

Company Registration No. 06315771

Zest Care Homes Limited

Annual Report and Financial Statements

for the year ended 30 September 2014

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Zest Care Homes Limited

Annual Report and Financial Statements for the year ended 30 September 2014

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Zest Care Homes Limited

Annual Report and Financial Statements for the year ended 30 September 2014

Officers and professional advisers

Directors

E J Coyle (resigned 26 January 2015)
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
NE1 2HF
United Kingdom

Zest Care Homes Limited

Strategic Report for the year ended 30 September 2014

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. Occupancy has steadily improved and available beds were 86.5 % occupied at the year-end (2013: 85%)

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 £868,438 (2013: £629,082).
- **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 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 (continued)

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

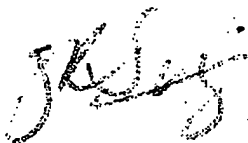
The management of the business and the execution of the company's strategy are subject to a number of risks and uncertainties and steps are undertaken to understand and evaluate these in order to achieve our objective of providing excellent, affordable long-term care in the communities where we operate.

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; and
- 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 2015

Zest Care Homes Limited

Directors' Report

The directors present the annual report, together with the financial statements and independent auditor's report for the year ended 30 September 2014.

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 (resigned 26 January 2015)
P H Scott

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 10, of the financial statements.

Dividends

The directors have not recommended a dividend.

Auditor

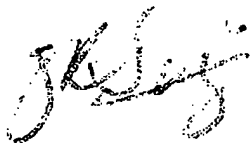
Each of the persons who are directors of the company at the date of this report confirms that:

- 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 section 418 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 2015

Zest Care Homes Limited

Directors' Responsibilities Statement for the year ended 30 September 2014

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 year. 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 for the year ended 30 September 2014

We have audited the financial statements of Zest Care Homes Limited for the year ended 30 September 2014 which comprise the profit and loss account, 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 member, 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 member, 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 2014 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 year 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) for the year ended 30 September
2014**

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.

Debitte up

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 2015

Zest Care Homes Limited

Profit and loss account for the year ended 30 September 2014

	Notes	2014 £	2013 £
Turnover	1	8,344,527	7,433,873
Cost of sales		<u>(8,783,383)</u>	<u>(8,393,919)</u>
Gross loss		(438,856)	(960,046)
Administrative expenses		<u>(600,141)</u>	<u>(445,417)</u>
Loss on ordinary activities before taxation	3	(1,038,997)	(1,405,463)
Tax on loss on ordinary activities	4	<u>-</u>	<u>9,761</u>
Loss for the financial year		<u><u>(1,038,997)</u></u>	<u><u>(1,395,702)</u></u>

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

The notes on pages 11 – 16 form an integral part of these financial statements.

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

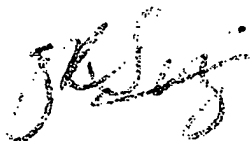
Balance sheet as at 30 September 2014

	Notes	2014 £	2013 £
Fixed assets			
Tangible assets	5	<u>492,837</u>	<u>445,657</u>
Current assets			
Cash		3,242	3,242
Debtors	6	<u>261,836</u>	<u>387,534</u>
		265,078	390,776
Creditors: amounts falling due within one year	7	<u>(3,232,086)</u>	<u>(2,271,607)</u>
Net current liabilities		<u>(2,967,008)</u>	<u>(1,880,831)</u>
Total assets less current liabilities		<u>(2,474,171)</u>	<u>(1,435,174)</u>
Provision for liabilities and charges	8	<u>-</u>	<u>-</u>
Net liabilities		<u>(2,474,170)</u>	<u>(1,435,174)</u>
Capital and reserves			
Called up share capital	9	999	999
Profit and loss account	10	<u>(2,475,170)</u>	<u>(1,436,173)</u>
Shareholders' deficit	11	<u>(2,474,171)</u>	<u>(1,435,174)</u>

The notes on pages 11 – 16 form an integral part of these financial statements.

