

Company Registration No. 06315771

Zest Care Homes Limited

Annual Report and Financial Statements

For the year ended 30 September 2013



Zest Care Homes Limited

Annual report and financial statements for the year ended 30 September 2013

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Zest Care Homes Limited

Annual report and financial statements for the year ended 30 September 2013

Officers and professional advisers

Directors

E J Coyle
G K Sizer
P H Scott

Registered Office

2nd Floor, Tirrem House
16 High Street
Yarm
Cleveland
TS15 9AE

Bankers

Ulster Bank Limited
11-16 Donegall Square East
Belfast
BT7 5UB

Solicitor

DLA Piper UK LLP
Princes Exchange
Princes Square
Leeds
LS1 4BY

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne
United Kingdom

Zest Care Homes Limited

Strategic report

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the company during the year was the operation of care homes for the elderly

The care home business has made steady progress during the current year, following the takeover of the care homes from Southern Cross during the previous financial year. Occupancy has steadily improved and available beds were 85% occupied at the year-end (2012: 82%)

There were some operational difficulties during the year, particularly at one home where it had been difficult to recruit a suitable Home Manager. That fact compounded with a lack of trained nursing staff created some quality issues. In addition, ongoing refurbishment had resulted in lower than average occupancy. However, since the year-end the Home Manager position has been filled, refurbishment completed, new staff recruited and as a result occupancy has materially recovered.

Key performance indicators

The key performance indicators (KPIs) that are used by the Company to monitor progress against its strategy and business plan are as follows:

KPI Description

- **Quality outcome**

Assessment of each home using our own internal audit assessment tool, conducted by an independent consultant on a monthly basis, as well as having regard to those assessments and inspections by external agencies (contracting authorities and regulators, CQC and RQIA)

- **Average occupancy**

The average occupancy of available beds expressed as a percentage. Average weekly fee, the average weekly fee achieved per occupied bed.

- **Home EBITDAR before central costs**

Home EBITDAR (Earnings before interest, tax, depreciation, amortisation and rent) before central costs. EBITAR during the year was £629,082, (2012: £1,161,519)

- **EBITDAR margin.**

Home EBITDAR before central costs expressed as a percentage of revenue

In terms of outlook, the Directors remain committed to the totem of 'quality and profit being synonymous'. We continue to focus on maximising occupancy whilst continuously improving the level of service offered. As individual homes achieve capacity and satisfactory regulatory reports, the strategy remains thereafter to improve fee rate mix by using natural occupancy churn to offer bed space to the highest potential fee payer. We continue to attempt to improve private to public fee payer mix.

In tandem service enhancements continue such as the addition of minibuses this year and supernumerary deputy managers with a very specific focus on daily and weekly in-house quality audit, staff training and supervision, staff roster management and appraisal.

Our objective remains to have all five homes performing at budgeted occupancy, with excellent regulatory reports, with positive local reputations as a result. Year on year we expect incremental improvement in average fee rate and steady improvement in EBITDA contribution as a result.

Zest Care Homes Limited

Strategic report

FUTURE DEVELOPMENTS

The Directors believe sector outlook remains positive. Demographic analysis confirms an ageing population and the incidence of dementia is forever increasing as a percentage of overall client morbidity. Zest continues to increase dementia registration categories as a response to this building demographic. Health and Social care budgets for public sector supported clients won't increase materially over the next few years as public finances remain tight which in essence increases the number of people self funding and/or paying a top up.

PRINCIPAL RISKS AND UNCERTAINTIES

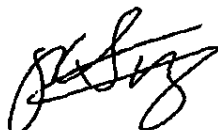
The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties and steps are undertaken to understand and evaluate these in order to achieve our objective of providing excellent, affordable long-term care in the communities where we operate.

The key risks faced by the Company are:

- Failure to comply with regulation, possible leading in extreme cases to loss of registration to operate
- Failure to achieve quality standards, possibly leading to suspension of admissions to our home
- Generating severe negative publicity were a serious incident to occur at one of our homes
- Budgeted occupancy levels not being achieved with negative impact on revenue and profitability
- Average weekly fees do not keep pace with cost inflation, putting margins under pressure
- Failure to recruit, retain and motivate the correct quality of care staff, adversely impacting the quality of care provided
- Failure to renew banking facilities

Due to the current size of the business, these risks are managed by day to day involvement in the operation of the homes by the Directors. The Company also contracts with a quality audit assessor to independently assess and grade each aspect of our care service against the regulatory standards. Monthly review meetings are held between the Managing Director and each Home Manager to monitor the performance of each home against its operating budget and to review and update the home's action plan, which is a permanently evolving control document.

