all the Company's subsidiaries consists of ordinary share capital and all companies are registered in England and Wales and operate in Great Britain.

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

11 INTANGIBLE FIXED ASSETS

<i>THE GROUP</i>	<i>Goodwill on consolidation £</i>
Cost	
At 1 April 2010	12,240,214
	<hr/>
31 March 2011	12,240,214
	<hr/>
Amortisation	
At 1 April 2010	2,861,211
Charge for the year	546,350
Impairment	8,832,653
	<hr/>
31 March 2011	12,240,214
	<hr/>
Net book value	
31 March 2011	-
	<hr/>
	<hr/>
31 March 2010	9,379,003
	<hr/>

An impairment review in respect of the goodwill has been undertaken by the directors. The impairment review has considered the expected future cash flows to be generated over the period of 16 years by the assets to which the goodwill can be directly attributed using a discount rate of 12%. Based on these assumptions, the results and trading position of the various Group entities and the events that occurred during the year, the ongoing corporation tax position of one of the subsidiary undertakings and the uncertainties that exist in the cash flow forecasts the directors have concluded that it is appropriate to fully impair the goodwill at the balance sheet date.

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

12 TANGIBLE FIXED ASSETS - GROUP

	<i>Freehold Land £</i>	<i>Short leasehold Improvements £</i>	<i>Fixtures and Fittings £</i>	<i>Motor Vehicles £</i>	<i>Total £</i>
Cost					
At 1 April 2010	80,000	589,023	1,032,753	30,903	1,732,679
Additions	-	-	517,290	13,200	530,490
Disposals	(80,000)	-	(159,634)	(7,500)	(247,134)
At 31 March 2011	-	589,023	1,390,409	36,603	2,016,035
Depreciation					
At 1 April 2010	-	582,170	566,905	18,093	1,167,168
Charged in the year	-	900	198,442	8,463	207,805
Disposals	-	-	(81,983)	(5,313)	(87,296)
At 31 March 2011	-	583,070	683,364	21,243	1,287,677
Net book value 31 March 2011	-	5,953	707,045	15,360	728,358
At 31 March 2010	80,000	6,853	465,848	12,810	565,511

13 DEBTORS

	<i>Group 2011 £</i>	<i>Company 2011 £</i>	<i>Group 2010 £</i>	<i>Company 2010 £</i>
Trade debtors	2,311,732	-	2,713,726	-
Amounts due from group companies	-	1,444,136	-	-
Other debtors	3,998,050	-	5,693,053	-
Prepayments and accrued income	3,280,275	80,404	4,628,432	121,198
	9,590,057	1,524,540	13,035,211	121,198
Amounts due after more than one year included above				
Other debtors	3,839,534	-	5,693,053	-

14 CURRENT ASSET INVESTMENTS - GROUP

Current asset investments represents a sum of £1 million held on a 3 month enhanced fixed rate deposit with Royal Bank of Scotland, maturing 30 June 2011

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

15	CREDITORS Amounts falling due within one year	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	Trade creditors	3,410,609	10,769	6,965,114	88,084
	Amounts owed to group companies	-	-	-	34,507,973
	Corporation tax	2,442,053	-	10,646,933	-
	Other taxation and social security	224,860	-	1,166,255	-
	Other creditors	1,033,480	207	28,949	207
	Accruals and deferred income	2,861,461	23,772	3,144,102	10,000
		<u>9,972,463</u>	<u>34,748</u>	<u>21,951,353</u>	<u>34,606,264</u>
16	CREDITORS Amounts falling due in more than one year	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	Other loans (see note 17)	-	-	36,458,000	36,458,000
	Accruals and deferred income	4,733,045	-	4,908,343	-
		<u>4,733,045</u>	<u>-</u>	<u>41,366,343</u>	<u>36,458,000</u>
17	DEBT ANALYSIS	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	The Group's debt is analysed by maturity below -				
	Repayable -				
	From two to five years	-	-	36,458,000	36,458,000
		<u>-</u>	<u>-</u>	<u>36,458,000</u>	<u>36,458,000</u>
	Less accrued interest	-	-	(764,366)	(764,366)
		<u>-</u>	<u>-</u>	<u>(764,366)</u>	<u>(764,366)</u>
	Net debt	<u>-</u>	<u>-</u>	<u>35,693,634</u>	<u>35,693,634</u>

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

17 DEBT ANALYSIS (continued)

The Group debt comprised the following -

Two tranches of mezzanine funding, £24 million principal, with interest charged at the higher of RPI+1% and Bank Base Rate + 1%

Property specific loan note consideration arising from the MBO, totaling £11.7 million principal with interest charged at the higher of RPI+1% and Bank Base Rate + 1%

All of the above debt was either written off or ranked for dividend in the CVA agreed by creditors on 13th May 2010

18 EQUITY SHARE CAPITAL	2011 £	2010 £
Group and Company		
Allotted, issued and fully paid		
299,662 Ordinary Shares of £0.01p each	2,997	-
60,000 Ordinary A Shares of £0.01p each	-	600
8,347 Ordinary B Shares of £0.01p each	83	-
40,000 Ordinary B Shares of £0.01p each	-	400
59,760 Ordinary C Shares of £0.01p each	-	598
	<u>3,080</u>	<u>1,598</u>

On 17 May 2010 the following share transactions took place

- 60,000 A ordinary shares of £0.01 each were designated as 60,000 ordinary shares of £0.01 each,
- 31,653 B ordinary shares of £0.01 each were designated as 31,653 ordinary shares of £0.01 each,
- 59,760 C ordinary shares of £0.01 each were designated as 59,760 ordinary shares of £0.01 each, and
- the company allotted 148,249 shares of £0.01 nominal value for a consideration of £2,136,847.40