The financial statements of Zest Care Homes Limited, registered number 06315771 on pages 8 to 16 were approved by the Board of Directors on 30 June 2015.

Signed on behalf of the Board of Directors



G K Sizer
Director

Zest Care Homes Limited

Notes to the financial statements for the year ended 30 September 2014

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

As disclosed in note 12 at the balance sheet date the company was party to an omnibus guarantee in relation to the group's external bank borrowings and therefore it is necessary to also consider the financial position of the group. The group borrowings were repayable on demand

In January 2015 the group disposed of Icen House Care home and the net sales consideration of £4.1m was used to repay group borrowings. In March 2015 the residual borrowings were successfully refinanced under a new £4 million term loan facility expiring in April 2018.

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 reasonable possible changes in trading performance, show that the group and company should be able to operate comfortably within the level of the new term loan facility.

On this basis the directors have a reasonable expectation that the group and 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	3 – 4 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) for the year ended 30 September 2014

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:

	2014 Number	2013 Number
Care staff	427	387
Management and administration	20	13
	<u>447</u>	<u>400</u>

Their aggregate remuneration comprised:

	2014 £	2013 £
Wages and salaries	5,101,139	4,508,656
Social security costs	330,842	285,796
	<u>5,431,981</u>	<u>4,794,452</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) for the year ended 30 September 2014

3. Loss on ordinary activities before taxation

	2014 £	2013 £
Loss on ordinary activities before taxation is shown after charging		
Depreciation of tangible assets:		
Owned assets	309,328	135,473
Auditor's remuneration:		
- fees payable to company's auditor for the audit of the company's annual financial statements	2,000	3,000

Audit fees are paid by another group company. Fees payable to the Company's auditors for non-audit services amounting to £1,400 have been paid by another group company.

4. Tax on loss on ordinary activities

i) Analysis of tax credit on ordinary activities

	2014 £	2013 £
United Kingdom corporation tax on the loss for the period	-	-
Deferred tax:		
Timing differences, origination and reversal	(21,043)	(9,761)
Effect of changes in tax rates	1,911	-
Adjustment in respect of previous periods	19,132	-
	-	(9,761)
Total current tax	-	(9,761)

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: 22.0% (2013: 23.5%).

Zest Care Homes Limited

Notes to the financial statements (continued) for the year ended 30 September 2014

4. Tax on loss on ordinary activities (continued)

The differences are explained below:

	2014 £	2013 £
Loss on ordinary activities before tax	(1,038,997)	(1,405,463)
Tax at 22.0% (2013: 23.5%) thereon:	(228,551)	(330,265)
Expenses not deducted for tax purposes	2,674	1,288
Capital allowances in excess of depreciation	(14,747)	(28,220)
Tax losses not utilised	64,147	174,208
Group relief	176,477	182,989
Current tax charge for the year	-	-

5. Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Total £
Cost			
At 1 October 2013	590,028	2,750	592,778
Additions	267,668	88,840	356,508
At 30 September 2014	857,696	91,590	949,286
Depreciation			
At 1 October 2013	146,132	989	147,121
Charge for the year	293,492	15,836	309,328
	439,624	16,825	456,449
Net book value			
At 30 September 2014	418,072	74,765	492,837
At 30 September 2013	443,896	1,761	445,657

Zest Care Homes Limited

Notes to the financial statements (continued) for the year ended 30 September 2014

6. Debtors

	2014	2013
	£	£
Trade debtors	210,173	284,836
Prepayments	51,663	102,698
	<u>261,836</u>	<u>387,534</u>

7. Creditors: amounts falling due within one year

	2014	2013
	£	£
Bank overdraft (secured)	361	4,353
Trade creditors	175,373	218,966
Other creditors	207,319	167,083
Other taxes and social security costs	76,613	65,085
Accruals	191,880	235,031
Amounts owed to group undertakings	2,580,540	1,581,089
	<u>3,232,086</u>	<u>2,271,607</u>