Approved by the Board of Directors
and signed on behalf of the Board



G K Sizer
Director

30 June 2014

Zest Care Homes Limited

Directors' report

The directors present their annual report, together with the financial statements and independent auditor's report for the year ended 30 September 2013.

Activities

The principal activity of the company is the operation of nursing and residential care homes for the elderly.

Directors

The directors who served throughout the year and since were as follows:

G K Sizer

E J Coyle

P H Scott (Appointed 3 December 2012)

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the accounting policies note, on page 8, of the financial statements.

Dividends

The directors have not recommended a dividend.

Auditor

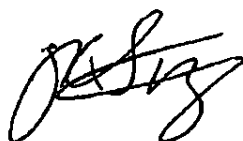
Each of the persons who are directors of the company at the date of this report confirms that:

- 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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of this information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



G K Sizer
Director

30 June 2014

Zest Care Homes Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Independent auditor's report to the members of Zest Care Homes Limited

We have audited the financial statements of Zest Care Homes Limited for the year ended 30 September 2013 which comprise the profit and loss account, statement of total recognised gains and losses, the balance sheet and the related notes 1 to 14. 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 explained more fully in the Directors' Responsibilities Statement, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the form of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2013 and of its loss 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 period for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Zest Care Homes Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from preparing a strategic report or in preparing the directors' report.


David Johnson BA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne, United Kingdom

30 June 2014

Zest Care Homes Limited

Profit and loss account Year ended 30 September 2013

	Notes	2013 £	2012 £
Turnover	1	7,433,873	6,575,629
Cost of sales		(8,393,919)	(6,413,234)
Gross (loss)/profit		(960,046)	162,395
Administrative expenses		(445,417)	(187,333)
Loss on ordinary activities before taxation	3	(1,405,463)	(24,938)
Tax on loss on ordinary activities	4	9,761	(9,761)
Loss for the financial year		(1,395,702)	(34,699)

All activities derive from acquisitions in the year and from continuing operations in the United Kingdom.

The Company has no recognised gains and losses in either the current or prior year other than as stated in the profit and loss account. Accordingly no separate statement of total recognised gains and losses has been presented.

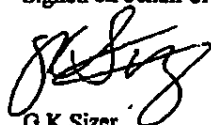
Zest Care Homes Limited

Balance sheet 30 September 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	5	<u>445,657</u>	<u>252,040</u>
Current assets			
Cash		3,242	2,350
Debtors	6	<u>387,534</u>	<u>1,524,212</u>
		390,776	1,526,562
Creditors: amounts falling due within one year	7	<u>(2,271,607)</u>	<u>(1,808,313)</u>
Net current liabilities		<u>(1,880,831)</u>	<u>(281,751)</u>
Total assets less current liabilities		<u>(1,435,174)</u>	<u>(29,711)</u>
Provision for liabilities and charges	8	<u>-</u>	<u>(9,761)</u>
Net liabilities		<u>(1,435,174)</u>	<u>(39,472)</u>
Capital and reserves			
Called up share capital	9	999	999
Profit and loss account	10	<u>(1,436,173)</u>	<u>(40,471)</u>
Shareholders' deficit	11	<u>(1,435,174)</u>	<u>(39,472)</u>

The financial statements of Zest Care Homes Limited, registered number 06315771 on pages 6 to 14 were approved by the Board of Directors on 30 June 2014

Signed on behalf of the Board of Directors



G K Sizer
Director

Zest Care Homes Limited

Notes to the financial statements Year ended 30 September 2013

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below, and have been applied consistently for the current year and preceding year.

Accounting convention

The financial statements have been prepared in accordance with the historical cost convention.

Going concern

The company's principal activity is described in the Directors' Report. The financial position of the company is set out on page 7.

As disclosed in note 12 the company is party to an omnibus guarantee in relation to the group's external bank borrowings and therefore it is also necessary to consider the financial position of the group. Those borrowings are repayable on demand. The group is undertaking a programme to dispose of certain of its properties to generate additional cash to repay a proportion of the bank loan. The directors have held discussions with the bank and they have indicated that they will not seek repayment of the loan for the foreseeable future whilst the disposal programme is undertaken.

The group funds ongoing working capital requirements and interest payments through its cash balance and cash generated from trading.

The group and company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group and company should be able to operate within the level of their current facility, subject to the bank not seeking repayment of the loan.

