AUDLEY GROUP

# AUDLEY GROUP LIMITED

ANNUAL REPORT AND ACCOUNTS 2018

# Retirement with a difference

At an Audley Group village our owners buy their own home, which means they retain the asset and their highly valued independence. We look after the exterior maintenance, leaving owners free to spend their time however they wish. They could visit the Club, with its bistro and bar, or the swimming pool and gym. Should they require help in the future, our care companies can provide as little or as much support as needed, on site, 24 hours a day. Owning a home in one of our villages ensures a truly independent lifestyle in an attractive and secure environment.

**Nick Sanderson**
Chief Executive
Audley Group

CONTENTS

**STRATEGIC REPORT**



**CORPORATE GOVERNANCE**



**FINANCIAL STATEMENTS**


aldwyn's

# Leading the way

Audley Group was founded to help solve a growing problem: the lack of appropriate accommodation in the UK to serve an ageing population. Now approaching its 20th year of operation, the Group has established itself as the country's leading provider of luxury retirement living through Audley Villages, and is moving into the opportunity presented by the much larger mid-market with Mayfield Villages.

The UK has been slow to adopt retirement living as a concept when compared to international markets. However, the benefits the sector brings are clear – independent living provides the opportunity for customers to own their own home with outstanding facilities on their doorstep and flexible care if and when required.

Perhaps the key component in Audley's success is a commitment to listening to customers' wishes and then making those visions a reality. The quality of product and level of service have always been exceptional, but they will only drive success if the underlying properties and facilities are something people truly desire.

Key to this success is the model of both developing and then operating our retirement villages. This approach ensures our values and priorities are aligned with those of our customers and our people are at the core delivering this operational success.

This approach has attracted equity investment, which, together with debt funding and recycled sales proceeds, has enabled an aggressive site acquisition programme for both the Group's brands, Audley Villages, and, since 2016, Mayfield Villages.

The two Audley Group brands serve distinct audiences, so although the overall model is the same, how that is provided differs.

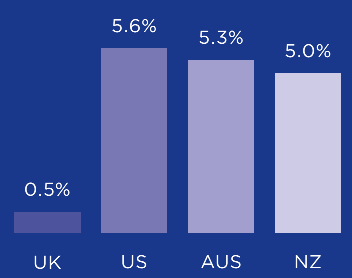
Audley Villages is more established, offering luxury retirement living. The villages are often centred around majestic heritage buildings with a range of facilities similar to those you might expect in a boutique hotel.

Then, given the changing appetite of UK consumers, and the shifting population demographics, Mayfield Villages was launched to appeal to a growing mid-market who seek a lower price option but still demand the same facilities, level of service and care. Mayfield villages have a fresh, contemporary design and will typically be found in more urban/suburban locations, Mayfield Watford being the first site.

**THE UK HAS LAGGED BEHIND THE GLOBAL MARKET**

With only about 0.5% of the UK population aged 65+ living in this type of housing.

Source: ARCO, 2017.



Retirement villages are at the heart of housing, health and social care discussions, with the long-awaited Social Care Green Paper expected to further shine a spotlight on a debate which is becoming ever harder to ignore for policy makers.

Large institutions have now entered the sector as they recognise the potential investment opportunity. More will follow. This will fuel further innovation and competition, which will result in a better customer experience.

The changes experienced in the retirement living market in the last two years are nothing compared to what is yet to come, as a perfect storm of changing demographics, increased funding and policy incentives combine.

Audley continues to be the market leader for the sector and this Annual Report and Accounts underlines why this will be the case for many years to come.

**KEY NUMBERS**

97%

said their carers treat them with dignity and respect

649

staff at the end of 2018

93%

of staff are proud to work for Audley and it shows in the quality of service that they provide

## REDEFINING THE STANDARDS OF RETIREMENT LIVING

Audley Villages is Audley Group's premium retirement village product. Two decades ago, the concept of a retirement village was almost entirely unknown in the UK. Today, Audley leads the field with a fast-growing national portfolio of villages which continues to redefine the standards for retirement living.

The portfolio now comprises 19 villages across the UK (including those under development and those where contracts have exchanged and are subject to receipt of a satisfactory planning consent), 11 of which are fully operational and with another two to launch in 2019. The breadth of facilities on offer includes bars, restaurants and gyms which are available to both owners and the local community. Owners are also able to access flexible care as and when they need it.

The thread that binds all the amenities together is understanding what our current and future owners want. This comes from ongoing research, which covers everything from village design to customer service, with its outputs being fed directly into the planning and operational stages of every village.

Central to the Audley Villages experience is the Audley Club, with all owners automatically becoming members. Frequently located in a grand heritage building, the boutique hotel-style Club facilities include a restaurant, bar and bistro, library, guest suite, health club, private treatment rooms, swimming pool, relaxation area and fitness studio. Each of our Clubs has a private dining room where owners can entertain family and friends. Some also have tennis courts or croquet lawns. Our choices around what we include are constantly evolving and based on our customer insight.

To support our owners and the wider community, we also operate homecare services which serve a 20-mile radius of the village. The care provided is entirely bespoke and tailored to owners' needs. It can range from simple housekeeping or help with shopping through to live in care and can be flexed as required. Each care branch, of which there are 10 nationally, is located at an Audley Village and is registered and regularly audited by the Care Quality Commission.

According to ARCO's January 2017 market analysis, penetration at this end of the market is only 0.5%. With a groundswell of institutional funding now coming to the sector, the growth potential for further locations is sizeable and the funding already secured will enable the business to deliver on its expansion plan.

"Audley Villages allow owners to live the independent lives they want to in a safe and secure environment. It will continue to fly the flag for excellence in retirement living for generations to come."

"Mayfield Villages will be the first truly contemporary, mid-priced retirement villages in the UK."

## BRINGING A FRESH APPROACH TO THE SIZEABLE AND UNDERSERVED MID-MARKET

Mayfield Villages was born from a lack of mid-market specialist retirement options in the UK. There is significant demand for a fresh approach to retirement living amongst this demographic, which represents approximately 4.5m people, nearly twice the size of Audley Villages in the luxury market.

The extent of the opportunity that Mayfield Villages was created to address cannot be understated. Despite its scale the mid-market has only one-fifth (0.1%) of the market penetration of the luxury market (0.5%) (ARCO 2017). Yet, until Mayfield, there were no private providers of properties with lifestyle services and flexible care if needed in this mid-market sector. Our research showed that 77% of this group is interested in retirement housing options; it is the lack of supply that has been the barrier. Mayfield Villages will be the first contemporary, mid-priced retirement villages in the UK.

Audley has always responded to the needs and desires of its potential customers and launching Mayfield was no different. Research was the foundation for the development of the brand and remains the driving factor in the shaping of the first Mayfield village, in Watford. To truly understand the target market's wishes, extensive research was undertaken on everything from attitudes to ageing and retirement to the design of the units, communal areas and facilities provided.

Research established that this demographic aspires to an informal, straightforward lifestyle, which translates to a light, comfortable, clutter-free environment. The initial focus groups showed a clear preference for the contemporary, stylish design ethos which is the bedrock of the Mayfield Villages concept. This demonstrates the importance of bringing a genuinely contemporary offer to the sector, a world away from existing providers.

