

Avery Homes Kirkstall  
Limited  
6905596

**Avery Healthcare Group Limited**

**Annual report and financial statements**

**Registered number 08599361**

**31 March 2016**



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## Strategic report

The Directors present their strategic report for the year ended 31 March 2016

### Principal activities

The principal activity of the Company during the year was that of a holding company

The Group is engaged in the development and operation of care homes and retirement living facilities together with the provision of specialist services for the elderly

### Business review and results

Management operate and monitor the business on a pre-exceptional profitability basis, upon which the results for the year can be summarised as follows

	Pre-exceptionals £000	Exceptional costs £000	Total £000
Group turnover	125,975	-	125,975
Cost of sales	(67,195)	-	(67,195)
Gross profit	58,780	-	58,780
Administrative expenses	(59,705)	(11,105)	(70,810)
Profit on sale of fixed assets	1,166	-	1,166
Operating profit/ (loss)	241	(11,105)	(10,864)
Interest receivable	20	-	20
Interest payable and similar charges	(1,679)	(6,272)	(7,951)
Loss for the financial year before taxation	(1,418)	(17,377)	(18,795)

The directors are pleased with the performance for the year, which is in line with expectations and reflects the maturing nature of the Group's care homes together with the benefit of acquired facilities. Turnover for the year was £126.0m with a gross margin of 46.7%. The Group recorded an operating profit of £0.2m before exceptional costs, which reflects the short term adverse impact on profits on the initial opening of 3 new homes and the integration, refurbishment and repositioning of care homes acquired during the previous year. Exceptional costs of £17.4m primarily relate to one-off acquisition related costs, corporate transaction costs and the accounting treatment for guaranteed rental increases in future years (note 6). UK Accounting Standards require a treatment of long term lease financing which the Directors consider presents the performance of the Company in a way which understates the underlying level of performance by overstating lease costs in the year. It is this non-cash additional rent cost which is shown in exceptional costs. Interest payable in the year was £8.0m of which £6.3m comprises exceptional finance costs arising on the repurchase and cancellation of preference shares (note 8).

During the year, the Group opened two newly constructed care homes in Derby and Walsall.

On 2 April 2015, the Group acquired the trade and operations of Grove Park care home in Leeds, with the property leased from Welltower Inc.

On 3 July 2015, the Group disposed of a care home in Telford through the sale of Avery (St Georges) Limited to Rotherwood Healthcare Limited.

On 13 January 2016, the Group disposed of 2 care homes in Redditch through the sale of Avery (Bowood) Limited to Adept Care Homes. This took the total number of operational facilities to 44 at the year end.

At the year end, the Group had 5 care homes under construction. It is contracted that one of these will be sold to Welltower Inc on completion. The Group is also currently in the process of upgrading 7 care homes and continues to focus on growing the business organically and through selective acquisitions.

In April 2016, the company disposed of 2 Care Homes in Croydon and Lichfield.

## Strategic report *(continued)*

### Business review and results *(continued)*

It is worth outlining our relationship with Welltower Inc who are one of the most respected and longest established Real Estate Investment Trusts (REITs) in the USA. Welltower always seeks to partner with best in class operators and this led to them selecting the Avery Healthcare Group to work with as their principal partner in the UK.

On 7 July 2015, the Company issued 5,199,014 ordinary shares of 1p each at a price of 111.8p to Welltower Inc.

In addition, Welltower acquired a number of ordinary shares direct from an existing shareholder such that their aggregate shareholding in the company is 9.9%. Amongst other benefits, it ensures that the Group has access to funding for its forward development programme without being subject to the vagaries of the UK bank lending market.

The Directors of the Company are of the opinion that it has adequate facilities in place to meet its external liabilities as they fall due and to fund the planned ongoing investment and expansion in delivering high quality care accommodation for the foreseeable future.

### *Group's objectives*

- To establish a group of care homes and retirement living facilities, all of which will be of the highest quality from both an environmental and care delivery perspective, where the resident is at the centre of all our activities,
- To recruit and provide training to staff of a similarly high calibre,
- Continue to evolve and use our quality assurance system to assist in delivering our aim of providing high quality care to the elderly,
- Continuous expenditure on the environment and fabric of the buildings. Continued recognition of the importance of this to the residents of our facilities,
- To achieve above industry average outcomes from reviews and inspections undertaken by sector regulators, and
- To achieve a financial performance in line with budget and in excess of sector norms.

### *How we will achieve this*

- Providing better care which offers good value for the high quality services provided compared with our competitors.
- Building care homes and retirement living facilities in the correct locations, to standards well in excess of the required minimum,
- Providing a career path for all our staff,
- Providing the training and support to teach staff the art of caring and the responsibilities it entails,
- Complying with all regulatory requirements, and
- Providing a quality of care which achieves or exceeds the highest regulatory standards.

### *How we will assess our performance*

- Close supervision and support of our care home and retirement living facility managers by high calibre and experienced regional staff,
- Achievable operational budgets; and
- Weekly reporting to care home and retirement living facility managers on key performance indicators.

## Strategic report (continued)

### Business review and results (continued)

#### Assessment of uncertainties and risks

- Continued assessment of the long term care sector and the potential changes on the horizon,
- Monitor government policy and the impact on the care sector of proposed changes in either social economic terms or direct government focus Respond to potential changes in the general political climate of the privately provided care sector;
- Monitor the housing market and pensions, enabling an assessment of service user's ability to pay for care services, and
- Managing the financial risk resulting from fluctuations in interest rates through appropriate hedging arrangements

#### Key performance indicators

The Group monitors the performance of the business using the following:

- Earnings before interest, tax, depreciation, amortisation and exceptional costs – EBITDA (pre-exceptionals)  
- 2016 profit £4 0m (2015 £1 0m profit)
- Operating cash flow  
- 2016 cash inflow £3 7m (2015 £1 7m outflow)

Other indicators are occupancy levels, average weekly fee rates and the proportion of turnover contributed by self-funding clients who are attracted to homes of a high standard – the Group is one of the few which has predominately 100% single rooms with ensuite facilities This accounts for above average fee levels

The Group has achieved over 90% average occupancy (2015 over 90%) in its mature care homes and retirement living facilities and expects the more recently opened homes to achieve a similar level of average occupancy once they reach maturity During the year 63% of Group turnover was contributed by self-funding clients (2015 65%) The Group also attracts a high calibre of staff due to its training and support programmes and achieves well in excess of the 50% minimum for staff achieving NVQ level 2 or above (2015 same) The Group is considered to be an employer of choice in the sector

#### Principal risks and uncertainties

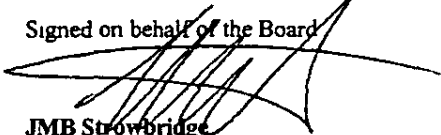
The principal strategic and operational risks are included in the Assessment of uncertainties and risks sections above. The Group seeks to reduce financial risk to a commercially acceptable level through the application of stringent financial management controls and reporting Notes 14, 15, 16, 17, 19 and 20 includes further details of financial instruments The Company's financial instruments comprised, cash, debtors, creditors, bank loans and share capital

#### Future developments and post balance sheet events

On 7 April 2016, the Group completed a £28.8 million bank debt refinancing with Clydesdale Bank in respect of the Group's freehold care home properties and their operations The proceeds were partially used to repay the RBS loan and £5 0m of the Welltower loans The Clydesdale loan is a revolving facility expiring on 6 April 2019 with an interest rate of 2.65% over LIBOR

On 15 April 2016, the Group disposed of its freehold interest in a closed care home in Lichfield for £1 1m.