All shares rank pari passu in all respects

19 MERGER RESERVE	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
At 1 April	6,270,740	-	6,270,740	-
At 31 March	<u>6,270,740</u>	<u>-</u>	<u>6,270,740</u>	<u>-</u>

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

20	SHARE PREMIUM ACCOUNT	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	At 1 April	7,538,105	7,538,105	-	-
	Movement for the year	2,135,365	2,135,365	7,538,105	7,538,105
	At 31 March	9,673,470	9,673,470	7,538,105	7,538,105
21	PROFIT AND LOSS ACCOUNT	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	At 1 April	(53,701,703)	(40,620,199)	(44,188,873)	(39,224,195)
	Profit/(Loss) for the financial year	34,725,936	34,953,769	(9,512,830)	(1,396,004)
	At 31 March	(18,975,767)	(5,666,430)	(53,701,703)	(40,620,199)
As permitted by the Companies Act 2006 Section 408, Orchard Holdings Com (Holdings) Limited has not presented its own profit and loss account The profit/(loss) for the financial period dealt with in the financial statements of the holding company is shown above					
22	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
	At 1 April	(39,891,260)	(33,080,496)	(37,916,939)	(39,223,001)
	Profit/(loss) for the financial year	34,725,936	34,953,769	(9,512,830)	(1,396,004)
	Share premium	2,135,365	2,135,365	7,538,105	7,538,105
	Shares issued	1,482	1,482	404	404
	At 31 March 2011	(3,028,477)	4,010,120	(39,891,260)	(33,080,496)

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

23	CASH FLOWS	2011 £	2010 £
	Analysis of cash flows for headings netted in the cash flow		
	Returns on investments and servicing of finance		
	Interest received	5,697	2,070
	Interest paid	(2,691)	(742,016)
	Net cash inflow/(outflow) from returns on investments and servicing of finance	3,006	(739,946)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	(530,490)	(199,347)
	Sale of tangible fixed assets	12,000	8,174,400
	Net cash (outflow)/inflow from capital expenditure and financial investment	(518,490)	7,975,053
	Financing		
	Issue of share capital	2,136,847	-
	New loans raised	-	(4,616,000)
	Repayment of loan notes	-	(2,238,000)
	Net cash inflow/(outflow) from financing	2,136,847	(6,854,000)

	At 31 March 2010 £	Cash flow £	Transfer & Other non cash movements £	At 31 March 2011 £
Analysis of net debt				
Cash in hand, at bank	446,711	(88,095)	-	358,616
Debt due after 1 year	(36,458,000)	-	36,458,000	-
Total	(36,011,289)	(88,095)	36,458,000	358,616

The non cash movement of £36.5 million relates to the write off of £24.0 million of mezzanine loan and £11.7 million of loan notes plus accrued interest of £0.8 million. These balances were either ranked for dividend or written off in the CVA agreed by creditors on 13 May 2010.

24	CAPITAL COMMITMENTS	2011 £	2010 £
	At the year end the group had the following commitments		
	Amounts contracted for but not provided in the accounts	-	12,535,000

The capital commitments represent the obligation to acquire further sites operated under leases

Orchard Care Homes.Com (Holdings) Limited

ACCOUNTING POLICIES

for the year ended 31 March 2011

25	OPERATING LEASES	Land and Buildings	Other	Land and Buildings	Other
	Annual commitments under non-cancellable operating leases are as follows	2011	2011	2010	2010
		£	£	£	£
	Group				
	Operating leases which expire -				
	Within one year	438,750	-	219,375	-
	In the second to fifth years inclusive	80,784	29,939	756,993	44,385
	Over five years	9,452,176	-	16,274,167	-
		<u>9,971,710</u>	<u>29,939</u>	<u>17,250,535</u>	<u>44,385</u>

26 RELATED PARTY DISCLOSURES

As part of the loan consideration for the acquisition of Orchard Care Homes com Limited, loan note principal and interest payments of £1,735 have been paid to P C Mancey, a director of the Company in respect of his previous shareholding in the acquired company prior to the CVA. As part of the CVA agreement, P C Mancey received a CVA dividend of £17,850 on the remaining loan notes, the balance of which was then written off.

During the year, the Group paid rentals of £461,026 to Clipstone Care LLP, the landlord of one of the Group's care homes. Clipstone Care LLP is a limited liability partnership of which director P C Mancey is a member. There was no outstanding balance at the year end.

27 CONTROLLING PARTY

In the directors opinion there was no one ultimate controlling party at the year end.

28 GUARANTEES

The company has guaranteed any sums due to The Royal Bank of Scotland Plc by Tri-Care Limited and Orchard Care Homes Com Limited under the terms of a guarantee dated 8 June 2007.

Additionally an inter-company guarantee is in place in relation to sums due to the bank.

29 POST BALANCE SHEET EVENTS

On the 12th April 2012, the Group sold the entire share capital of its subsidiary Tri-care Homes Limited (TCHL) to Freegold Developments Limited. A fellow Group subsidiary, Orchard Care Homes com Limited has entered into a management contract with TCHL to ensure continuity of care following the sale.

In September 2011, Orchard Care Homes com (3) Limited, ("Orchard 3") entered into a management agreement to operate 2,163 beds formerly operated by Southern Cross Healthcare PLC. Orchard 3 took over regulatory responsibility for 1,387 beds in England on the 30th September 2011 and the balance of 776 beds in Scotland and Northern Ireland on the 31st October 2011.