Many years of designing and operating Audley Villages helped inform the facilities and interior design, to ensure that all Mayfield villages are built to the specifications and aesthetic that would appeal to those that will live there. It became clear that, although the Audley Group model of offering quality properties, lifestyle services and flexible care remained the same for Mayfield, facilities needed to differ in some respects.

Whilst all forms of retirement living must address the need for community, the research showed this is even more important for Mayfield customers. They express an even stronger desire for a sociable and neighbourly environment. They want opportunities to mix with wide and varied groups in an informal and relaxed way.

Mayfield villages are designed to support this with facilities that are more casual than an Audley development, with a café-bistro and village hall rather than a formal restaurant and library, for example. The places for relaxing, eating, drinking and socialising are interconnected and flexible in layout so it is easy to meet and mix with others. The villages will also have the swimming pool, spa and health club with classes and activities, central to our model.

This more informal approach is also reflected in the interior design aesthetics. The modern, light, somewhat mid-century and continental feel provides a comfortable, relaxed and inviting environment whilst still having a buzz, being smart and exciting. This contrasts with the grand and classic, contemporary design values desired by the Audley Villages customer.

Mayfield sites are typically new build, and part of larger, mixed-use sites on the edge of urban areas. The villages will be developed in locations where property values are closer to the national average, and units are priced lower than Audley Villages, with starting prices of around £200,000. This is made possible by larger size developments and smaller units.

Mayfield Care will give owners access to bespoke, flexible homecare as required. As with Audley Care, it will be recognised, registered and regularly audited by the Care Quality Commission (CQC), ensuring we deliver the highest standards.

The Mayfield brand benefits from the vast experience and heritage of the Audley Group. The thread that links Mayfield and Audley Villages is the dedication to delivering exceptional service across all operations and it is this commitment which will ensure Mayfield Villages stands out from other providers in the space.

The first owners moving into Mayfield Watford will mark a groundbreaking new phase for the Group and the opportunity for many more people to access this kind of exceptional retirement living.

Audley Group's vision was always to improve retirement living options across the UK and Mayfield Villages is the next step in making this a reality. The scale of the opportunity will propel the Group into public and investor consciousness in an ever-growing way.

Mayfield Villages brings a totally fresh approach to retirement living that will set the standard for the mid-market.

Mayfield Villages brings a totally fresh approach to retirement living that will set the standard for the mid-market.


# Our portfolio

**Our villages are what set us apart from the competition.**

Owned

Joint venture

Managed villages

Options

Exchanged, completion subject to planning


**Binswood**

Royal Leamington Spa, Warwickshire

**audleyvillages.co.uk/our-villages/binswood**


**Chalfont Dene**

Chalfont St Peter, Buckinghamshire

**audleyvillages.co.uk/our-villages/chalfont-dene**


**Clevedon**

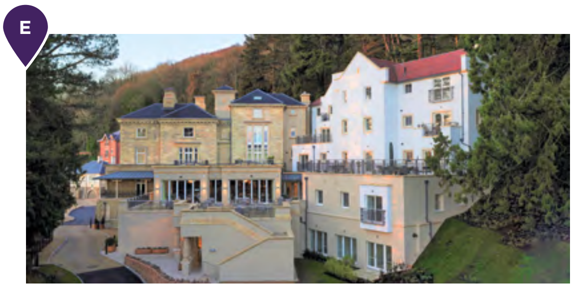
Ilkley, Yorkshire

**audleyvillages.co.uk/our-villages/clevedon**


**Cooper's Hill**

Englefield Green, Surrey

**audleyvillages.co.uk/our-villages/coopers-hill**




**Ellerslie**

Malvern, Worcestershire

**audleyvillages.co.uk/our-villages/ellerslie**


**Inglewood**

Kintbury, Berkshire

**audleyvillages.co.uk/our-villages/inglewood**


**Mote House**

Bearsted, Kent

**audleyvillages.co.uk/our-villages/mote-house**


**Redwood**

Bristol

**audleyvillages.co.uk/our-villages/redwood**

I

## St Elphin's Park
Matlock, Derbyshire
audleyvillages.co.uk/our-villages/st-elphins-park

J

## St George's Place
Edgbaston, Birmingham
audleyvillages.co.uk/our-villages/st-georges-place

K

## Stanbridge Earls
Romsey, Hampshire
audleyvillages.co.uk/our-villages/stanbridge-earls

L

## Watford (Mayfield)
Hertfordshire
mayfieldvillages.co.uk/our-villages/watford-retirement-village

M

## Willicombe Park
Royal Tunbridge Wells, Kent
audleyvillages.co.uk/our-villages/willicombe-park

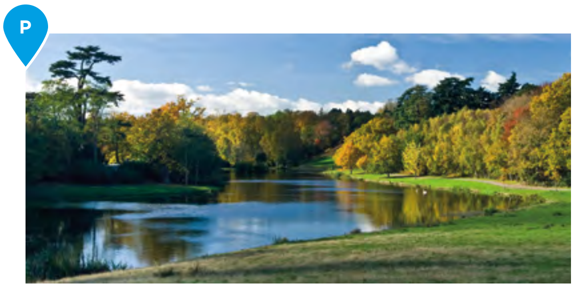
N

## Nightingale Place
Clapham, London
audleyvillages.co.uk/our-villages/nightingale-place


## Flete House

Ivybridge, Devon

audleyvillages.co.uk/our-villages/flete-house




## Cobham

Surrey

audleyvillages.co.uk/our-villages/cobham


## Scarcroft

Yorkshire

audleyvillages.co.uk/our-villages/scarcroft


## Sunningdale Park

Sunningdale, Berkshire

audleyvillages.co.uk/our-villages/sunningdale-park


## Berkhamsted

Hertfordshire

audleyvillages.co.uk/our-villages/berkhamsted


## Hollins Hall

Harrogate, North Yorkshire

audleyvillages.co.uk/our-villages/hollins-hall


## AN UNPRECEDENTED LANDSCAPE

Unprecedented. It is the only word to describe the UK economic and political landscape in 2018. The biggest issue for the business community has been the lack of certainty amongst all the turmoil, rendering informed strategic decision making challenging. Business leaders and policy makers have been walking an ever-thinner tightrope.

Set against this backdrop, retirement living is emerging as a sector of significant interest to investors. In the past two years there has been commitment to invest from some of the largest institutions in the UK namely Legal & General, AXA and Goldman Sachs. This injection of capital will change the market irrevocably. The impact of this will be felt not only by private operators and prospective owners of retirement properties, but also local authorities. Those organisations are already engaging with providers on an increasingly regular basis as more schemes are developed. This serves to benefit both the industry and society as a whole as the asset class grows and understanding deepens.

However, it would be blinkered not to acknowledge that Brexit has had unintended consequences. According to GfK data, consumer confidence was at a five-year low in December 2018[1], resulting in stagnation in the residential property market. Buyers have been cautious about the impact on house prices when the UK leaves the EU, leading to vendors being unable to sell their property.

Their concerns have been justified given 2018 saw house price growth slow to 2.5% in December 2018, the lowest annual rate since July 2013[2].

These issues are comparatively short term and need to be put in the context of the opportunities the demographics of the UK housing market provide. The number of people of a pensionable age is set to rise from 12.4m in 2016 to 16.3m in 2041 (ONS). The shortage of retirement housing is only part of the national housing shortfall. The government has set a target of building 300,000 new homes, a target that is being continually missed.