Signed on behalf of the Board

  
JMB Snowbridge  
Director

3 Cygnet Drive  
Swan Valley  
Northampton  
NN4 9BS

15 December 2016

## Directors' report

The Directors present their directors' report for the year ended 31 March 2016

### Proposed dividends

The Directors do not recommend the payment of a dividend

### Directors

The Directors who held office during the year and in the period to the date of this report were as follows.

I Matthews  
MF Proctor  
JMB Strowbridge  
K Crockett (appointed 24 July 2015)

### Employees

#### *Disabled employees*

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate

#### *Involvement of employees*

The Group has a well-established policy of providing employees with information about the Group through internal media methods in which employees have also been encouraged to present their suggestions and views on the Group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas

### Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year.

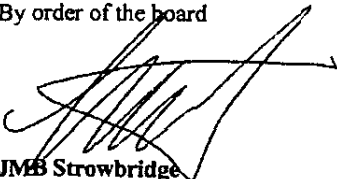
### Disclosure of information to auditor

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

### Auditor

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

By order of the board



JMB Strowbridge  
Director

3 Cygnet Drive  
Swan Valley  
Northampton  
NN4 9BS

15 December 2016

## **Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

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

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

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



**KPMG LLP**

Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
United Kingdom

**Independent Auditor's report to the members of Avery Healthcare Group Limited**

We have audited the financial statements of Avery Healthcare Group Limited for the year ended 31 March 2016 set out on pages 8 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2016 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



**Independent auditor's report to the members of Avery Healthcare Group 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 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



Nick Plumb (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

22 December 2016

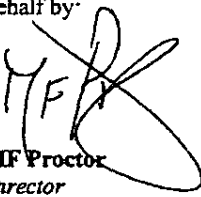
**Consolidated Profit and Loss Account and Other Comprehensive Income**  
*for the year ended 31 March 2016*

	<i>Note</i>	2016 £000	2015 £000
Turnover	2	125,975	76,090
Cost of sales		(67,195)	(44,363)
<b>Gross profit</b>		<b>58,780</b>	<b>31,727</b>
Administrative expenses - exceptional	6	(11,105)	(5,048)
- other		(59,705)	(28,449)
Profit/ (loss) on sale of fixed assets		1,166	(2,326)
<b>Operating loss</b>		<b>(10,864)</b>	<b>(4,096)</b>
Other interest receivable and similar income	7	20	2
Interest payable and similar charges	8	(7,951)	(4,222)
<b>Loss on ordinary activities before taxation</b>	2-8	<b>(18,795)</b>	<b>(8,316)</b>
Tax on loss on ordinary activities	9	(735)	-
<b>Loss for the financial year</b>		<b>(19,530)</b>	<b>(8,316)</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of income tax		-	-
<b>Total comprehensive income for the year</b>		<b>(19,530)</b>	<b>(8,316)</b>

**Consolidated Balance sheet**  
*as at 31 March 2016*

	Notes	2016 £000	2015 £000
<b>Fixed assets</b>			
Intangible assets	10	20,339	21,445
Tangible assets	11	40,061	21,226
		<u>60,400</u>	<u>42,671</u>
<b>Current assets</b>			
Stocks	13	6,279	9,270
Debtors	14	9,131	7,827
Cash at bank and in hand		4,562	4,906
		<u>19,972</u>	<u>22,003</u>
<b>Creditors amounts falling due within one year</b>	15	<u>(28,114)</u>	<u>(30,107)</u>
<b>Net current liabilities</b>		<u>(8,142)</u>	<u>(8,104)</u>
<b>Total assets less current liabilities</b>		<u>52,258</u>	<u>34,567</u>
<b>Creditors amounts falling due after more than one year</b>	16	67,239	35,862
<b>Provision for liabilities</b>	18	60	-
<b>Capital and reserves</b>			
Called up share capital	20	658	635
Share premium	20	5,761	-
Capital redemption reserve	20	100	35
Profit and loss account		<u>(21,560)</u>	<u>(1,965)</u>
<b>Shareholders' deficit</b>		<u>(15,041)</u>	<u>(1,295)</u>
		<u>52,258</u>	<u>34,567</u>

These financial statements were approved by the board of directors on 15 December 2016 and were signed on its behalf by:

  
**MF Proctor**  
Director

Company registration number 08599361

**Company Balance sheet**  
*as at 31 March 2016*

	Notes	2016 £000	2015 £000	2015 £000
<b>Fixed assets</b>				
Tangible assets	11	197		48
Investments	12	1,340		1,340
		<u>1,537</u>		<u>1,388</u>
<b>Current assets</b>				
Debtors	14	34,108	17,395	
Cash at bank and in hand		2	21	
		<u>34,110</u>	<u>17,416</u>	
<b>Creditors: amounts falling due within one year</b>	15	(17,752)	(11,348)	
<b>Net current assets</b>		<u>16,358</u>		<u>6,068</u>
<b>Total assets less current liabilities</b>		<u>17,895</u>		<u>7,456</u>
<b>Creditors, amounts falling due after more than one year</b>	16	11,877		-
<b>Capital and reserves</b>				
Called up share capital	20	658	635	
Share premium	20	5,761	-	
Capital redemption reserve	20	100	35	
Profit and loss account		(501)	6,786	
<b>Shareholders' funds</b>		<u>6,018</u>	<u>7,456</u>	
		<u>17,895</u>	<u>7,456</u>	

These financial statements were approved by the board of directors on 15 December 2016 and were signed on its behalf by

  
**MF Proctor**  
Director

Company registration number 08599361

## Consolidated Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2014	635	-	-	(4,361)	(3,726)
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	(8,316)	(8,316)
<b>Total comprehensive income for the year</b>	-	-	-	(8,316)	(8,316)
Cancellation of preference shares	-	-	35	(35)	-
Capital reduction	-	-	-	10,747	10,747
<b>Total contributions by and distributions to owners</b>	-	-	35	10,712	10,747
<b>Balance at 31 March 2015</b>	<b>635</b>	<b>-</b>	<b>35</b>	<b>(1,965)</b>	<b>(1,295)</b>
Balance at 1 April 2015	635	-	35	(1,965)	(1,295)
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	(19,530)	(19,530)
<b>Total comprehensive income for the year</b>	-	-	-	(19,530)	(19,530)
Issue of shares	52	5,761	-	-	5,813
Conversion of preference shares	8	-	-	-	8
Cancellation of preference shares	-	-	65	(65)	-
Share buy back	(37)	-	-	-	(37)
<b>Total contributions by and distributions to Owners</b>	<b>23</b>	<b>5,761</b>	<b>65</b>	<b>(65)</b>	<b>5,784</b>
<b>Balance at 31 March 2016</b>	<b>658</b>	<b>5,761</b>	<b>100</b>	<b>(21,560)</b>	<b>(15,041)</b>