8. Provisions for liabilities and charges

	Deferred tax £
At 1 October 2013	-
Profit and loss account credit (note 4)	-
At 30 September 2014	<u>-</u>

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

	2014	2013
	£	£
Accelerated capital allowances	33,256	-
Losses	(59,038)	-
Deferred tax not provided	25,782	-
	<u>-</u>	<u>-</u>

Zest Care Homes Limited

Notes to the financial statements (continued) for the year ended 30 September 2014

9. Called-up share capital

	2014 £	2013 £
<i>Allotted, called-up and fully paid</i>		
999 ordinary shares of £1 each	999	999

10. Reserves

	Profit and loss account £
At 1 October 2013	(1,436,173)
Loss for the financial year	(1,038,997)
At 30 September 2014	(2,475,170)

11. Reconciliation of movements in shareholders' deficit

	2014 £	2013 £
Loss for the financial year	(1,038,997)	(1,395,702)
Opening shareholders' deficit	(1,435,174)	(39,472)
Closing shareholders' deficit	(2,474,171)	(1,435,174)

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 £7,810,136 (2013: £27,852,269). At the balance sheet date, the bank loans are secured by a fixed and floating charge over all the assets of the company. The group borrowings from Ulster Bank were repaid in full on 19 March 2015.

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 £78,202 (2013: £125,338) due to directors of the company. This relates to short term working capital funding provided during the previous financial 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, Maindy, Cardiff, CF14 3UZ.

Zest Investment Group Limited is jointly controlled by the directors who each control 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 For the year ended 30 September 2014

	2014	2013
	£	£
Turnover		
Fee income	8,344,527	7,433,873
Home payroll costs		
Gross pay	4,948,608	4,303,763
SSP/SMP	46,410	61,204
Employers NI	314,923	274,708
Workplace pensions	9,379	-
Agency staff costs	505,235	520,880
	(5,824,555)	(5,160,555)
Home running costs		
Food and kitchen supplies	336,065	326,646
Medical, domestic and cleaning	242,166	246,440
Premises insurance	42,806	23,918
Council tax	2,358	2,323
Equipment leasing	32,706	-
TV licencing	725	873
Electricity	119,826	120,674
Gas, oil and LPG	84,612	94,478
Water and sewerage	38,411	41,142
Repairs and maintenance	170,905	164,566
Clinical and general waste	44,632	33,217
Window cleaning	7,570	4,161
Telephone	24,852	24,805
Marketing	1,993	963
Printing, postage and stationery	53,195	54,356
Resident activities	25,381	19,396
Staff recruitment	18,892	45,151
Staff travel and welfare	15,818	24,305
Staff uniforms	16,166	10,425
Criminal Records Bureau/Access NI	3,757	8,103
Staff training	23,433	38,682
Registration fees	33,654	30,172
GP and other fees	14,898	13,465
Computers and software	5,900	6,032
	(1,360,721)	(1,334,293)
Home EBITDAR before central costs	1,159,251	939,029

Zest Care Homes Limited

Trading profit and loss account For the year ended 30 September 2014

	2014	2013
	£	£
Home EBITDAR before central costs	1,159,251	939,025
Central costs		
Gross pay	152,531	143,689
Employees NI	15,919	11,088
Repairs and maintenance	26,367	25,744
Waste disposal	810	252
Telephone	846	2,290
Printing, postage and stationery	6,497	6,165
Bank charges	3,931	4,766
Computers and software	20,261	11,445
Staff recruitment	-	1,739
Other staff costs	1,552	8,541
Travel and motor expenses	15,273	57,333
Professional fees	46,826	36,891
	<u>(290,813)</u>	<u>(309,943)</u>
EBITDAR	868,438	629,082
Rent due to group undertakings	1,598,107	1,562,072
Rent due to group undertakings – prior year	-	337,000
	<u>(1,598,107)</u>	<u>(1,899,072)</u>
EBITDA	(729,669)	(1,269,990)
Depreciation	<u>(309,328)</u>	<u>(135,473)</u>
EBITA	(1,038,997)	(1,405,463)