Last year saw the entry of two new housebuilders offering modular homes for as little as £65,000, while large institutions are investing in modern production facilities of new properties with the aim of accelerating housing numbers. Whilst these innovations are positive, supply at the specialist end of the spectrum, including retirement housing, would need to more than double the current rate just to maintain existing levels of provision as the population ages (ILC, 2018).

ARCO, the retirement industry trade body, has set out its Vision 2030 strategy this year, which aims to grow the number of people living in retirement communities from 75,000 today to 250,000 in 11 years' time. This is a bold ambition. ARCO members showcased Vision 2030 to a group of MPs in December 2018 and there was uniform agreement that to address only the first-time buyer market is myopic, given supply is required at both ends of the chain.

1. gfk.com/en-gb/insights/press-release/uk-consumer-confidence-drops-one-point-in-december-to-14.

2. ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/december2018.

Specialist housing with care requires, and is starting to receive, urgent attention on a national basis. Local authorities are increasingly identifying land suitable for C2 planning, developments which provide on-site care and support, rather than traditional C3 residential developments. Indeed the National Planning Policy Framework set out in December 2017 the requirement for local authorities to provide a plan to address the housing needs of older people.

To use London as an example of the need to accelerate growth, there are at present only around 5,900 units of housing with care developments for sale, shared ownership or rent (ARCO). Allowing for multiple occupation and assuming that two-thirds of older Londoners own their own home, this means that less than 0.2% of older homeowners live in a retirement community providing care and support. The need for change could not be clearer and indeed the London Plan set the benchmark by calling for 3,900 new units of specialist housing for older people to be built by 2025.

From a policy perspective, 2018's biggest news was the delayed Social Care Green Paper, which is now almost two years late and was originally scheduled to coincide with the NHS 10-year plan. There have been calls from all sides for additional funding on top of the extra £20.5bn the NHS will receive over the next decade. The Green Paper is much anticipated across the sector, particularly given the belief that there will be a focus on housing with care and its role in the vital continuum of health and social care. Whatever it contains, the paper's recommendations will be keenly digested by the entire care market.

The turbulence of last year affected all corners of the economy and the retirement village sector was not immune. However there is a growing sense that the market is coming of age as operators, investors and consumers become increasingly aware of, and excited by, the possibilities of the industry. Meanwhile Westminster has shown a commitment to engage given the ever-increasing demographic and housing challenges.

**KEY NUMBERS**

2.5%

House price growth in December 2018, the lowest annual rate since July 2013[2]

+3.9m

Projected increase in people of a pensionable age by 2041

250,000

The number of people ARCO want to see living in retirement communities by 2030



# BUSINESS MODEL

Audley Group's business model has been developed and refined over a long period, although the original concept of providing high-quality properties with an independent lifestyle, extensive facilities and flexible care on demand remains unchanged. The lifecycle of a village falls into three distinct phases:

## SITE ACQUISITION

We spend a substantial amount of time and resource identifying sites, narrowing our areas of search to those where we know house prices are at an appropriate level and the local demographics indicate a sufficient depth of potential purchasers.

We then enter into subject-to-planning contracts, limiting our initial capital outlay and risk to the deposit and planning costs. We have also used other forms of securing a site but we rarely acquire sites unconditionally.

Once we have exchanged a contract to purchase we will pursue planning in consultation with planners and the local community with the aim of securing the optimal planning permission in the shortest time. Our experience with this engagement process means we have never failed to achieve planning permission.

Often our Audley sites have a listed building as a centrepiece. Our expertise is in reconfiguring such buildings to meet the needs of our owners, providing impressive central facilities including a restaurant, health club and swimming pool that form the Audley Club as well as desirable apartments for sale.

Mayfield Villages will be larger developments in more urban locations, typically around 250 units compared to 130 in Audley Villages.

We are particularly interested in partnerships with housebuilders and developers as part of mixed-use schemes such as the development at Watford Riverwell, the site of our first Mayfield.

## CONSTRUCTION AND SALE OF THE UNITS

We have developed relationships with a small number of local and national contractors. Typically we enter into a design and build contract where the majority of the construction risk is with them. The construction process is usually in a number of phases, allowing us to use development revenues from the earlier phases to fund later phases.

Over the past 20 years, we have honed the design and construction elements, learning from each project to ensure the next village build goes even more smoothly. We have also become bolder with the types of materials we use and construction methods we employ to ensure we can provide the very best product for our customers in the most cost-effective way.

We also start the marketing and selling as soon as construction begins. A sales office is opened on the site and the website, local PR and direct marketing generate enquiries immediately. From the start the marketing materials ensure full transparency for potential purchasers on the way our model works.

## OPERATION OF COMPLETED VILLAGE

When the construction of the Club and first phase properties has been completed our operations team takes over to provide the services our owners require and which we are committed to providing.

All owners are Club members and have the use of our health and wellbeing facilities, classes and spas. This membership also allows our owners to use these facilities and the guest accommodation both at the village where they own a property and at any other Audley village.

### Audley Club

Whilst Audley generates revenue from the food and beverage and health club offerings, these Clubs are also a very public face of the villages as the facilities are open and promoted to the local community. The Mayfield Club will be very similar in both service and range of facilities.

### Care

The domiciliary care business is a vital part of our offering with a registered and CQC-regulated branch at each village. Each branch has a Branch Manager and offers domiciliary care to owners and the wider community around the village. Our investment in recruitment, training and development helps to maintain a high standard of carers who are the bedrock of the operation.

We believe the best, risk-controlled way is to own and operate the care business ourselves. This way we can assure the quality of service from both Audley Care and Mayfield Care.

### Management charges

Both Audley and Mayfield Villages typically sell units on either 125 or 250-year leases. These leases stipulate the payment of a Monthly Management Charge. In addition a Deferred Management Charge is payable on change of owner or occupier of the property. Combined these two charges ensure all maintenance and repair work is undertaken in all areas of the village, except inside the owners' properties. This includes cleaning, painting, decorating, gardening, providing the village staff and covering costs of long-term maintenance.

The Monthly Management Charge is a fixed amount which can only increase at the rate of inflation. Our Deferred Management Charge is calculated as a fixed percentage of the property's sale price for each year of ownership. For example, where the fixed percentage is 1% and the owner sells the unit after six years then the Deferred Management Charge payable to Audley will be 6% of the sale price.

## FINANCE

Audley Group funds its activity through a combination of equity, bank debt, recycling of sale proceeds and operational income. Enough income is generated from the sale of units to meet all the costs of developing a village, so that once a village is complete and fully sold, the ongoing capital employed is minimal while the income from the management charge is enjoyed for the duration of the leases.

# THE UK'S LEADING AND MOST TRUSTED PROVIDER OF RETIREMENT LIVING

Audley Group has been successful in its two decades of trading because of an adherence to a clear understanding of how people want to live in retirement and enabling them to achieve that vision.