## Company Statement of Changes in Equity

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2014	635	-	-	(623)	12
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	(3,303)	(3,303)
<b>Total comprehensive income for the year</b>	-	-	-	(3,303)	(3,303)
Cancellation of preference shares	-	-	35	(35)	-
Capital reduction	-	-	-	10,747	10,747
<b>Total contributions by and distributions to owners</b>	-	-	35	10,712	10,747
<b>Balance at 31 March 2015</b>	<b>635</b>	<b>-</b>	<b>35</b>	<b>6,786</b>	<b>7,456</b>
Balance at 1 April 2015	635	-	35	6,786	7,456
<b>Total comprehensive income for the year</b>					
Profit or loss	-	-	-	(7,222)	(7,222)
<b>Total comprehensive income for the year</b>	-	-	-	(7,222)	(7,222)
Issue of shares	52	5,761	-	-	5,813
Conversion of preference shares	8	-	-	-	8
Cancellation of preference shares	-	-	65	(65)	-
Share buy back	(37)	-	-	-	(37)
<b>Total contributions by and distributions to owners</b>	23	5,761	65	(65)	5,784
<b>Balance at 31 March 2016</b>	<b>658</b>	<b>5,761</b>	<b>100</b>	<b>(501)</b>	<b>6,018</b>

**Consolidated Cash Flow Statement**  
*for year ended 31 March 2016*

	<i>Note</i>	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Loss for the year		(19,530)	(8,316)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		3,728	912
Non cash rent expenses		7,970	4,867
Profit or (loss) on sale of fixed assets		(1,166)	2,326
Interest receivable and similar income		(20)	(2)
Interest payable and similar charges		7,951	4,222
Taxation		735	-
		(332)	4,009
Increase in trade and other receivables		(1,804)	(3,513)
Decrease in inventories		2,991	5,016
Increase/(decrease) in trade and other payables		4,203	(7,237)
Corporation tax paid		(1,407)	-
<b>Net cash from operating activities</b>		<b>3,651</b>	<b>(1,725)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		6,079	170,491
Interest received		20	2
Loans provided to directors		-	(500)
Loans repaid by directors		500	-
Acquisition of subsidiary, net of cash acquired		-	(175,716)
Acquisition of property, plant and equipment		(26,334)	(14,777)
<b>Net cash from investing activities</b>		<b>(19,735)</b>	<b>(20,500)</b>
<b>Cash flows from financing activities</b>			
New shares issued	20	5,776	-
Redemption of preference shares		(6,337)	-
Proceeds from new loans	17	33,997	37,160
Interest paid		(1,679)	(610)
Repayment of loans	17	(16,017)	(11,112)
<b>Net cash from financing activities</b>		<b>15,740</b>	<b>25,438</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(344)</b>	<b>3,213</b>
Cash and cash equivalents at 1 April 2015		4,906	1,693
<b>Cash and cash equivalents at 31 March 2016</b>		<b>4,562</b>	<b>4,906</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Avery Healthcare Group Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

In the transition to FRS 102 from old UK GAAP, the Group has made no measurement and recognition adjustments. FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 April 2014 have not been restated.
- Lease arrangements – in order to determine whether an arrangement contains a lease, the Group and Company has analysed facts and circumstances existing at transition date rather than commencement date of the arrangement.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period,
- Cash Flow Statement and related notes, and
- Key Management Personnel compensation.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102 11 *Basic Financial Instruments*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

Further information on the Group's business activities, together with the factors likely to affect its future performance and position, are set out in the strategic report. Notes 17 and 20 include further information on the Group's debt and share capital.

The Group has recorded a loss before taxation for the year of £18.8m. Other than exceptional costs of £17.4m, this result is in line with expectations and the Group continues to perform in line with the original long term business plan put together at the time the Group was formed.

At the year end the Group had net current liabilities of £8.1m, including £4.6m cash, and external debt of £54.4m comprising bank debt of £16.8m and Welltower debt of £37.6m. Note 26 gives detail of the refinancing that took place since the year end. The Group's shareholders have indicated their continuing financial support for the Group for the foreseeable future.

The Group meets its day-to-day working capital requirements through operating cash flows and debt financing. The Group's forecasts and projections, taking account of reasonable possible changes in trading performance, show that the Group is expected to have a sufficient level of financial resources available through current and committed facilities.



## Notes (continued)

### 1 Accounting policies (continued)

#### 1.2 Going concern (continued)

After making enquiries and considering the above issues in detail, and whilst accepting that there are certain levels of risk associated with the above issues, the Directors consider and have concluded that the Group and Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to adopt a going concern basis in the preparation of the financial statements.

#### 1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2016.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

#### 1.4 Foreign currency

Transactions in foreign currencies are translated to the Group companies' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

#### 1.5 Classification of financial instruments issued by the group

In accordance with FRS 102 22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group, and
- (b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

#### 1.6 Basic financial instruments

##### Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.6 Basic financial instruments (continued)

##### *Interest-bearing borrowings classified as basic financial instruments*

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

##### *Investments in preference and ordinary shares*

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition, investments that can be measured reliably are measured at fair value with changes in recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### 1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.13 below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Freehold property - 50 years
- Leasehold improvements - 5 years
- Fixtures and fittings - 5 to 6 years
- IT equipment - 5 years
- Motor vehicles - 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.8 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity

At the acquisition date, the Group recognises goodwill at the acquisition date as

- the fair value of the consideration (excluding contingent consideration) transferred, plus
- estimated amount of contingent consideration (see below), plus
- the fair value of the equity instruments issued, plus
- directly attributable transaction costs, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

#### 1.9 Intangible assets, goodwill

##### Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Goodwill is amortised on a straight line basis over its useful life. The finite useful life of goodwill is estimated to be the life of the lease to which the assets relate.

#### 1.10 Stocks

Stocks are stated at the lower of cost and net realisable value. Work in progress comprises amounts incurred to date on the development of care homes which are contracted for sale in the future.

#### 1.11 Impairment excluding stocks and deferred tax assets

##### Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.11 Impairment excluding stocks and deferred tax assets (continued)

##### *Non-financial assets*

The carrying amounts of the entity's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGUs") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### 1.12 Turnover

##### *Turnover*

Turnover represents fee income relating to the provision of care services, net of value added tax, if applicable and the sale of properties acquired or developed by the Group where a forward sales agreement is in place. Fee income comprises care home fees which are recognised when the delivery of the service is completed. Fees invoiced in advance are included as deferred income until the service is completed.

Sales of care homes that the Group has developed are recognised on legal completion.

