

## **Custodes Midco Limited**

**Report and Consolidated Financial Statements**

**Year Ended**

**31 December 2016**

**Company Number 09441489**



# **Custodes Midco Limited**

## **Report and consolidated financial statements for the year ended 31 December 2016**

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### **Directors**

J Bingham  
M Schnaier  
BM Surnam

### **Secretary and registered office**

Sanne Group Secretaries (UK) Limited, Asticus Building, 2<sup>nd</sup> Floor, 21 Palmer Street, London, SW1H 0AD

### **Administrator**

Sanne Group Secretaries (UK) Limited, Asticus Building, 2<sup>nd</sup> Floor, 21 Palmer Street, London, SW1H 0AD

### **Company number**

09441489

### **Independent Auditors**

BDO LLP, 55 Baker Street, London, W1U 7EU.

# **Custodes Midco Limited**

## **Strategic report for the year ended 31 December 2016**

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### **Group strategic report for the year ended 31 December 2016**

The directors present their strategic report together with the directors report and financial strategy for the group for the year ended 31 December 2016.

#### **Review of the business**

The Group owns and operates care homes for the elderly under the brand 'New Century Care'. New Century Care is a leading provider of care in the UK, operating 25 care homes at the end of the year. The group provides elderly care, nursing care, and some homes have specialist dementia care. During the course of the year significant investment was made in the estate, including two major refurbishments aimed at driving the private funded market. Two care homes with limited future potential were closed and sold as development opportunities with the proceeds reinvested in the business as well as repaying a portion of the outstanding bank loan.

#### **Results and performance**

The results of the group for the year, as set out on page 9, show a loss on ordinary activities before interest and tax charges of £1,688,289 (2015: £9,234,476). These results includes an impairment of tangible fixed assets of £152,680 (2015: £8,366,678) after a directors' revaluation was performed. The shareholders' funds of the group total £25,954,618 (2015: £28,741,359).

2016 was a challenging year for the Care Homes business, with the focus on improving the quality and compliance of the Group. Strong average weekly fee growth across most homes, and an increase in the percentage of privately funded residents was insufficient to offset the impact of the National Living Wage and homes having reduced capacity during refurbishments.

As the refurbished homes return to full occupancy and the percentage of private residents continues to increase, the Group is expected to show significant increase in overall operating profit.

The Directors did not recommend a dividend for the year.

#### **Business Environment**

Care homes are a highly fragmented market with relatively low barriers to entry, especially for smaller players. However, with increased regulatory burden, being part of a larger group creates a more flexible base which drives greater efficiency. The sector has been undergoing consolidation for a number of years and this is expected to continue.

The population in the UK is ageing, creating a structural demand for care. The number of people in residential care is expected to increase significantly in the next 30 years with longer life expectancy expected to drive further need for specialist dementia care. There are likely to be increasing resources being devoted to this, and hence a key area to focus on.

#### **Strategy**

The group's aims for the future include the following initiatives:

- Increase the quality of offerings, with an increased focus on the private funded market.
- Further focus on marketing to increase occupancy of low utilisation homes.
- Focus on compliance with regulatory regimes.
- Improved margins by increased efficiencies and improved procurement.

# **Custodes Midco Limited**

**Strategic report (continued)  
for the year ended 31 December 2016**

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## **Principal risks and uncertainties**

The social care sector is directly regulated by the Care Quality Commission (CQC) but also by a number of other bodies including the NHS and Local Authorities. The burden and cost of regulation has increased rapidly in recent years as enforcement has been strengthened and regulatory bodies have sought to drive up standards of care and compliance. This is expected to continue. The implications of failing to comply with regulations can be serious, including restrictions on operating capability and ultimately closure of a care home. The group has a governance framework in place which is underpinned by detailed policies and quality assurance procedures which are designed to minimise the possibility of failure.

Government policy directly impacts the operation and financial success of care home businesses. In addition to the regulations noted above, increasing policy intervention in staffing markets is driving up operating costs. The continued rise of the National Minimum Wage has been a risk factor for a number of years. In 2016 this risk significantly increased by the introduction of the National Living Wage which raised the base pay rate for our staff and which will increase every year until 2020 – much faster than general inflation. The group supports increased rates of pay for low earners but this must be matched by increasing revenue or the viability of the current model will not be sustainable. The group seeks to operate as efficiently as possible within financial and regulatory constraints.