## OUR VISION
Life enhancing

## OUR MISSION
To be the market leader and most trusted provider of retirement living in the UK

## OUR VALUES
Enriching, Exceptional, Proud, Caring

## AUDLEY GROUP
Audley Group is the Parent Company and is home to all central functions such as finance, marketing and HR

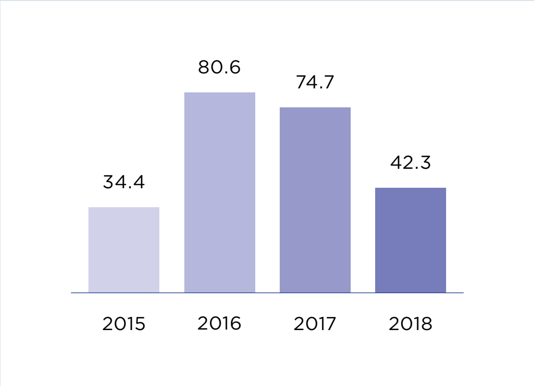
## KEY STRATEGIC PRIORITIES
- Grow the number of Audley and Mayfield villages
- Secure further investment to fund village expansion
- Broaden the services offered to our owners
- Build on joint venture partnership opportunities both in the UK and overseas

## PROGRESS IN 2018
Central to Audley Group's strategy is the twin approach of being both a developer and operator delivering long-term revenue. As more villages open the operational income has grown steadily, hitting £19.3m, up from £18.0m in 2017. As our service offering for owners and the community grows and as more Audley and Mayfield villages launch, this figure will only rise (see Review of the Year for more detail).

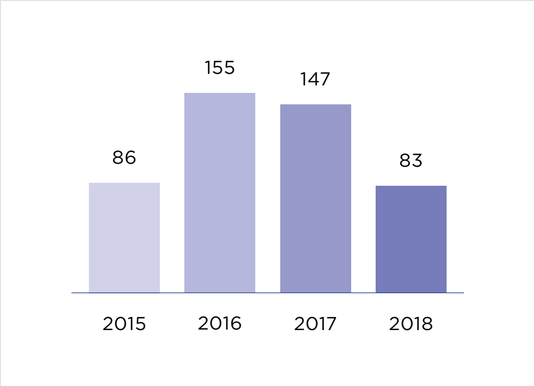
## FUTURE OUTLOOK
Audley Group continues to grow in an uncertain economic climate. The total addressable market of both Audley and Mayfield Villages puts the business in an enviable position to capitalise on the societal changes and political appetite to embrace this sector, ensuring a sustained demand from investors to be part of the Group's success.

# KEY PERFORMANCE INDICATORS

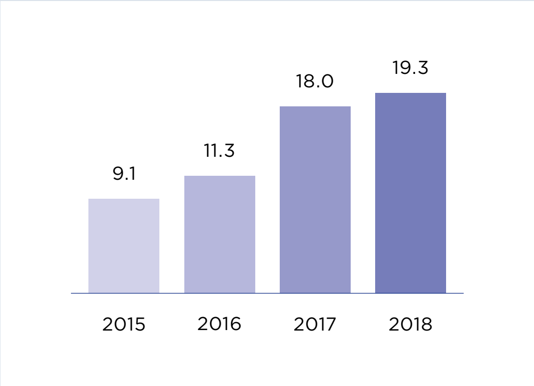
## DEVELOPMENT REVENUE (£'m)



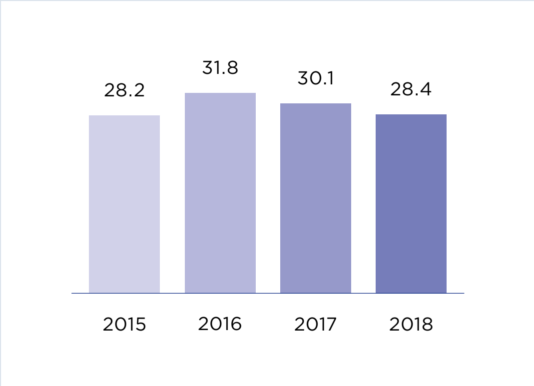

## NUMBER OF COMPLETIONS



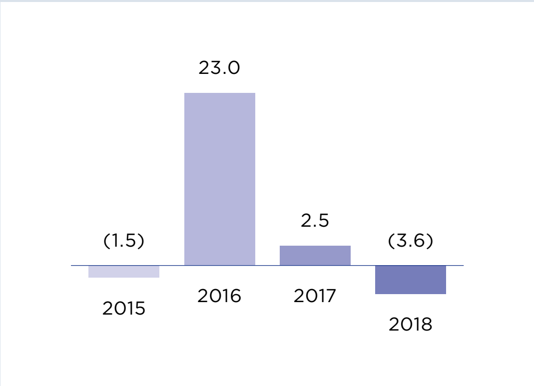

## OPERATIONS REVENUE (£'m)



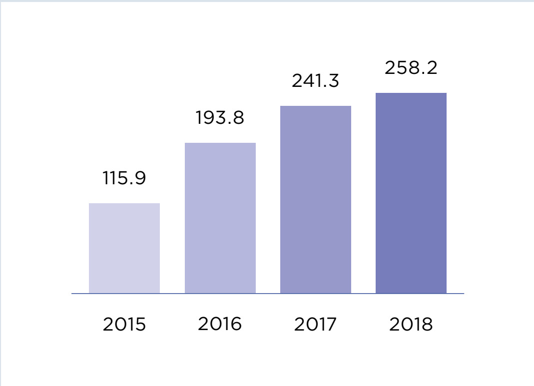

## GROSS MARGIN (£'m)




## EBIT BEFORE REVALUATIONS AND EXCEPTIONAL ITEMS (£'m)




## NAV (£'m)



# 2018 review

Last year was undoubtedly a challenging economic climate for any business let alone one that operates in the housing sector. The uncertainty that surrounded the Brexit negotiations permeated every part of the UK economy and led to the reduction in the number of expected completions (see CFO's Review for more detail).

This fall in revenue is a result of fewer completions, a direct result of a housing market lacking confidence given the broader macro-economic environment, lack of certainty and fears of what might happen post-Brexit. 2018 saw a total of 83 completions compared to 147 in 2017. However, encouragingly, future demand was strong with pre-sales exchanges up from 14 in 2017 to 59 and enquiries nearly doubling.

Despite this tougher trading climate, Audley Group had another strong year with regards to growing the portfolio and enhancing the services to owners and the local community. Given the Group's dual strategy of developing and operating sites, under both the Audley and Mayfield Villages brands, income from operations has become an increasingly important driver of revenue and profitability and will continue to be so.

## DEVELOPMENT REVIEW

### LAND ACQUISITION AND PIPELINE

In a softer market, land acquisition remained strong. A total of 466 units with planning consent were purchased in 2018, up from 404 in 2017. A further 512 units were submitted for planning and another 592 were placed under offer. Since Audley Group's launch, we have achieved planning on 1,835 units.

#### Audley Villages

A third village in Yorkshire, Audley Scarcroft, was secured, subject to planning, in February. Located in the heart of the 'Golden Triangle', the site extends to 110 acres including the Grade II listed Scarcroft Lodge and will be home to one, two and three-bedroom units.

March saw planning approval granted on Audley Cooper's Hill, where 78 homes will be constructed on the site at Englefield Green in Surrey. A second phase which will see a further 50 units constructed was approved by the planners in July. The first owners will move into their properties in late 2019.

Another site in Cobham, Surrey, was secured, subject to planning, in August. The site, Audley Group's second in Surrey, is in an extremely desirable location with excellent transport links due to its proximity to the M25 and A3, close to the towns of Esher and Leatherhead.