On the basis of their assessment of the group and company's financial position the company's directors have a reasonable expectation that the company will be able 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.

Turnover

Turnover is stated net of VAT and trade discounts. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost. Depreciation is provided to write off the cost less estimated residual value over their estimated useful lives as follows:

Fixtures and fittings	4 – 5 years
Motor Vehicles	4 years

Leases

Operating lease rentals are charged on a straight line basis over the term of the lease.

Zest Care Homes Limited

Notes to the financial statements (continued) **Year ended 30 September 2013**

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax liabilities are not discounted.

Cash flow statement

The company is not presenting a cash flow statement in accordance with the exemption in FRS 1 - Cash Flow Statements. The company qualifies as a small company in companies legislation.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

2. Employees

The average monthly number of employees (including executive directors) was:

	2013	2012
	Number	Number
Care staff	387	326
Management and administration	13	9
	<u>400</u>	<u>335</u>

Their aggregate remuneration comprised

	2013	2012
	£	£
Wages and salaries	4,508,656	3,809,035
Social security costs	285,796	231,076
	<u>4,794,452</u>	<u>4,040,111</u>

The directors received no emoluments during the current financial year or the previous financial period for their services to the company.

Zest Care Homes Limited

Notes to the financial statements (continued) Year ended 30 September 2013

3. Loss on ordinary activities before taxation

	2013 £	2012 £
Loss on ordinary activities before taxation is shown after charging		
Depreciation of tangible assets:		
Owned assets	135,473	11,648
Auditor's remuneration:		
- fees payable to company's auditor for the audit of the company's annual financial statements	<u>3,000</u>	<u>3,000</u>
Audit fees are paid by another group company		

4. Tax on loss on ordinary activities

i) Analysis of tax credit on ordinary activities

	2013 £	2012 £
United Kingdom corporation tax on the loss for the period	-	-
Deferred tax		
Timing differences, origination and reversal	(9,761)	10,610
Effect of changes in tax rates	-	(849)
	<u>(9,761)</u>	<u>9,761</u>
Total current tax	<u>(9,761)</u>	<u>9,761</u>

ii) Factors affecting tax charge for the current period.

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK. 23.5% (2012 25%)

Zest Care Homes Limited

Notes to the financial statements (continued) Year ended 30 September 2013

4. Tax on loss on ordinary activities (continued)

The differences are explained below:

	2013 £	2012 £
Loss on ordinary activities before tax	(1,405,463)	(34,699)
Tax at 23.5% (2012: 25%) thereon	(330,265)	(8,675)
Expenses not deducted for tax purposes	1,288	-
Capital allowances in excess of depreciation	(28,220)	(37,110)
Tax losses utilised	174,208	13,608
Group relief	182,989	14,827
Current tax charge for the year	-	-

5. Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Total £
Cost			
At 1 October 2012	260,938	2,750	263,688
Additions	329,090	-	329,090
At 30 September 2013	590,028	2,750	592,778
Depreciation			
At 1 October 2012	11,347	301	11,648
Charge for the year	134,785	688	135,473
	146,132	989	147,121
Net book value			
At 30 September 2013	443,896	1,761	445,657
At 30 September 2012	249,591	2,449	252,040

Zest Care Homes Limited

Notes to the financial statements (continued) Year ended 30 September 2013

6. Debtors

	2013 £	2012 £
Trade debtors	284,836	177,357
Amounts owed by group undertakings	-	1,285,965
Prepayments	102,698	60,890
	<u>387,534</u>	<u>1,524,212</u>

7. Creditors: amounts falling due within one year

	2013 £	2012 £
Bank overdraft (secured)	4,353	2,260
Trade creditors	218,966	194,490
Other creditors	167,083	210,006
Other taxes and social security costs	65,085	75,906
Accruals	235,031	150,844
Amounts owed to group undertakings	1,581,089	1,174,807
	<u>2,271,607</u>	<u>1,808,313</u>

8. Provisions for liabilities and charges

	Deferred tax £
At 1 October 2012	9,761
Profit and loss account credit (note 4)	(9,761)
At 30 September 2013	<u>-</u>

The amounts of deferred taxation provided in the financial statements are as follows:

	2013 £	2012 £
Accelerated capital allowances	-	23,104
Losses	-	(13,343)
	<u>-</u>	<u>9,761</u>

Zest Care Homes Limited

Notes to the financial statements (continued) Year ended 30 September 2013

9. Called-up share capital

	2013 £	2012 £
<i>Allotted, called-up and fully paid</i>		
999 ordinary shares of £1 each	<u>999</u>	<u>999</u>