The majority of the group's customers are funded by public bodies such as Local Authorities and the NHS. These fees are generally low compared to the cost of providing the service and there remains significant pressure to reduce public spending. There is a significant risk that public funding and specifically residential care fees do not keep pace with cost increases experienced in the sector (especially those driven by government policy as noted above) and as a result operating margins could fall. This would impact the group's ability to continue investing in portfolio improvement and service development. The group actively manages its income and cost base to ensure that any adverse impact on operating margins is minimised and seeks higher margin privately funded residents wherever possible.

## **Future developments**

Following on from two major refurbishments in 2016, the Group will continue to drive improvements in the quality of care for its residents, through continued investment in its properties and its employees. The upgraded estate will support the aim of driving a greater proportion of private pay residents and improving the quality of care available to all of our residents which should in turn drive increased financial performance. The portfolio will remain under constant review to ensure that the group is able to deliver effective and efficient care to its customers.

Post balance sheet events are disclosed in note 20.

# Custodes Midco Limited

Strategic report (continued)  
for the year ended 31 December 2016

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## Key performance indicators

The Group's management uses a range of financial and non-financial indicators to measure the operational and strategic performance of the business. These included revenue, occupancy, average weekly fees and staff cost percentage.

For the period of this report the Key Performance Indicators of the Care home business were:

	2016	2015
	12 Months	10 Months
Revenue	£39,757,333	£29,563,101
Average Occupancy	1,036	1,121
Average weekly fees	£639.87	£603.66
Staff cost %	69.5%	64.2%

By order of the Board



BM Sumam

Director

29 September 2017

# **Custodes Midco Limited**

## **Report of the directors for the year ended 31 December 2016**

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The directors present their report together with the audited consolidated financial statements for the year ended 31 December 2016. Certain information required by the Companies Act 2006 are not included here when it is already included in the Strategic Report.

### **Principal activity**

New Century Care is a leading provider of care in the UK, operating 25 (2015: 27) care homes in the year. The group provides elderly care, nursing care, and some homes have specialist dementia care.

### **Results**

The statement of comprehensive income is set out on page 9 and shows the loss for the period. Details of the group's results for the period are included within the Strategic Report on page 2.

### **Directors**

The directors of the company during the period were:

J Bingham  
M Schnaier  
BM Surnam (appointed 28 October 2016)

### **Directors' responsibilities**

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 period. Under that law the directors have elected to prepare the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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.

# **Custodes Midco Limited**

## **Report of the directors for the year ended 31 December 2016 (continued)**

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### **Employment of disabled persons**

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Particular attention is given to the training and promotion of disabled employees to ensure that their career development is not unfairly restricted by their disability, or perceptions of it.

The Group's HR procedures make clear that full and fair consideration must be given to applications made by and the promotion of disabled persons. Where an employee becomes disabled whilst employed by the Group, the HR procedures also require that reasonable effort is made to ensure they have the opportunity for continued employment within the Group. Retraining of employees who become disabled whilst employed by the company is offered where appropriate.

### **Risk Management Policies**

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a resident or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new residents before entering contracts. Each new resident is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered.

The board assesses concentrations of credit risk by quarterly monitoring the creditworthiness rating of residents. At a local level, a monthly review of the receivables' ageing analysis is undertaken and residents' credit is reassessed periodically.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

#### **Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board receives monthly management information, including cash flow projections and covenant compliance forecasts. At the end of the financial year, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

#### **Cash flow interest rate risk**

The Group is exposed to cash flow interest rate risk from long-term borrowings at variable rate. Local operations are not permitted to borrow long-term from external sources. Although the board accepts that this policy does not eliminate fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

During the periods under review, the Group's borrowings at variable rate were denominated in Sterling.

## **Custodes Midco Limited**

### **Report of the directors for the year ended 31 December 2016 (*continued*)**

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#### **Auditors**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

**The Strategic Report was approved by the board and authorised for signature on 29 September 2017**



**BM Surnam**

**Director**

**29 September 2017**



# **Custodes Midco Limited**

## **Independent auditor's report**

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### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODES MIDCO LIMITED**

We have audited the financial statements of Custodes Midco Limited for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial positions, the consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's (FRC'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 FRC'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 and the parent company's affairs as at 31 December 2016 and of the Group's 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 matters prescribed by the Companies Act 2006**

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

- the information given in the directors' report and the strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the director's report and the strategic report have been prepared in accordance with the applicable legal requirements.