A resolution to grant planning was secured for the third phase of Audley Chalfont Dene in November, adding 58 units to the village's existing 84 luxury homes.

#### Mayfield Villages

Mayfield Watford, the first of the villages aimed at the mid-market, secured planning in March with 253 contemporary retirement units. The village is part of the Watford Riverwell scheme, an ambitious regeneration project that will comprise a range of multi-generational housing, commercial and retail occupiers.

## CONSTRUCTION

The Club at Audley Redwood in Bristol was launched in May. The village comprises 106 apartments and 20 cottages, all built to complement the local Georgian architecture.

As part of a growing relationship with Balfour Beatty, a £53m contract was signed in November to become the main contractor at Audley Cooper's Hill. This partnership continues the companies' long association, which has to date seen Balfour Beatty partner on five Audley Villages locations with contracts worth over £200m.

Finally, our joint venture with Apache Capital signed a £51m construction agreement with Maclaren to deliver Audley Group's first London village, Audley Nightingale Place.

## DEVELOPMENT SALES AND MARKETING

Brexit's effect on the market as a whole cannot be underestimated. However it was very encouraging to see strong forward demand from consumers in terms of enquiries and pre-sales. Additionally, prices held up, with an average unit selling price of £491,000 achieved.

Completions were lower than in 2017 (83 vs 147); however, the total pipeline was flat year on year at 113 despite having two fewer villages to sell. Most importantly pre-sale exchanges were up to 59 from 14 year on year from the same number of villages.

The level of inbound enquiries, up an impressive 96% year on year, is testament to Audley's strong and continued appeal. Presence and influence on social media platforms also saw a significant rise. These results were driven by a number of factors including an increased frequency of direct marketing campaigns, strong incentives to visit, sustained national advertising, a greater focus on social media and more local events at villages to encourage revisits.

2018 also saw the introduction of two new initiatives in response to customers' needs in the challenging market environment. The first initiative is a new flexible payment option, 'Your Choice', allowing owners to pay lower Monthly Management Charges each month with a larger Deferred Management Charge on change of ownership. This addresses the needs of those who may have significant housing equity but are more concerned about their income levels. The second initiative is a partnership with Knight Frank Finance to offer prospective owners bridging loans, helping in the process of selling their own property. This is the first time a retirement village operator has collaborated to provide such an innovative financing agreement.

## KEY NUMBERS

139

new units completed in Audley Villages in 2018

775

total units now in Audley Villages

# OPERATIONS REVIEW

We are immensely proud of the standards that our village teams set themselves and that they deliver consistently.

In 2018, the operational side of the business continued to prove its value, with revenue up to £19.3m and operating profit up to £3.9m. This reflects the importance of the guaranteed management charge income. To meet the needs of a greater number of operating villages, headcount increased by approximately 16.9% with a total of 649 employees across the entire organisation at the end of 2018.

## AUDLEY CLUB

Audley owners benefit from access to a wide range of facilities that would not be out of place in a boutique hotel. The Audley Club typically includes a swimming pool, restaurant and bar and bistro, and the owners take advantage of having these facilities on their doorstep. Crucially, the Club provides a unique sense of community, which is often a key consideration for potential customers as well as owners. Nationally there are also over 1,000 Club members across the portfolio from the local community.

Audley delivered 103,000 restaurant/bistro covers in 2018, an increase of 8% on 2017. New village standards were rolled out and following feedback from Audley's annual owners survey, changes made to the menus resulted in significantly increased uptake.

New restaurant websites were launched across 10 villages and those websites alone received 76,000 visits.

When Mayfield Watford opens, research has led the designs to incorporate a similar range of facilities via the Mayfield Club. These will be styled with a fresher, contemporary, informal feel, using flexible spaces and aligned with this segment's demands for a more relaxed lifestyle.

## AUDLEY CARE

Audley Care is an award-winning, CQC-regulated, provider and 2018 was another strong year for the business. Revenue was up to £5.1m from £4.6m in 2017 and across the business 250,000 hours of care were delivered.

However, despite very high satisfaction scores, one of our branches received a 'requires improvement' rating in two of five measures following a CQC inspection. Immediate action was taken to rectify this and a process of ongoing improvement continues across all branches, including changes to how annual self-assessments are followed up, new monthly health campaigns, person-centred care plans and revised training plans. Upon reinspection the branch received a 'good' rating across all measures.

Audley care partners with Civica, an industry-leading company for digital innovation in care, to ensure that operations run as smoothly and efficiently as possible. Technology currently being rolled out/in use includes:

- A unique care monitoring system, CellTrak, used to record the real-time whereabouts of carers
- A scheduling system, Coldharbour, which improves operational efficiency through workforce optimisation and automation of financial, administrative, compliance and care planning processes
- eMAR, an electronic medication administration record solution that can quickly provide carers/family members with up-to-date details regarding care delivered and medication administered

Mayfield Care will deliver the same high levels of care to owners and the local community when the doors open at Mayfield Watford.

## MR ANSTICE

LIVING IN AUDLEY REDWOOD SINCE NOVEMBER 2017

### WHY DID YOU DECIDE TO MOVE INTO AUDLEY REDWOOD?

As I'm now in my 80s and my wife is in her 70s, we felt the time had come to downsize.

Though we're both currently still very active, we were finding our large house and garden a bit hard to manage.

We didn't want to change our lives in any way, as we were still involved socially in a lot of things in Bristol. Audley appealed as it was close to where we were living – we came and saw the plans and other developments and were very impressed with the high-quality finished product.

### WHAT DO YOU ENJOY MOST ABOUT LIVING IN AN AUDLEY VILLAGE?

The easy living! We no longer have to deal with everyday niggles such as tending to the gardens, taking rubbish to the tip, etc. – things are made so much easier here, it's all taken care of.

We also have all the same friends and can do all the same things we used to do before we moved here, which is what we wanted.

We have a lovely, well-built apartment, and like the amenities onsite here. The staff are extremely friendly and we get to see lots of our children and grandchildren, who are all fairly local.

### HOW DO YOU FEEL YOUR WELLBEING HAS IMPROVED SINCE MOVING IN?

Just before Christmas my wife slipped on wet decking while out visiting our son and fractured her pelvis. We were grateful to have been here at the time that it happened – our new home is a lot easier to access than our previous one would have been for her.

### WOULD YOU RECOMMEND LIVING IN AN AUDLEY VILLAGE?

Without a doubt. In fact, we have a few local friends here that have already moved in – I can't say that was because of my wife and I, but I think our experience has certainly helped to influence them!

**NIGEL JONES**

HEAD CHEF, SYMONDS AT REDWOOD SINCE IT OPENED IN OCTOBER 2017

### WHAT ATTRACTED YOU TO THE ROLE, COMPANY AND/OR VILLAGE?

I'd worked at the Redwood Hotel, which was on this site before, for four years. I heard about Audley buying the land and was drawn to them as a potential employer, as I knew they were a great company and the market leader in care.

### CAN YOU BRIEFLY DESCRIBE YOUR TYPICAL DAY?

My many varied duties include making sure the menus are costed properly and changed regularly, catering for outside functions and themed nights for owners. These include movie night dinners, BBQs and a Wimbledon afternoon tea, which is next on the agenda!