#### 1.13 Expenses

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

##### *Finance lease*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.13 Expenses (continued)

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset/are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

##### *Exceptional items*

Material items of income and expenditure which arise from one off events (such as a restructuring), or relate to non-cash items (such as the accrual for future rental increases), are classified as exceptional items on the basis that the Directors believe this presents a clearer picture of the underlying performance of the Group.

#### 1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met, and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 2 Turnover

Turnover is derived entirely in the UK from the principal activities of the Group whose activities comprise the operation and construction of care homes. Turnover includes £8.8m (2015: £21.7m) in respect of properties constructed or acquired by the Group and sold under forward sale agreements. The related costs of sales amounted to £8.1m (2015: £18.5m) resulting in a profit of £0.7m (2015: £3.2m). All other turnover arises from the operation of care homes.

## Notes (continued)

### 3 Expenses and auditor's remuneration

*Included in profit/loss are the following*

	2016 £000	2015 £000
Depreciation and other amounts written off tangible fixed assets	2,586	466
Amortisation of goodwill	1,142	446
Hire of other assets - Property operating leases	39,664	20,563
Hire of other assets - Motor vehicle operating leases	294	73
	<u>          </u>	<u>          </u>

*Auditor's remuneration*

	2016 £000	2015 £000
Audit of these financial statements	60	40
Amounts receivable by the Company's auditor and its associates in respect of Taxation compliance services	60	30
	<u>          </u>	<u>          </u>

### 4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2016	2015
Management and administration staff	291	150
Nursing, care and domestic staff	2,734	1,297
	<u>          </u>	<u>          </u>
	3,025	1,447
	<u>          </u>	<u>          </u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	54,305	24,444
Social security costs	3,519	1,584
Contributions to defined contribution plans	148	-
	<u>          </u>	<u>          </u>
	57,972	26,028
	<u>          </u>	<u>          </u>

## Notes (continued)

### 5 Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	587	151

The aggregate emoluments of the highest paid director was £287k (2015 £58k)

Total compensation of key management personnel (including the directors) in the year amounted to £587,000 (2014 £151,000)

### 6 Exceptional administrative expenses

	2016 £000	2015 £000
Future property and rental increases charged in year (note 22)	7,970	4,867
Restructuring and other transaction related costs	3,135	176
Property costs	-	5
	11,105	5,048

Restructuring and other transaction related costs arise in respect of abortive transaction costs, care home closure costs and pre-opening costs incurred by care homes

### 7 Other interest receivable and similar income

	2016 £000	2015 £000
Interest on bank deposits	20	2

### 8 Interest payable and similar charges

	2016 £000	2015 £000
On bank loans and other loans	2,250	610
Finance costs on shares classified as liabilities	-	98
Premium on redemption of preference shares (exceptional cost)	6,272	3,514
	8,522	4,222
Less amounts capitalised in Assets in construction	(571)	-
	7,951	4,222

## Notes (continued)

### 9 Taxation

#### Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	£000	2015 £000	£000
<i>Current tax</i>				
Adjustments in respect of prior periods		675		-
Total current tax		675		-
<i>Deferred tax (see note 18)</i>				
Adjustment in respect of prior periods	60		-	
Total deferred tax		60		-
Total tax		735		-

#### Reconciliation of effective tax rate

	2016 £000	2015 £000
Loss for the year	(19,530)	(8,316)
Total tax expense	735	-
Loss excluding taxation	(18,795)	(8,316)
Tax using the UK corporation tax rate of 20% (2015 21%)	(3,759)	(1,746)
Depreciation for year in excess of capital allowances	310	14
Non-deductible expenses	2,573	906
Unrecognised tax losses carried forward	732	826
Income not taxable for tax purposes	(43)	-
Adjustment in respect of prior periods	735	-
Other	187	-
Total tax	735	-

The Group has trading losses of approximately £11.98m (2015 £8.32m) available to offset against future profits and/or chargeable gains. Details of amounts recognised in deferred tax are included in note 18.

#### Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% has been substantively enacted. This will reduce the Group's current tax charge accordingly. The deferred tax asset at 31 March 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.



## Notes (continued)

### 10 Intangible assets and goodwill

<i>Group</i>	<b>Goodwill £000</b>
<b>Cost</b>	
Balance at 1 April 2015	22,077
Acquisitions through business combinations	36
	<hr/>
Balance at 31 March 2016	22,113
	<hr/>
<b>Amortisation and impairment</b>	
Balance at 1 April 2015	632
Amortisation for the year	1,142
	<hr/>
Balance at 31 March 2016	1,774
	<hr/>
<b>Net book value</b>	
At 31 March 2016	20,339
	<hr/>
<b>At 1 April 2015</b>	<b>21,445</b>
	<hr/>

The goodwill acquired in the year of £36,000 related to the acquisition of the trade and operations of Grove Park care home in Leeds. The total consideration was £36,000 and the fair value of the net assets acquired was £nil.

In the prior year additions to goodwill of £14,699,000 arose in relation to amounts acquired in business combinations (note 19).

#### *Amortisation*

The amortisation charge and are recognised in the following line items in the profit and loss account:

	<b>2016 £000</b>	<b>2015 £000</b>
Cost of sales	-	-
Administrative expenses	1,142	446
	<hr/>	<hr/>
	<b>1,142</b>	<b>446</b>
	<hr/>	<hr/>

Notes (continued)

11 Tangible fixed assets

<i>Group</i>	Assets in construction £000	Freehold buildings £000	Leasehold improvements £000	Fixtures and fittings £000	IT equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>							
Balance at 1 April 2015	-	20,302	542	2,551	933	225	24,553
Additions	10,497	2,241	10,332	2,406	758	100	26,334
Disposals	-	(4,862)	(30)	(81)	(5)	-	(4,978)
Reclassification	2,474	(2,444)	452	(479)	(36)	33	-
<b>Balance at 31 March 2016</b>	<b>12,971</b>	<b>15,237</b>	<b>11,296</b>	<b>4,397</b>	<b>1,650</b>	<b>358</b>	<b>45,909</b>
<b>Depreciation and impairment</b>							
Balance at 1 April 2015	-	1,586	221	1,189	251	80	3,327
Depreciation charge for the year	-	295	1,396	569	264	62	2,586
Disposals	-	(10)	(4)	(50)	(1)	-	(65)
Reclassification	-	585	(113)	(473)	(5)	6	-
<b>Balance at 31 March 2016</b>	<b>-</b>	<b>2,456</b>	<b>1,500</b>	<b>1,235</b>	<b>509</b>	<b>148</b>	<b>5,848</b>
<b>Net book value</b>							
<b>At 31 March 2016</b>	<b>12,971</b>	<b>12,781</b>	<b>9,796</b>	<b>3,162</b>	<b>1,141</b>	<b>210</b>	<b>40,061</b>
<b>At 1 April 2015</b>	<b>-</b>	<b>18,716</b>	<b>321</b>	<b>1,362</b>	<b>682</b>	<b>145</b>	<b>21,226</b>

Current year additions, in regards to Assets in construction, includes £571,000 (2015 £nil) of capitalised loan interest and £224,000 (2015 £255,000) of capitalised borrowing costs

<i>Company</i>	Leasehold improvements £000
<b>Cost</b>	
Balance at 1 April 2015	48
Additions	174
<b>Balance at 31 March 2015</b>	<b>222</b>
<b>Depreciation and impairment</b>	
Balance at 1 April 2015	-
Depreciation charge for the year	25
<b>Balance at 31 March 2016</b>	<b>25</b>
<b>Net book value</b>	
<b>At 31 March 2016</b>	<b>197</b>
<b>At 1 April 2015</b>	<b>48</b>

## Notes (continued)

### 12 Fixed asset investments

Company	Shares in group undertakings £000
<i>Cost and net book value</i>	
At 31 March 2016	1,340
At 1 April 2015	1,340

The undertakings in which the Group's and Company's interest at the year-end is more than 20% are listed below. All companies listed are registered in the United Kingdom.