# Custodes Midco Limited

## Independent auditor's report (*continued*)

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### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic or the directors' report.

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

- adequate accounting records have not been kept 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.

BDO LLP

Geraint Jones (*senior statutory auditor*)  
For and on behalf of BDO LLP, statutory auditor  
London, United Kingdom

29/9/17

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Custodes Midco Limited

### Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	Year Ended 31 December 2016	Period Ended 31 December 2015
Turnover	3	39,757,333	29,563,101
Cost of sales		27,499,502	23,172,187
		<u>                    </u>	<u>                    </u>
Gross profit/(loss)		12,257,831	6,390,914
Administrative expenses		13,946,120	15,625,390
		<u>                    </u>	<u>                    </u>
Operating loss	4	(1,688,289)	(9,234,476)
Interest payable and similar charges	7	(812,840)	(1,128,425)
Interest receivable	7	1,784	-
		<u>                    </u>	<u>                    </u>
Loss on ordinary activities before taxation		(2,499,345)	(10,362,901)
Taxation on loss on ordinary activities	8	(287,396)	(68,118)
		<u>                    </u>	<u>                    </u>
Loss for the financial period		(2,786,741)	(10,431,019)
		<u>                    </u>	<u>                    </u>
Total comprehensive loss for the financial period		(2,786,741)	(10,431,019)
		<u>                    </u>	<u>                    </u>

All amounts relate to continuing activities.

The notes on pages 14 to 26 form part of these financial statements.

# Custodes Midco Limited

## Consolidated statement of financial position at 31 December 2016

<i>Company number 09441489</i>	<i>Note</i>	<i>2016</i>	<i>2016</i>	<i>2015</i>	<i>2015</i>
<b>Fixed assets</b>					
Tangible assets	9		50,337,931		49,133,670
					49,133,670
<b>Current assets</b>					
Debtors	11	2,836,353		2,265,411	
Cash at bank and in hand		2,026,660		5,085,439	
		4,863,013		7,350,850	
<b>Creditors: amounts falling due within one year</b>	12	12,887,836		9,877,211	
<b>Net current liabilities</b>			(8,024,823)		(2,526,361)
<b>Total assets less current liabilities</b>			42,313,108		46,607,309
<b>Creditors: amounts falling due after more than one year</b>	13	15,752,255		17,670,274	
<b>Provision for liabilities</b>	14	606,235		195,676	
			16,358,490		17,865,950
<b>Net assets</b>			25,954,618		28,741,359
<b>Capital and reserves</b>					
Called up share capital	15		26,100,001		26,100,001
Other Reserves	16		13,072,377		13,072,377
Profit and loss account	16		(13,217,760)		(10,431,019)
<b>Shareholders' funds</b>			25,954,618		28,741,359

The financial statements were approved by the Board of Directors and authorised for issue on 29 September 2017.



BM Surnam

Director

The notes on pages 14 to 26 form part of these financial statements.

# Custodes Midco Limited

## Company statement of financial position at 31 December 2016

<b>Company number 08818238</b>	<b>Note</b>	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
<b>Fixed assets</b>					
Investment in subsidiary	10		26,100,001		26,100,001
<b>Current assets</b>					
Debtors	11	5,799,359		2,897,977	
		<u>5,799,359</u>		<u>2,897,977</u>	
<b>Creditors: amounts falling due within one year</b>	12	<u>5,836,244</u>		<u>2,974,444</u>	
<b>Net current liabilities</b>			<u>(36,887)</u>		<u>(76,467)</u>
<b>Total assets less current liabilities</b>			<u>26,063,114</u>		<u>26,023,534</u>
<b>Capital and reserves</b>					
Called up share capital	15		26,100,001		26,100,001
Profit and loss account	17		<u>(36,887)</u>		<u>(76,467)</u>
<b>Shareholders' funds</b>	17		<u>26,063,114</u>		<u>26,023,534</u>

The Company profit for the period includes a profit/(loss) after tax of £39,580 (2015: £(76,747)) which is dealt with in the financial statements of the parent company.