### WHAT IS YOUR OVERRIDING VISION FOR SYMONDS AT REDWOOD?

In addition to continuing to provide an exceptional service to customers, I'd like to achieve at least one AA rosette and be seen as a destination restaurant within the Bristol area.

### WHAT DO YOU ENJOY THE MOST ABOUT YOUR ROLE?

Getting to know the owners, engaging with them and hearing their stories. I also love tailoring the menus to them – we change the owners' menus weekly – and ensuring we always provide them with exactly what they want. We regularly get feedback from them, so we make sure we take that on board.

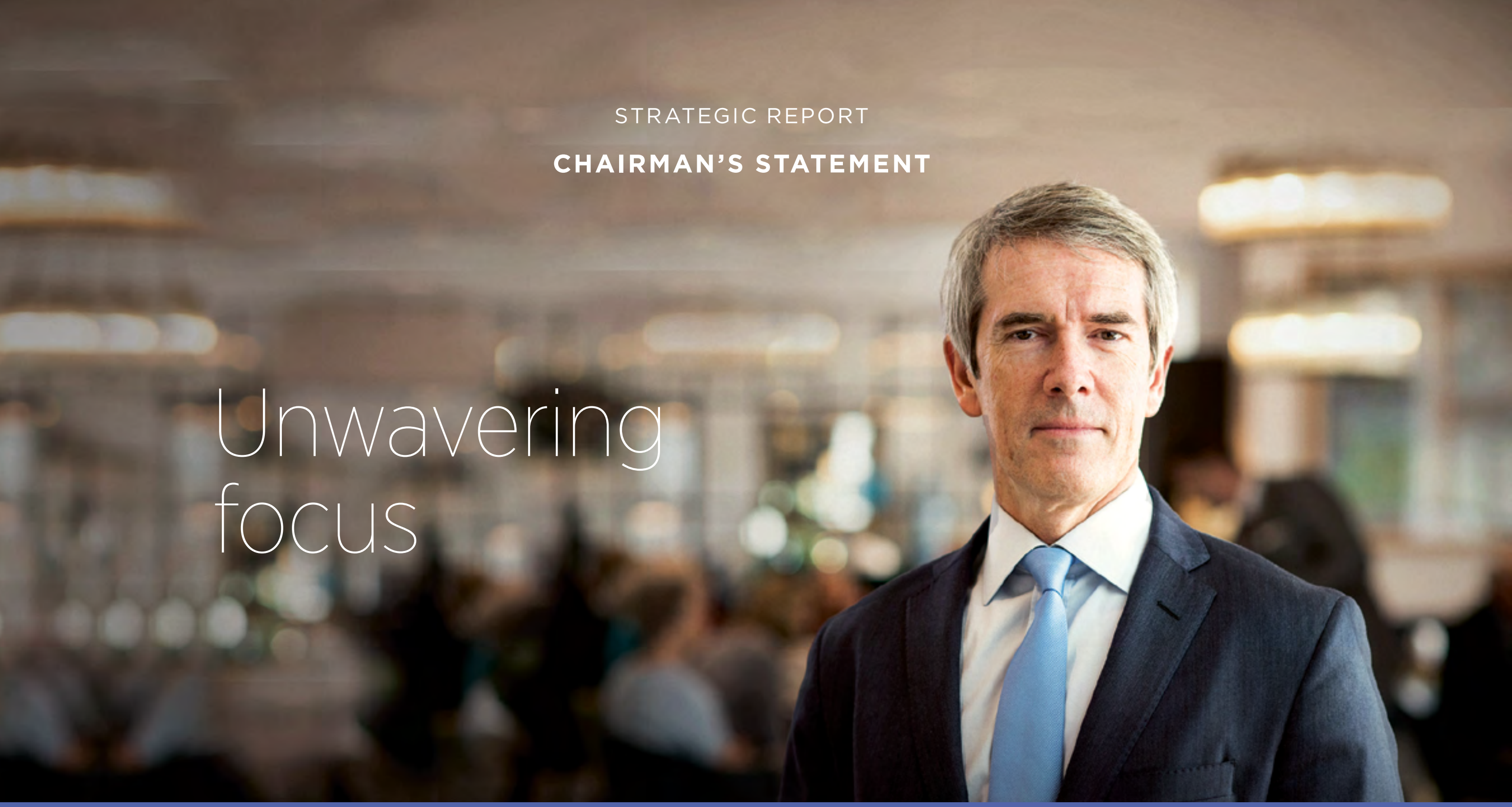
On a personal level, I feel I have a much better work/life balance now and get to spend a lot more time with my wife and kids, which is obviously really important.

### WHAT MAKES YOU PROUD TO WORK AT AUDLEY?

I feel proud to be working for the market leader. I used to work for Hilton Hotels, and I have the same pride with this job – it's great to be working for such a reputable, high-quality company, with great standards.

## CHAIRMAN'S STATEMENT

# Unwavering focus



It gives me great pleasure to report on the third full year of operations for the Audley Group since the creation of Moorfield Audley Real Estate Fund (MAREF).

2018 was unequivocally a tough year for all those involved in the provision of housing, with Brexit uncertainty negatively affecting the housing market buyer/seller 'chain' and thereby creating a challenging trading environment. As a result, our short-term sales figures suffered as prospective buyers took longer to sell their houses. However, given this background, significant progress was nonetheless made as Audley properties were sold at an average of 5% above budgeted price and future pre-sales grew significantly, demonstrating the demand for the quality product that the Audley Group offers. In addition, growing revenue from the operations function has made it increasingly apparent that the duality of the Audley model, bringing together development and operations, is a significant part of what makes the model so compelling for investors and owners alike. More detail on the year's results and underlying trading can be found in the Chief Executive Officer's and Chief Financial Officer's statements.

In this report last year, I stated that I believed the economic and real estate markets were at the mature end of their cycles. I still believe this to be the case, but it is confusing for us all to determine the overall market impact of the economic and real estate cycles versus the Brexit impact. It is fair to say that, despite surprising resilience, both the economy and real estate markets have shown clear signs of weakness in the past 12 months, so I am pleased to say that the interest in the needs of the ageing demographic, including retirement living, has continued to increase. An ageing population in the UK, combined with structural problems within the housing market and the chronic lack of funding for social care, means that retirement housing, inclusive of care, offers a socially acceptable solution and hence significant growth opportunity. It is now unquestionably an asset class in its own right and this has been validated by the large institutions that have committed significant capital in the past 18 months. The Audley Group identified this trend nearly two decades ago with the Audley Villages brand, now established as the UK's largest premium retirement living developer and operator, and so I am excited to say that it is now time for the Audley Group to bring forward its mid-market proposition, Mayfield Villages. Mayfield Villages has the potential to transform the way in which the UK views mid-market retirement living, using the experiences gained from Audley Villages to create a market-defining product that will improve upon other examples of success from around the world.

What has impressed me most, as Chairman of the Audley Group, is the unwavering focus of the Board and management team on delivering a vision in which they have total belief. Not only has there been a clear view of what the product should be from an occupational and operational perspective, but the unrelenting focus on customer service has ensured the business is able to maximise its potential and be perfectly prepared to use that experience in launching its next enterprise, Mayfield Villages. The business has been ahead of its time for many years (which is not always an easy place to be!), providing a combination of enviable retirement lifestyle with care on call, if needed. It should therefore come as no surprise that this is being heralded by policymakers as one way to help alleviate both the housing and care crises this country faces.