With the exception of those which are dormant, together with Avery Care (Cannock) Limited, Avery Homes (Cannock) Limited, Avery Homes RH Limited, Litchfield Care Limited, Avery Holdco Cannock Limited, Avery (Glenmoor) Limited and Avery (Lucas Court) Limited, the subsidiary undertakings listed below are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479A of the Act as this Company has guaranteed the subsidiary company under Section 479C of the Act.

Subsidiary undertakings	Principal activity	Company Percentage and class of shares held	Group Percentage and class of shares held
Willowbrook Healthcare Group Limited	Holding company	100% Ordinary	100% Ordinary
Willowbrook Healthcare Limited	Holding company		*100% Ordinary
Willowbrook Healthcare Debtco Limited	Financing company		*100% Ordinary
Willowbrook Healthcare Developments Limited	Care home development		*100% Ordinary
Avery Homes Rugeley Limited	Care home operation		*100% Ordinary
Avery Homes Cliftonville Limited	Care home operation		*100% Ordinary
Avery Homes Nuthall Limited	Care home operation		*100% Ordinary
Avery Homes Moston Limited	Care home operation		*100% Ordinary
Avery Homes Kirkstall Limited	Care home operation		*100% Ordinary
Avery Homes Newcastle UL Limited	Care home operation		*100% Ordinary
Avery Homes Nuneaton Limited	Care home operation		*100% Ordinary
Avery Homes Wolverhampton Limited	Care home operation		*100% Ordinary
Highcliffe Care Centre Limited	Care home operation		*100% Ordinary
Avery Homes WSM Limited	Care home operation		*100% Ordinary
Avery Homes Hanford Limited	Care home operation		*100% Ordinary
Avery Homes Hatfield Limited	Care home operation		*100% Ordinary
Avery Homes Weybridge Limited	Care home operation		*100% Ordinary
Avery Homes Hinckley Limited	Care home operation		*100% Ordinary
Avery Homes SH Limited	Care home operation		*100% Ordinary
Avery Management Services Limited	Management services		*100% Ordinary
Avery Homes Derby Limited	Care home operation		*100% Ordinary
Avery Homes TH Limited	Care home operation		*100% Ordinary
Hawthorns Retirement Living Limited	Retirement home operation		*100% Ordinary
Avery Homes (Nelson) Limited	Care home operation		*100% Ordinary
Avery Homes RH Limited	Care home operation		*100% Ordinary
Avery (Glenmoor) Limited	Property owner		*100% Ordinary
Avery (Lucas Court) Limited	Property owner		*100% Ordinary
Litchfield Care Limited	Care home operation		*100% Ordinary
Avery Homes (Cannock) Limited	Care home operation		*100% Ordinary
Avery Healthcare Limited	Dormant		*100% Ordinary
Avery Homes Leicester Limited	Property owner		*100% Ordinary
Avery Healthcare Management Limited	Dormant		*100% Ordinary
Avery Homes Nominee 1 Limited	Dormant		*100% Ordinary
Avery Homes Nominee 2 Limited	Dormant		*100% Ordinary

## Notes (continued)

### 12 Fixed asset investments (continued)

Subsidiary undertakings	Principal activity	Company Percentage and class of shares held	Group Percentage and class of shares held
Avery Homes Bristol Limited	Care home development		*100% Ordinary
Avery Homes Kingstanding Limited	Care home development		*100% Ordinary
Avery Healthcare Developments Limited	Dormant		*100% Ordinary
Avery Homes Bracknell Limited	Care home development		*100% Ordinary
Avery Homes Downend Limited	Dormant		*100% Ordinary
Avery Homes Clevedon Limited	Care home development		*100% Ordinary
Avery Homes Stafford Limited	Care home development		*100% Ordinary
Avery Homes Wellingborough Limited	Care home operation		*100% Ordinary
Avery Holdco Cannock Limited	Holding company		*100% Ordinary
Avery Care (Cannock) Limited	Financing company		*100% Ordinary
Avery Homes Stratford Limited	Dormant		*100% Ordinary
Avery Homes Lichfield Limited	Dormant		*100% Ordinary
Avery Care (Redruth) Limited	Care home development		*100% Ordinary
Avery Homes Grove Park Limited	Care home operation		*100% Ordinary
Avery Holdco Exeter Limited	Holding company		*100% Ordinary
Avery Care Exeter Limited	Dormant		*100% Ordinary
Avery Homes (Wimbledon) Limited	Care home development		*100% Ordinary
Willow Domiciliary Care Limited	Dormant		*100% Ordinary
Adept Build Limited	Care home development		*100% Ordinary

\*held indirectly

### 13 Stocks

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Raw materials and consumables	210	109	-	-
Work in progress – care homes under development	6,069	9,161	-	-
	<u>6,279</u>	<u>9,270</u>	<u>-</u>	<u>-</u>

Capitalised care home development costs are classified as work in progress where the Group has a formal agreement for the sale of the home to a third party. Where there is not such an agreement, development costs capitalised are classified as tangible fixed assets, assets in construction.