The financial statements were approved by the Board of Directors and authorised for issue on 29 September 2017.



BM Sumam

Director

The notes on pages 14 to 26 form part of these financial statements.

## Custodes Midco Limited

### Consolidated statement of changes in equity at 31 December 2016

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	Share Capital £	Other Reserves £	Retained Earnings £	Total £
Loss for the year	-	-	(10,431,019)	(10,431,019)
Capital contribution	-	13,072,377	-	13,072,377
Share capital issued	26,100,001	-	-	26,100,001
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2015	26,100,001	13,072,377	(10,431,019)	28,741,359
Loss for the year	-	-	(2,786,741)	(2,786,741)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2016	26,100,001	13,072,377	(13,217,760)	25,954,618
	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 14 to 26 form part of these financial statements.

## Custodes Midco Limited

### Company statement of changes in equity at 31 December 2016

	Share Capital £	Retained Earnings £	Total £
Loss for the year	-	(76,467)	(76,467)
Share capital issued	26,100,001	-	26,100,001
Balance as at 31 December 2015	26,100,001	(76,467)	26,023,534
Profit for the year	-	39,580	39,580
Balance as at 31 December 2016	26,100,001	(36,887)	26,063,114

The notes on pages 14 to 26 form part of these financial statements

# Custodes Midco Limited

## Notes forming part of the financial statements for the year ended 31 December 2016

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### 1 Accounting policies

Custodes Midco Limited is incorporated in England and Wales. The registered office is River House, 1 Maidstone Road, Sidcup, Kent, DA14 5RH.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest pound (£).

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

#### *Disclosure exemptions*

In preparing the financial statements of the group, advantage has been taken of the following disclosure exemptions available in FRS 102:

- The requirements of section 7 Statement of Cash Flows.
- The requirements of section 3 Financial Statement Presentation – Paragraph 3.17(d)
- The requirements of section 33 Financial Instruments – Paragraphs 11.39 to 11.48a

This information is included in the consolidated financial statements of Custodes Topco Limited for the year ending 31 December 2016 and these financial statements are available from Companies House.

#### *Parent company disclosure exemptions*

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure as been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been applied:

#### *Basis of consolidation*

The consolidated financial statements present the results of Custodes Midco Limited and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.



# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (*continued*)

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## 1 Accounting policies (*continued*)

### *Impairment of fixed assets*

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### *Revenue*

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the period, exclusive of Value Added Tax and discounts.

Revenue is recognised for each period of occupancy within the accounting period.

### *Tangible fixed assets*

Assets are measured at depreciated historical cost.

Impairments are recognised through the income statement

### *Depreciation*

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Buildings	2	% per annum straight line
Fixtures, fittings, tools and equipment	15	% per annum straight line
Motor vehicles	25	% per annum straight line

### *Land and buildings*

Land and buildings are treated as separate assets and accounted for separately even though they have been acquired together. Land is considered to have an unlimited useful life and therefore is not depreciated. Buildings are held at cost, other than hotels which are revalued to market value.

Buildings are depreciated in line with the company's depreciation policy.

### *Finance costs*

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated financial instrument.

### *Financial assets*

Financial assets are measured initially and subsequently at amortised cost.

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (*continued*)

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## 1 Accounting policies (*continued*)

### *Dividends*

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

### *Financial liabilities and equity*

Financial liabilities and equity instruments are measured initially at the amount of the net proceeds received.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

### *Current and deferred taxation*

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company's subsidiaries operate and generate taxable income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the Group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (*continued*)

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## 1 Accounting policies (*continued*)

### *Leased assets: Lessee*

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

### *Pension costs*

Contributions to the group's defined contribution pension scheme are charged to profit or loss in the year in which they become payable.

### *Holiday pay accrual*

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

### *Reserves*

The Group and Company's reserves are as follows:

- Called up share capital reserve represents the nominal value of the shares issued.
- The share premium account includes the premium on issue of equity shares, net of any issue costs
- The other reserve contains the capital contribution on acquisition of subsidiaries.
- Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (*continued*)

## 2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following judgements:

- To determine whether there are indicators of impairment of the Group's tangible fixed assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- An estimate for doubtful debts is made when collection of the full amount is no longer probable. The director's best estimate is based on debts being unpaid for prolonged periods and potential failure to recover the unpaid amount against the estates responsible for settling each account.