With exceptional projects across both the Audley and Mayfield brands, I am pleased to report that the Audley Group remains on a sound financial footing and will be able to execute the business plan that was created when the MAREF ownership structure was put in place three years ago. However, given the investment appetite of the institutional investors that have entered the sector in the last couple of years, Audley Group will continue to evaluate its options of raising further equity, as well as continuing with its recent 'capital light' joint venture and management contract initiatives. These joint venture and management contract partnerships are being advanced as an important growth component in the future growth of Audley Group, requiring lower capital investment whilst retaining long-term value for the business. Additionally, potential international development, also on a partnership basis, remains high on the Board's agenda.

"Growing revenue from the operations function has made the duality of the Audley model increasingly apparent."

This is a compelling time to be part of the Group. I would like to thank all the staff for their work in the past year and look forward to the next 12 months. I believe it will be a period of true transformation in the sector, with Audley once again leading the charge.

**Marc Gilbard**
Chairman
30 May 2019

## CHIEF EXECUTIVE OFFICER'S STATEMENT

# Compelling offer

2018 was a challenging year for the housing market. Consumer confidence fell to a five-year low in December 2018 amid fears for the economy. There is no doubt that this uncertainty took its toll across the sector. The housing market slowed and that is reflected in Audley Group's results.

However, I am pleased to say that what we have also witnessed this year is the strength of the retirement village model. While we have seen our short-term sales figures suffer as our potential customers take longer to sell their existing properties, the demand for what we do remains extremely high and our long-term sales forecast is strong. Pre-sale exchange levels have increased significantly despite the trading environment and we have exceeded our expectations on selling prices. The undeniable drivers of this are the UK's ageing population and a chronic shortage of high-quality retirement living options. When coupled with the strength of the Audley Group proposition, it makes for a unique and compelling offer. The proportion of over 65s in the UK living in retirement communities with care on offer is still around one-tenth of that in the US, Australia or New Zealand.

> "The demand for what we do remains extremely high and our long-term sales forecast is strong."

> "The one constant in our model is our unerring focus on our customer, listening to what they want and delivering to the highest possible standards."

When I founded Audley over 20 years ago, the vision was always of a business that delivered two complementary income streams, from both development and operations. As our business matures, this balance of income is starting to change from predominantly development led to the operations businesses delivering a larger proportion of revenue. This means we have strong visibility on future cash flows with villages in the portfolio today generating secured, index-lined, perpetual contractual income.

The one constant in our model is our unerring focus on our customer, listening to what they want and delivering to the highest possible standards. It is this relentless pursuit of excellence which will continue to ensure the business succeeds.

As a Group, we passed some significant milestones this year with two further Audley Villages openings in Audley Redwood and Audley Ellerslie and additionally securing (subject to planning) a further Yorkshire village in Scarcroft, and also our 19th site, in Cobham, Surrey.

## STRATEGY

Audley Group remains the UK's number one retirement village provider. The strength and heritage of the Audley Villages brand has allowed us to diversify and launch a new, mid-market brand and 2018 saw the first Mayfield Villages secured with planning granted at Mayfield Watford.

The launch of Mayfield Villages was a strategic decision to capitalise on the opportunity to bring modern, contemporary retirement living to a wider demographic. The growth of the Mayfield Villages brand is a significant opportunity for the Group, with an addressable market of 4.5m, double Audley's 2.3m.

As well as developing Mayfield, which will become a market leader in the way Audley Villages has done so in the luxury sector, we will continue to seek the views of our customers and potential customers to ensure we reflect their wishes across both brands. It is this insight-led approach which has stood us apart from the competition and will do so in the future.

We continue to enjoy the support of our investors who understand the potential in both the Audley and Mayfield brands. Our strategy remains to focus on growing the portfolio, adding two retirement villages each year to bring aspirational retirement living to more people across the UK.

## CURRENT TRADING

On the development side the number of completions in the 12-month period to 31 December 2018 was 83, a 44% decrease on 2017. However a total pipeline of 113 sales was achieved, consistent with the previous year despite selling in two fewer villages.

Additionally, future contracted sales increased significantly with 59 pre-sale exchanges in 2018, versus 14 in 2017, a more than fourfold uplift across the same number of villages.

Meanwhile our operations enjoyed continual growth in line with expectations with revenues of £19.3m compared to £18.0m in 2017.

"2018 saw the first Mayfield Villages secured with planning granted at Mayfield Watford."

## OUTLOOK

The retirement sector is maturing. The last two years have seen major institutional investors enter the market. Importantly, local authorities have more understanding of the planning class which starts to remove road blocks to building. Westminster is recognising, at long last, that the retirement sector is a vital solution to the issues on ageing population. It is the answer both to freeing up housing stock for the rest of the population while also addressing the broken social care model. This can relieve pressure on the NHS and avoid far too many people entering care homes that they neither need nor desire. The long-awaited Social Care Green Paper should do more to clarify this and support the growth of this much needed sector.

Audley Group is a mature, proven operator which continues to attract significant investor interest. Demand remains extremely strong and our pre-sale growth is testament to the belief that our customers and potential customers have in the model and importantly in the Group brands themselves.

**Nick Sanderson**
Chief Executive Officer
30 May 2019

# Solid performance

## OVERVIEW

Audley Group Limited has now been trading for three full years. The table below provides a comparison of the key performance indicators of the last two years.

| | **Year to December 2018 (adjusted like for like)** | Fair value adjustments | **Year to December 2018** | Year to December 2017 (adjusted like for like) | Fair value adjustments | Year to December 2017 |
|---|---|---|---|---|---|---|
| Units sold | **83** | N/A | **83** | 147 | N/A | 147 |
| Revenue £'000 | **61,641** | — | **61,641** | 92,682 | — | 92,682 |
| Gross profit £'000 | **28,904** | (487) | **28,417** | 32,955 | (2,813) | 30,142 |
| Gross margin | **46.9%** | N/A | **46.1%** | 35.6% | N/A | 32.5% |
| Earnings before revaluations, exceptional items, interest and tax £'000 | **(3,108)** | (487) | **(3,595)** | 5,293 | (2,813) | 2,480 |
| Revaluation £'000 | **1,056** | N/A | **1,056** | 20,240 | N/A | 20,240 |
| Exceptional items £'000 | **(1,098)** | N/A | **(1,098)** | (5,900) | N/A | (5,900) |
| Earnings before interest and tax £'000 | **(3,150)** | (487) | **(3,637)** | 19,633 | (2,813) | 16,820 |
| Net asset value £'000 | **258,217** | — | **258,217** | 241,285 | — | 241,285 |

## KEY PERFORMANCE INDICATORS

The Group continues to regard its key performance indicators as the number of completions in the period, gross margin, earnings before interest and taxation (EBIT) and growth in net asset value (NAV).

The performance of the year was significantly affected by caution in the housing market caused principally by the uncertainty over the Brexit negotiations. This resulted in the number of completions in the year being significantly lower than both the prior two years as our customers delayed in making major decisions to downsize to our villages.