## Notes (continued)

### 14 Debtors

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Trade debtors	3,792	3,446	-	-
Amounts owed by group undertakings	-	-	32,220	15,794
Amounts owed by directors	-	500	-	500
Other debtors and prepayments	5,339	3,881	1,764	1,101
Group relief receivable	-	-	124	-
	<u>9,131</u>	<u>7,827</u>	<u>34,108</u>	<u>17,395</u>
Due within one year	9,131	7,127	34,108	17,395
Due after more than one year	-	700	-	-
	<u>9,131</u>	<u>7,827</u>	<u>34,108</u>	<u>17,395</u>

Included in other debtors and prepayments is £nil (2015 £700k) which is receivable after more than one year

### 15 Creditors: amounts falling due within one year

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Bank loans and overdrafts (note 17)	683	20	-	-
Investor loans (note 17)	-	777	-	-
Other loans (note 17)	1,712	7,043	-	-
Trade creditors	10,191	8,177	2,841	3,112
Amounts owed to group undertakings	-	-	14,910	7,988
Shares classified as debt	-	73	-	73
Corporation tax	1,279	2,011	-	-
Taxation and social security	939	1,185	-	-
Other creditors and deferred income	13,310	10,821	1	175
	<u>28,114</u>	<u>30,107</u>	<u>17,752</u>	<u>11,348</u>

### 16 Creditors: amounts falling due after more than one year

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Other loans (note 17)	35,868	11,778	11,877	-
Bank loans and overdrafts (note 17)	16,117	16,800	-	-
Accruals – future property rental increases	15,254	7,284	-	-
	<u>67,239</u>	<u>35,862</u>	<u>11,877</u>	<u>-</u>

Accruals for future property rental increases have arisen from spreading guaranteed future rent increases over the lease term

## Notes (continued)

### 17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's and parent Company's interest-bearing loans and borrowings, which are measured at amortised cost

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
<b>Creditors falling due after more than one year</b>				
Bank loan	16,117	16,800	-	-
Other loans - Welltower	35,868	11,778	11,877	-
	<u>51,985</u>	<u>28,578</u>	<u>11,877</u>	<u>-</u>
<b>Creditors falling due within one year</b>				
Other loans - Welltower	1,712	7,043	-	-
Bank loan	683	-	-	-
	<u>2,395</u>	<u>7,043</u>	<u>-</u>	<u>-</u>

The bank loan is a term loan facility of £16.8m with The Royal Bank of Scotland, secured on the care homes which it is funding. Interest is payable at LIBOR + 2.15% and the loan matures in February 2025 with annual repayments commencing in 2016 and the balance repayable at maturity. The amount drawn down under this agreement at the year end was £16.8m.

Other loans of £37.6m comprise working capital facilities, development facilities, mortgage loans and capex loan facilities provided by Welltower Inc and secured on the assets of the Group on a cross collateral basis:

- the Working capital loan 1 and the Corporate working capital loan have a combined maximum limit of £1.7m, which was fully drawn at the year end. The facilities are subject to interest at between 7.54% and 11% per annum,
- the Development loans have maximum combined limits of £14.0m, of which £10.8m was drawn at the year end. The loans are subject to interest at 8% pa and is repayable following the practical completion of the care home developments which they are funding,
- the Working capital loan 2 is a facility of £11.45m with interest rolling up until July 2016 at a rate of 6% pa, thereafter interest is payable monthly at a rate of 8% pa. At year end the amount drawn, including rolled up interest, was £11.9m. At the year-end the loan was repayable monthly from January 2018 over a 10 year period. Post year end this facility has been renegotiated such that the loan is repayable in full in July 2022 but with an option to extend for a further three years,
- the Mortgage loans have a maximum facility of £5.0m and were fully drawn at year end. As noted below these were repaid on 7 April 2016, and
- the £10.5m capex facility, of which £8.2m was drawn at the year end, was utilised to acquire certain properties from Welltower Inc and to provide capital expenditure funding to refurbish those properties. The facility is repayable on its maturity, in November 2019. The interest payable is 7.5% per annum.

On 7 April 2016, the Group completed a £28.8 million bank debt refinancing with Clydesdale Bank in respect of the Group's freehold care home properties and their operations. The proceeds were partially used to repay the RBS loan and £5.0m of the Welltower loans. The Clydesdale loan is a revolving facility expiring on 6 April 2019 with an interest rate of 2.65% over LIBOR.

## Notes (continued)

### 17 Interest-bearing loans and borrowings (continued)

#### Terms and debt repayment schedule

Group	Currency	Nominal interest rate	Year of Maturity	2016 £000	2015 £000
Bank loans (RBS)	£	LIBOR +2.15%	2025	16,800	16,800
Other loans (Welltower)					
Working capital loan 1	£	11%	2016	708	708
Working capital loan 2	£	6%-8%	2017	11,877	-
Corporate working capital loan	£	7.54%	2016	1,000	987
Capex loan	£	7.5%	2017	8,167	-
Development loan - Stafford	£	8%	2019	5,330	3,566
Development loan - Northampton	£	8%	2019	2,283	-
Development loan - Bristol	£	8%	2019	3,201	-
Mortgage loan - Telford	£	8.5%	2019	-	4,891
Mortgage loan - Corby	£	8%	2019	1,940	1,837
Mortgage loan - Moulton	£	8%	2019	3,074	2,175
Mortgage loan - Redditch	£	7.5%	2019	-	2,186
Mortgage loan - Redditch 2	£	7.5%	2019	-	1,495
Mortgage loan - Telford 2	£	7.5%	2019	-	976
				<b>54,380</b>	<b>35,621</b>

The maturity of Group debt at 31 March 2016 is as follows

	Bank loans and overdrafts £000	Other loans £000	Investor loans £000	Total £000
Debt can be analysed as follows:				
Within one year	683	1,712	-	2,395
In second to fifth years	2,724	35,868	-	38,592
After five years	13,393	-	-	13,393
	<b>16,800</b>	<b>37,580</b>	<b>-</b>	<b>54,380</b>

The maturity of Group debt at 31 March 2015 is as follows.

	Bank loans and overdrafts £000	Other loans £000	Investor loans £000	Total £000
Debt can be analysed as follows				
Within one year	20	7,043	777	7,840
In second to fifth years	2,724	10,578	-	13,302
After five years	14,076	1,200	-	15,276
	<b>16,820</b>	<b>18,821</b>	<b>777</b>	<b>36,418</b>

## Notes (continued)

### 17 Interest-bearing loans and borrowings (continued)

Company	Currency	Nominal interest rate	Year of maturity	2016 £000	2015 £000
Working capital loan 2	£	6%	2017	11,877	-

The maturity of Company debt at 31 March 2016 is as follows:

	Other loans £000
Debt can be analysed as falling due In second to fifth year	11,877
	<u>11,877</u>

### 18 Deferred taxation

Elements of deferred taxation are as follows

Group	Provided 2016 £000	Unprovided 2016 £000	Provided 2015 £000	Unprovided 2015 £000
Difference between accumulated depreciation and capital allowances	(60)	-	(45)	-
Tax losses	-	2,096	45	1,618
Deferred tax (liability)/ asset	<u>(60)</u>	<u>2,096</u>	<u>-</u>	<u>1,618</u>
Company	Provided 2016 £000	Unprovided 2016 £000	Provided 2015 £000	Unprovided 2015 £000
Tax losses	-	1	-	1

The Group and Company have unrecognised deferred tax assets of £2,096,000 (2015 £1,618,000) and £1,000 (2015 £1,000) respectively arising on UK corporation tax losses and other timing differences. These assets have not been recognised due to uncertainty over the timing of their future recovery.