## 3 Revenue

The turnover of the group is derived from its principal activity which is wholly undertaken in the United Kingdom.

## 4 Operating loss

	2016 £	2015 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	1,969,290	1,753,131
Loss on disposal of fixed assets	(1,202,890)	-
Impairment of tangible fixed assets	152,680	8,366,678
Auditors' remuneration		
- Audit services	70,324	114,625
- Other services – taxation compliance	72,276	70,080
VAT refunds	-	(421,822)

VAT Refunds relate to refunds of the Kingscrest VAT claim as available to care homes that were in operation between January 1993 and March 2002.

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

## 5 Employees

	2016 £	2015 £
Staff costs (including directors) consist of:		
Wages and salaries	23,135,060	17,921,108
Social security costs	1,285,750	1,160,893
Other pension costs	2,500	10,273
	<u>24,423,310</u>	<u>19,092,274</u>

The average number of employees (including directors) during the period was as follows:

	2016 Number	2015 Number
Management	51	49
Nursing and Care	865	1,042
Ancillary	320	394
Administration	54	53
	<u>1,290</u>	<u>1,538</u>

## 6 Directors' remuneration and key management personnel

The key management personnel have been identified as being the management of the subsidiaries. The emoluments of the key management personnel are paid by a subsidiary within the group who make no recharge to the Company. Sanne Group (UK) provides administration services to the Company at commercial rates, which do not include a charge for Director services. Directors' remuneration was therefore nil.

	2016 £	2015 £
Key management personnel – subsidiaries	<u>591,795</u>	<u>735,088</u>

## 7 Interest payable and similar charges

	2016 £	2015 £
<b>Group</b>		
Bank Interest	484,985	400,710
Amortisation of loan arrangement fees	88,792	74,719
Intra group Pik interest	-	205,553
Loan discount amortisation	-	370,760
Intra group interest	239,063	58,436
Finance leases and hire purchase interest	-	18,247
	<u>812,840</u>	<u>1,128,425</u>
 <b>Interest receivable</b>	 <u>1,784</u>	 <u>1,784</u>

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (*continued*)

## 8 Taxation on loss on ordinary activities

	2016 £	2016 £	2015 £	2015 £
<i>UK corporation tax</i>				
Current tax (credit)/charge for the period	(123,163)		123,165	
		(123,163)		123,165
<i>Deferred tax</i>				
Origination and reversal of timing differences	278,357		(55,047)	
Amount relating to prior year	132,202		-	
		410,559		(55,047)
Deferred tax credit for the period				
Taxation charge for the period		287,396		68,118

The tax assessed for the period differs from the standard rate of corporation tax in the UK applied to losses before tax. The differences are explained below:

	2016	2015
Loss on ordinary activities before tax	(2,499,345)	(10,362,901)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 20% (2015 – 20.25%)	(499,869)	(2,098,487)
Effects of:		
Expenses not deductible for tax purposes	32,281	2,120,743
Difference between capital allowances and depreciation	207,489	69,942
Group relief surrendered	4,447	(24,080)
Movement in deferred tax rate	(1,148)	-
Adjustments in respect of prior periods (deferred tax)	132,202	-
Over provision of corporation tax in respect of previous periods	(123,163)	-
Losses eliminated	95,727	-
Capital gains/(losses)	44,735	-
Deferred tax not recognised	394,695	-
Total tax charge	287,396	68,118

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

## 9 Tangible fixed assets

Group	Freehold Land and buildings £	Motor Vehicles £	Fixtures, fittings, tools and Equipment £	Total £
<b>Cost</b>				
At 1 January 2016	53,671,743	41,819	5,539,917	59,253,479
Additions	27,098	-	4,622,507	4,649,605
Disposal	(2,001,634)	(22,274)	(758,419)	(2,782,327)
<b>At 31 December 2016</b>	<b>51,697,207</b>	<b>19,545</b>	<b>9,404,005</b>	<b>61,120,757</b>
<b>Depreciation</b>				
At 1 January 2016	8,132,940	24,021	1,962,848	10,119,809
Provision for period	289,566	9,455	1,670,269	1,969,290
Impairment of fixed assets	126,385	-	26,295	152,680
Disposal	(865,370)	(22,274)	(571,309)	(1,458,953)
<b>At 31 December 2016</b>	<b>7,683,521</b>	<b>11,202</b>	<b>3,088,103</b>	<b>10,782,826</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>44,013,686</b>	<b>8,343</b>	<b>6,315,902</b>	<b>50,337,931</b>
At 31 December 2015	45,538,803	17,798	3,577,069	49,133,670

The impairment loss recognised on tangible fixed assets in the period was £152,680 (2015 – £8,366,678). It arose as a result of the directors' review of tangible fixed assets for impairment and they have been written down to their recoverable amount being the higher of their fair value less costs to sell and value in use.