10. Reserves

	Profit and loss account £
At 1 October 2012	(40,471)
Loss for the financial year	<u>(1,395,702)</u>
At 30 September 2013	<u>(1,436,173)</u>

11. Reconciliation of movements in shareholders' deficit

	2013 £	2012 £
Loss for the financial year	(1,395,702)	(34,699)
Opening shareholders' deficit	<u>(39,472)</u>	<u>(4,773)</u>
Closing shareholders' deficit	<u>(1,435,174)</u>	<u>(39,472)</u>

12. Commitments

The company is party to an omnibus guarantee in favour of Ulster Bank to secure group borrowings. The total borrowings outstanding at the period end were £27,852,269 (2012: £28,937,269).

The bank loans are secured by a fixed and floating charge over all the assets of the company

13. Related party transactions

The company is a wholly owned subsidiary of Zest Investment Group Limited and is exempt from the requirements of FRS 8 'Related Party Disclosures' to disclose transactions with other members of the group headed by Zest Investment Group Limited

Included within Other creditors is a sum of £125,338 (2012: £Nil) due to directors of the company. This relates to short term working capital funding provided during the year.

14. Ultimate parent company and controlling party

The directors regard Zest Investment Group Limited, a company incorporated in England and Wales, as being the company's immediate and ultimate parent company and is the parent company of the largest and smallest group which includes the company. Copies of the group accounts are available from Companies House, Crown Way, Mandy, Cardiff, CF14 3UZ.

Zest Investment Group Limited is jointly controlled by the directors who each individually hold 33.33 per cent of the issued share capital of the company.

Zest Care Homes Limited

Additional information

The additional information consisting of the detailed profit and loss account has been prepared from the accounting records of the company. Whilst it is unaudited and does not form part of the statutory financial statements, it should be read in conjunction with them and the responsibilities section of the auditor's report thereon.

Zest Care Homes Limited

Trading profit and loss account Year ended 30 September 2013

	2013	2012
£	£	£
Turnover		
Fee income	7,433,873	6,575,629
Home payroll costs		
Gross pay	4,303,763	3,647,902
SSP/SMP	61,204	36,792
Employers NI	274,708	241,270
Agency staff costs	520,880	291,761
	<u>(5,160,555)</u>	<u>(4,217,725)</u>
Home running costs		
Food and kitchen supplies	326,646	271,886
Medical, domestic and cleaning	246,440	204,769
Premises insurance	23,918	21,094
Council tax	2,323	2,300
TV licencing	873	437
Electricals	120,674	108,832
Gas, oil and LPG	94,478	79,051
Water and sewerage	41,142	37,816
Repairs and maintenance	164,566	107,023
Clinical and general work	33,217	24,656
Window cleaning	4,161	3,673
Telephone	24,805	12,499
Marketing	963	1,978
Printing, postage and stationery	54,356	30,144
Resident activities	19,396	7,884
Staff recruitment	45,151	22,010
Staff travel and welfare	24,305	9,775
Staff uniforms	10,425	14,046
Criminal Records Bureau/Access NI	8,103	8,234
Staff training	38,682	11,658
Registration fees	30,172	30,235
GP and other fees	13,465	8,867
Computers and software	6,032	-
	<u>(1,334,293)</u>	<u>(1,020,702)</u>
Home EBITDAR before central costs	939,025	1,337,202

Zest Care Homes Limited

Trading profit and loss account Year ended 30 September 2013

	2013	2012
	£	£
Home EBITDAR before central costs	939,025	1,337,202
Central costs		
Gross pay	143,689	124,341
Employees NI	11,088	(10,194)
Repairs and maintenance	25,744	84
Waste disposal	252	217
Telephone	2,290	-
Printing, postage and stationery	6,165	3,770
Bank charges	4,766	3,776
Computers and software	11,445	15,605
Staff recruitment	1,739	1,582
Other staff costs	8,541	1,559
Travel and motor expenses	57,333	34,140
Professional fees	36,891	804
	<u>(309,943)</u>	<u>(175,683)</u>
EBITDAR	629,082	1,161,519
Rent due to group undertakings	1,562,072	1,174,807
Rent due to group undertakings – prior year	337,000	-
	<u>(1,899,072)</u>	<u>(1,174,807)</u>
EBITDA	(1,269,990)	(13,288)
Depreciation	<u>(135,473)</u>	<u>(11,648)</u>
EBITA	<u>(1,405,463)</u>	<u>(24,936)</u>