## Notes (continued)

### 19 Acquisitions and disposals

On 11 August 2014, the Group acquired the entire issued share capital of Hawthorns Retirement Group UK Limited and its subsidiaries ("The Hawthorns group") for £50m. The resulting goodwill of £0.4m was capitalised and will be written off over 20 years. This period approximates to the average lease term of the properties which underpin trading operations of the Group. Immediately following the acquisition of the properties of this group were sold to, and leased back from, Welltower Inc (formerly Health Care REIT Inc) on 14 August 2014 for £50m. There was no profit or loss on the disposal of the properties.

Details of assets and liabilities are set out below

	Book value £000	Fair value adjustment £000	Fair value £000
<i>Fixed assets</i>			
Tangible	37,386	12,424	49,810
<i>Current assets</i>			
Stock – raw materials and consumables	21	-	21
Debtors	335	-	335
Cash	2,126	-	2,126
	2,482	-	2,482
Total assets (a)	39,868	12,424	52,292
<i>Creditors – amounts due within one year</i>			
Other creditors	2,859	-	2,859
Total liabilities (b)	2,859	-	2,859
Net assets (a-b)			49,433
Goodwill (note 10)			377
			49,810
<i>Purchase consideration and costs of acquisition</i>			
Cash			49,810

Fair value adjustments comprise the increase to market value of tangible fixed assets

## Notes (continued)

### 19 Acquisitions and disposals (continued)

On 25 February 2015, the Group acquired the entire issued share capital of The Restful Homes Group and its subsidiaries ("The Restful group") for £122m. The resulting goodwill of £13.8m was capitalised and will be written off over 20 years. This period approximates to the average lease term of the properties which underpin trading operations of the Group. Immediately following the acquisition, certain properties of this group were sold to, and leased back from, Welltower Inc (formerly Health Care REIT Inc) on 2 March 2015.

Details of assets and liabilities are set out below

	Book value £000	Fair value adjustment £000	Fair value £000
<i>Fixed assets</i>			
Tangible	45,901	81,254	127,155
<i>Current assets</i>			
Stock – raw materials and consumables	13	-	13
Debtors	2,052	-	2,052
Cash	934	-	934
	2,999	-	2,999
<b>Total assets (a)</b>	<b>48,900</b>	<b>81,254</b>	<b>130,154</b>
<i>Creditors: amounts due within one year</i>			
Other creditors	21,618	-	21,618
<b>Total liabilities (b)</b>	<b>21,618</b>	<b>-</b>	<b>21,618</b>
<b>Net assets (a-b)</b>			<b>108,536</b>
<b>Goodwill (note 10)</b>			<b>13,764</b>
			<b>122,300</b>
<i>Purchase consideration and costs of acquisition</i>			
Cash			<b>122,300</b>

Fair value adjustments comprise the increase to market value of tangible fixed assets

## Notes (continued)

### 19 Acquisitions and disposals (continued)

On 28 January 2015, the Group acquired the entire issued share capital of Brampton Valley Healthcare Limited for £5.3m. There was no goodwill arising on this acquisition. Immediately following the acquisition of the company, the property was sold to, and leased back from, Welltower Inc (formerly Health Care REIT Inc) for £5.8m. After taking into account the transaction costs, the profit on the disposal of the property was £0.5m.

Details of assets and liabilities are set out below

	Book value £000	Fair value adjustment £000	Fair value £000
<i>Fixed assets</i>			
Tangible	-	-	-
<i>Current assets</i>			
Stock – work in progress	4,029	1,282	5,311
Debtors	-	-	-
Cash	-	-	-
	4,029	1,282	5,311
Total assets (a)	4,029	1,282	5,311
<i>Creditors – amounts due within one year</i>			
Other creditors	-	-	-
Total liabilities (b)	-	-	-
Net assets (a-b)			5,311
Goodwill (note 10)			-
			5,311
<i>Purchase consideration and costs of acquisition</i>			
Cash			5,311

Fair value adjustments comprise the increase to market value of tangible fixed assets

## Notes (continued)

### 19 Acquisitions and disposals (continued)

On 25 November 2015, the Group acquired the entire issued share capital of Medicx Property (Stafford) Limited for £1.4m. The resulting goodwill of £0.6m was capitalised and will be written off over 20 years. This period approximates to the average lease term of the properties which underpin trading operations of the Group.

Details of assets and liabilities are set out below:

	Book value £000	Fair value adjustment £000	Fair value £000
<i>Fixed assets</i>			
Tangible	-	-	-
<i>Current assets</i>			
Stock – work in progress	797	-	797
Debtors	-	-	-
Cash	-	-	-
	797	-	797
Total assets (a)	797	-	797
<i>Creditors: amounts due within one year</i>			
Other creditors	-	-	-
Total liabilities (b)	-	-	-
Net assets (a-b)			797
Goodwill (note 10)			558
			1,355
<i>Purchase consideration and costs of acquisition</i>			
Cash			1,355

Fair value adjustments comprise the increase to market value of tangible fixed assets.

## Notes (continued)

### 20 Capital and reserves

#### Share capital

In thousands of shares	1% cumulative redeemable preference shares of £0.01 each 2016	Ordinary shares of £0.01 each 2016
On issue at 1 April 2015	7,306	63,528
Issued for cash	-	5,199
Redeemed in year	(6,458)	(3,765)
Converted in year	(848)	848
On issue at 31 March 2016 – fully paid	-	65,810
	2016 £000	2015 £000
<i>Allotted, called up and fully paid</i>		
Nil (2015: 63,528,000) ordinary shares of £0.01 each	-	635
59,295,083 (2015: nil) A class ordinary shares of £0.01 each	593	-
6,515,220 (2015: nil) B class ordinary shares of £0.01 each	65	-
Nil (2015: 7,306,061) 1% cumulative redeemable preference shares of £0.01 each	-	73
	658	708
Shares classified as liabilities	-	73
Shares classified in shareholders' funds	658	635
	658	708

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 7 July 2015, the Company acquired 3,765,000 ordinary shares of £0.01 each at par, immediately following the purchase the shares were cancelled. On the same day, the Company issued 5,199,014 ordinary shares of £0.01 each at a price of £1.118 to Welltower Inc giving rise to a share premium of £5.76m.

In addition, Welltower Inc acquired a number of ordinary shares direct from an existing shareholder such that their aggregate shareholding in the company is 9.9%.

On 7 July 2015, the Company repurchased 6,458,372 preference shares with a nominal value of £0.01 at a cost of £1.00 each. These shares were then cancelled by the Company. This resulted in a capital redemption reserve of £64,584 and a premium arising on the redemption of £6.3m which was charged to the profit and loss account within finance charges (note 8).

On 7 July 2015, 847,689 of 1% cumulative redeemable preference shares of £0.01 each were converted to A ordinary shares. On the same day, the Company re-designated its share capital so that 59,295,083 of ordinary shares of £0.01 each were converted to A ordinary shares of £0.01 each; and 6,515,220 of ordinary shares of £0.01 each were converted to B ordinary shares of £0.01.

Except as otherwise provided in the Company's Articles, the A ordinary shares and B ordinary shares will rank *pari passu* in all respect but shall constitute separate classes of shares.