The value in use has been calculated using a multiple of discounted EBITDA.

Land and buildings with a carrying value of £44,013,686 have been pledged as security for the bank loan of £16,000,000 (2015: £18,000,000).

### Finance Leases

The net book value of motor vehicles for the Group includes an amount of £Nil (2015 - £10,577) in respect of assets held under finance leases and hire purchase contracts.

Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

## Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

### 10 Investments

Details of the company's subsidiaries are as follows:

Subsidiary	Country of incorporation	Class of share held	Proportion of voting rights and ordinary share capital held
Custodes Acqco Limited	England and Wales	£1 Ordinary	100%
Aaroncare Limited	England and Wales	£1 Ordinary*	100%
Aden House Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Ash) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Blackheath) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Bognor Regis) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Borough Green) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Caterham) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Colchester) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Eastbourne) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Finchley) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Hastings) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Leolyn) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Poultton Lane) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (Southampton) Limited	England and Wales	£1 Ordinary*	100%
New Century Care (St Leonards) Limited	England and Wales	£1 Ordinary*	100%
New Century Care Limited	England and Wales	£1 Ordinary*	100%
New Century Finance and Leasing Limited	England and Wales	£1 Ordinary*	100%
Premier Nursing Homes Limited	England and Wales	£1 Ordinary*	100%
Aaron House Limited	England and Wales	£1 Ordinary*	100%

\* - Shares held indirectly

New Century Care is a leading provider of care in the UK, operating 25 (2015:27) care homes in the year. The group provides elderly care, nursing care, and some homes have specialist dementia care

Custodes Acqco Limited, New Century Care (Colchester) Limited are holding companies. New Century (Poultton Lane) Limited is a dormant company. All other companies in the group operate care homes in the UK.

The above companies have registered offices at River House, 1 Maidstone Road, Kent DA14 5RH other than Custodes Acqco Limited whose registered office is Asticus Buildings, 2<sup>nd</sup> Floor, 21 Palmer Street, London SW1H 0AD.

Company	Investment in subsidiaries £
Cost	
At 1 January 2016	26,100,001
Additions	.
	<hr/>
At 31 December 2016	26,100,001
	<hr/>



# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

## 11 Debtors

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Trade debtors	1,442,956	-	1,368,114	-
Prepayments and accrued income	1,119,337	-	871,489	-
Other debtors	166,358	-	25,808	-
Amounts owed from group undertakings	-	5,799,359	-	2,897,977
Corporation tax recoverable	107,702	-	-	-
	<u>2,836,353</u>	<u>5,799,359</u>	<u>2,265,411</u>	<u>2,897,977</u>

All amounts in debtors fall due for payment within one year. Amounts owed from group undertakings bear interest at 4% and are payable on demand.

## 12 Creditors: amounts falling due within one year

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Trade creditors	933,735	-	971,304	-
Corporation tax	-	-	145,130	-
Other creditors	1,503,681	-	1,489,756	-
Accruals and deferred income	1,816,342	-	1,782,232	-
Amounts owed to group undertakings	7,983,069	5,836,244	4,965,974	2,974,444
Taxation and social securities	651,009	-	514,763	-
Obligations under finance lease and hire purchase contracts	-	-	8,052	-
	<u>12,887,836</u>	<u>5,836,244</u>	<u>9,877,211</u>	<u>2,974,444</u>

Amounts owed to group undertakings are payable on demand and bear interest at 4%.