#### Capital redemption reserve

The capital redemption reserve results from the cancellation of preference shares during the current and prior years.

## Notes (continued)

### 20 Capital and reserves (continued)

#### Issue of new share capital (continued)

No share nor any right to convert any security into share may be issued or allotted to any person unless, before the issue or allotment, members holding not less than 75% by nominal value of A ordinary shares in issue, and separately the B Shareholders, have consented in writing to the issue or allotment

Save with the prior written consent of members holding not less than 75 percent by nominal value of the A Shares in issue, and separately the B Shareholders, any new shares or other securities of the Company, will be offered by the Directors for subscription, firstly to the B Shareholders, in proportion as nearly as may be to the number of B Shares held by them

#### Transfer of shares

Except in the case of a permitted transfers, and subject to the prohibitions on transfers set out in Article 8, and in any agreement between the members, no transfer of shares may be made without the prior written consent of the B Shareholders

#### Appointment of directors

The B Shareholders shall be entitled to appoint one B Director for so long as the number of B Shares in issue represent not more than 37 per cent by nominal value of the total shares in issue and to appoint one further B Director at any time that the number of B shares in issue exceeds 37 per cent or more by nominal value of the total shares in issued

### 21 Financial instruments

The carrying amounts of the financial assets and liabilities include

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
<b>Financial assets that are debt instruments measured at amortised cost</b>				
Trade receivables	3,792	3,446	-	-
Amounts owed by group undertakings	-	-	32,220	15,794
Amounts owed by directors	-	500	-	500
Other debtors	1,580	858	153	-
Group relief receivable	-	-	124	-
	<u>5,372</u>	<u>4,804</u>	<u>32,497</u>	<u>16,294</u>
<b>Financial liabilities that are equity instruments measured at cost</b>				
Shares classified as debt	-	73	-	73
<b>Financial liabilities measured at amortised cost</b>				
Trade creditors	10,191	8,177	2,841	3,112
Amounts owed to group undertakings	-	-	14,910	7,988
Corporation tax	734	2,011	-	-
Other taxation and social security	939	1,185	-	-
Other creditors	13,310	10,821	1	175
	<u>25,174</u>	<u>22,194</u>	<u>17,752</u>	<u>11,275</u>
<b>Loan commitments measured at cost</b>				
Bank loans and overdrafts	16,800	16,820	-	-
Investor loans	-	777	-	-
Other loans	37,580	18,821	11,877	-
	<u>54,380</u>	<u>36,418</u>	<u>11,877</u>	<u>-</u>

## Notes (continued)

### 22 Operating leases

Non-cancellable operating lease rentals are payable as follows

	Group 2016 £000	2015 £000	Company 2016 £000	2015 £000
Less than one year	33,100	32,300	-	-
Between one and five years	142,700	138,000	-	-
More than five years	548,300	585,400	-	-
	<u>724,100</u>	<u>755,700</u>	<u>-</u>	<u>-</u>

During the year, operating lease expenses have been recognised as follows

	2016 £000	2015 £000
Administration expenses – exceptional	7,970	4,867
Administration expenses - other	31,988	20,636
	<u>39,958</u>	<u>25,503</u>

### 23 Related parties

#### Group

##### Transactions with key management personnel

Total compensation of key management personnel (including directors) was £1,287k (2015 £151k), with £587k (2015 £151k) being paid as remuneration (see notes) and £700k (2015 £nil) being billed by other related party entities controlled by key management personnel

	Receivables outstanding 2016 £000	2015 £000	Creditors outstanding 2016 £000	2015 £000
Key management personnel of the company and its group	-	500	-	777

The receivables outstanding as at 31 March 2015 were owed by directors in respect of loans advanced to them in the previous year. These were repayable on demand, interest-free and unsecured. These loans were repaid on 1 April 2015.

The creditors outstanding as at 31 March 2015 were owed to directors in respect of investor loans provided to fund a care home development. The investor loans were subject to interest at 15% per annum and secured on the development site to which the fund related. During the year the investor loans were repaid following the practical completion and sale and lease back to Welltower Inc of that development.

Avery Management Services Limited, a group subsidiary company, has a management contract to manage the Seagrave care home, which is owned by Seagrave Care (Corby) Limited. The parent undertaking of that company is partly under the control of JMB Stowbridge. No transactions arose from the contract in the current year (2015: £16k). A trade debtor of £16k brought forward from the prior financial year was settled during the current year.

## Notes (continued)

### 23 Related parties (continued)

On 7 July 2015 the Group acquired Avery Care (Redruth) Limited, a development company, for its assessed market value of £1.9m, from certain directors/shareholders

During the year the Group paid £700k in consultancy and other fees to companies owned or controlled by directors

#### Company

#### Identity of related parties with which the Company has transacted

Transactions with key management personnel are detailed below

#### Other related party transactions

	Receivables outstanding	
	2016	2015
	£000	£000
Key management personnel of the company	~	500

The receivables outstanding as at 31 March 2015 were owed by directors in respect of loans advanced to them in the previous year. These were repayable on demand, interest-free and unsecured. These loans were repaid on 1 April 2015.

### 24 Accounting estimates and judgements

In the preparation of the financial statements, it is necessary for the management of the company to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

#### Impairment of work in progress – care home development

The Group considers whether work in progress is impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of expected costs to complete development and comparison with agreed revenues upon sale.

#### Impairment of goodwill

The Group considers whether goodwill is impaired. Where an indication of impairment is identified the estimates of recoverable value of the cash generating units (CGUs) are assessed. This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

### 25 Ultimate parent company and parent company of larger group

The shareholders do not consider there to be an ultimate controlling party based on the level of their individual shareholdings. The largest individual shareholder is JMB Strowbridge.

### 26 Subsequent events

On 7 April 2016, the Group completed a £28.8 million bank debt refinancing with Clydesdale Bank in respect of the Group's freehold care home properties and their operations. The proceeds were partially used to repay the RBS loan and £5.0m of the Welltower loans. The Clydesdale loan is a revolving facility expiring on 6 April 2019 with an interest rate of 2.65% over LIBOR.

On 15 April 2016, the Group disposed of its freehold interest in a closed care home in Lichfield for £1.1m.



## Notes (continued)

### 27 Contingent liabilities

The Company, together with a number of its subsidiary undertakings has entered into a cross collateralised security arrangement to secure the Group's operating property leases and loans with Welltower Inc of Toledo USA

The subsidiary undertakings listed in note 12 with the exception of those which are dormant together with Avery Care (Cannock) Limited, Avery Homes (Cannock) Limited, Avery Homes RH Limited, Litchfield Care Limited, Avery Holdco Cannock Limited, Avery (Glenmoor) Limited, and Avery (Lucas Court) Limited, are exempt from the Companies Act 2006 requirements relating to the audit of their individual accounts by virtue of Section 479c of the Act.

The Company has provided guarantees in respect of leases for motor vehicles operated by the group. These leases are for periods of between 3 and 5 year and have annual lease payments of £276k.