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

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

	Group 2016 £	Company 2016 £	Group 2015 £	Company 2015 £
Bank loan (secured)	18,000,000	-	18,000,000	-
Less: unamortised loan arrangement fees	(279,470)	-	(368,262)	-
Less: Amount repaid	(2,000,000)	-	-	-
Add: interest accrual	31,725	-	38,536	-
Bank loan (secured)	<u>15,752,255</u>	<u>-</u>	<u>17,670,274</u>	<u>-</u>

At year end the group owed £16,000,000 (2015: £18,000,000) to Barclays Bank Plc. The loan is secured by a first fixed charge over the group's land and buildings with a carrying value of £44,013,686 and repayable in 2020 bearing interest at LIBOR plus 1.95%. Post year end, the group has agreed an amendment to its current bank loan facility. The amended loan is due for repayment in instalments by 31 December 2018 with £2.5m being due in 2017.

Maturity of debt:

### Group

	Loans 2016 £	Loans 2015 £
In more than two but less than five years	<u>16,000,000</u>	<u>18,000,000</u>

## 14 Provision for liabilities

Group	Deferred Taxation (see below) £
At 1 January 2016	195,674
Released to profit and loss account	410,561
	<hr/>
At 31 December 2016	606,235
	<hr/>
<i>Deferred taxation</i>	
	<div> <div>Group 2016 £</div> <div>Group 2015 £</div> </div>
Accelerated capital allowances	474,033 195,674
Property revaluations	132,202 -
	<hr/> 606,235 195,674 <hr/>

# Custodes Midco Limited

Notes forming part of the financial statements  
for the year ended 31 December 2016 (continued)

## 15 Share capital

	2016 £	2015 £
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	26,100,001	26,100,001
	<u>26,100,001</u>	<u>26,100,001</u>

The shares were issued at par value in the prior period.

## 16 Reserves

Group	Other Reserves £	Profit and loss account £
At 1 January 2016	13,072,377	(10,431,019)
Loss for the period	-	(2,786,741)
	<u>13,072,377</u>	<u>(13,217,760)</u>
At 31 December 2016	13,072,377	(13,217,760)

Other reserves comprises of a capital contribution on acquisition of subsidiaries.

## 17 Financial instruments

	Group 2016 £	Group 2015 £
<b>Financial assets</b>		
Financial assets measured at amortised cost	3,635,974	6,479,361
	<u>3,635,974</u>	<u>6,479,361</u>

Financial assets measured at amortised cost comprise trade debtors, other debtors and amounts owing by group undertakings and cash.

### Financial liabilities

Financial liabilities measured at amortised cost	26,420,485	25,435,086
	<u>26,420,485</u>	<u>25,435,086</u>

Financial liabilities measured at amortised cost comprise trade creditors, other creditors and amounts owing to group undertakings.

# Custodes Midco Limited

## Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

### 18 Commitments under operating leases

The group had following minimum lease payments under non-cancellable operating leases. There are no contingent rents.

	Group Land and buildings 2016 £	Group Land and buildings 2015 £
Operating leases which expire:		
Not later than one year	-	-
Later than one year and not later than five years	79,258	142,664
	<u>79,258</u>	<u>142,664</u>

### 19 Related party transactions

Mr Paul Warren is a director and major shareholder of River House Property Developments Ltd from which New Century Care Ltd is renting its office premises for a total annual rent and service charges of £96,219 (2015: £76,087) during the period. All transactions were conducted on an arm's length basis on normal trading terms.

Pursuant to two Intercompany Loan Agreements dated 30 March 2016 and 27 October 2016 between the Group and its holding company, the Group received from its holding company £700,000 and £2,000,000 on 30 March 2016 and 10 October 2016, respectively.

### 20 Post balance sheet event

On 17th January 2017, an official announcement was made to close Aldington Care Home, Leolyn Care Home and Clyde House Care Home on the basis that these businesses are no longer economically viable. In March 2017 these homes were closed and all current residents re-accommodated. The sales transaction for Leolyn Care Home and Clyde House Care Home was successfully completed as at August 2017. In September 2017 contracts were exchanged for the sale of Aldington Care Home.

On 13th April 2017 a sale agreement was entered into to transfer the assets and business of Aaron Lodge Care Home as a going concern. The deal has not yet completed as at the date of this report.

Post year end, the group has agreed an amendment to their current bank loan facility. The amended loan is due for repayment in instalments by 31 December 2018 with £2.5m being due in 2017.

### 21 Contingent Liability

The company is party to a cross guarantee with its subsidiaries in respect of the bank loan.