The gross margin for the whole business for the year was, however, significantly up on 2017 at 46.1% versus 32.5% in 2017. The reasons for this were a different product mix in 2018 and a review of remaining construction costs on completed villages which resulted in some provisions being released in 2018. Our operating profit, which reflects our results before any exceptional items and revaluation movements, was a loss for the year of £3.6m versus a profit in 2017 of £2.5m. Our operating profit is significantly dependent on the quantum of gross profit we deliver, given a relatively fixed level of overheads, and as our gross profit was low our operating profit also suffered.

Our EBIT for the year to 31 December 2018 before exceptional items was a loss of £2.5m compared with a profit of £22.7m in 2017. The main reason for this large difference is that in 2018 we recorded a valuation uplift of only £1.1m versus a comparable figure of £20.2m in 2017. The growth in NAV for the year was £16.9m, which reflected increased capital of £24.5m drawn down from the Moonfield Audley Real Estate Fund (MAREF) investors offset by losses of £7.6m.

At the beginning of the year the Group successfully refinanced all of its loan facilities into one five-year revolving credit facility of £125m with a club of two UK banks. This has resulted in substantially greater operational flexibility, simpler financial covenants and enhanced headroom.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The consolidated statement of comprehensive income presents the results for the year to 31 December 2018. A commentary on all significant line items is set out below.

### Revenue

Income of £61.6m in the year was made up of £42.3m of property sales, £5.1m of care income, £11.5m of estate management fees and £2.7m of other income. Income overall was down 33.5% from the year to 31 December 2017 due to a lower number of property completions in the year, but this was partially offset by a strong performance from operations. The most significant item included within revenue of £61.6m is sales of £42.3m of properties at our villages representing 83 units. Of the property sales, the villages with the highest contributions were £19.0m from Redwood, £7.3m from Ellerslie, £5.1m from St George's, £3.5m from St Elphin's and £2.9m from Chalfont, with Ellerslie village launched in the year. Estate management fees contributed £11.5m to revenue in the year. This includes monthly and deferred management fees. Deferred management fees are accrued and calculated as a percentage of the property value on each anniversary of sale.

> "The Group successfully refinanced all of its loan facilities into one five-year revolving credit facility of £125m with a club of two UK banks."

### Direct costs

Direct costs for the period were £33.2m (2017: £62.5m), including a fair value adjustment of £0.5m (2017: £2.8m) in respect of valuation uplifts on inventory made at the date of acquisition of Audley Court Limited in December 2015 and that has been sold in 2018. Included within direct costs were cost of sales relating to property sales of £29.3m (including the fair value adjustment), £3.0m of care cost of sales and £1.5m of other running costs.

### Gain on revaluation of investment properties

Investment properties continue to be fair valued based on a valuation model that reflects estimated future income streams determined from the contractual arrangements contained in each lease. The revaluation gains are recognised on a straight line basis to the sell-out of the completed village. When a village is sold out the valuation movement is based on changes in the estimated value of all the properties in each village, determined on a village by village basis. In 2018 the amount of revaluation attributable to sold out villages was a revaluation loss of £1.8m, reflecting the subdued housing market.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME CONTINUED

### Administrative expenses

Administrative expenses of £33.1m represent operating costs of the business, including £17.2m of employee costs and £1.7m of fees to the MAREF fund manager.

### Net finance expense

Net finance costs of £5.5m represent interest, facility fees and amortisation of loan arrangement costs on the Group's loan facilities. During the year the Group refinanced all its borrowings and wrote off the remaining set-up costs of its previous finance facilities.

### Taxation

The net taxation credit for the year of £1.5m reflects an effective rate of tax of 19.0%. The credit principally relates to the recognition of losses as a deferred tax asset.

## CONSOLIDATED BALANCE SHEET

### Non-current assets

#### Intangible assets

The intangible asset is the resultant goodwill that was created on the acquisition of Audley Court Limited in 2015. The Directors have carried out an impairment review by comparing the anticipated future cash flows from each cash-generating unit with the amount of goodwill attributed to each CGU at the beginning of the year. There has been no impairment to either the development or operations' cash-generating unit.

#### Investment properties

The investment properties include the freehold and long leasehold interest in each of the villages. The investment properties are valued on the basis of fair value using a model informed by the estimated future income streams. Additions to investment properties in the period of £19.5m represent construction of central facilities at Cooper's Hill, Ellerslie and Stanbridge Earls.

#### Investments

Investment additions during the year represent a small amount of additional equity capital in our 4% investment in Audley Nightingale Lane Limited, which is developing a retirement village in Clapham, South London. In addition during the year we invested a further £14.3m of interest-bearing preference shares which have been recorded as other receivables – greater than one year.

#### Property, plant and equipment

Property, plant and equipment includes the fit-out of the head office as well as fixtures, fittings and computer equipment.

### Current assets

#### Stocks and inventories

Inventories represent land, plots under construction, completed homes ready for sale across all villages and food and beverage stocks at the villages. The inventories had additions of £68.3m in the period with the largest increases being Cooper's Hill (£22.5m), Watford (£19.7m), Ellerslie (£8.4m), Stanbridge Earls (£6.4m), Binswood extension (£3.5m) and Redwood (£3.1m). There were disposals of £29.1m representing the cost of sales to third parties in the period.

### Trade and other receivables
Trade and other receivables at the period end were £34.8m, significantly higher than the balance at the end of 2017 of £13.4m. The main reason for the large increase is the investment of £15.1m (including accrued interest) in interest-bearing preference shares in Audley Nightingale Lane Limited (noted above) and £3.0m held in escrow as the final instalment in purchasing the land at Watford. The main elements of the 2018 year-end balance, excluding the investment in Audley Nightingale Lane Limited, were £2.7m of trade debtors, £0.9m of taxes and social security costs, £0.7m of prepayments and £12.3m of accrued income. The trade debtors include management charges and care costs invoiced but not received. Trade debtors do not include any property sales as these are recognised on completion and receipt of funds.

Accrued income represents deferred management charges that are levied to each owner upon assignment of their lease. The Deferred Management Charge is determined from the contractual arrangements contained in each lease and is calculated as a percentage per year of occupation, or part thereof. The amount recognised in the accounts is based on management's estimate of the property values, which is calculated based on historical data of first sales and resales at each village. Any increase or decrease in the expected value of the Deferred Management Charge is recognised in the statement of comprehensive income.

Accrued income has been split between amounts due in greater than one year and due in less than one year. These amounts have been estimated, informed by actuarial data, to classify the amounts based on the timing of expected cashflows. The comparative periods have been restated to reflect the expected timings of cashflows.

### Cash and cash equivalents
Cash and cash equivalents at the year end were £10.8m. Of this amount £3.0m is held in a restricted bank account under our revolving credit facility and can only be used to fund lifecycle costs at our villages under certain circumstances.

### Deferred tax
The Group has recognised a deferred tax asset of £6.6m in respect of the Group's tax losses, which are expected to be utilised against future profits of the Group. A deferred tax liability of £5.4m is in respect of property valuation surpluses recognised in these accounts.

### Liabilities
Trade and other payables of £22.9m include £8.5m of trade payables, £3.7m of other payables and £10.7m of accruals and deferred income. Trade payables are all in the normal course of business; included in other payables are advanced payments by owners, reservation deposits and others. Accruals include £1.7m for staff bonuses and £0.5m of deferred income.

### Loans and borrowings
The Group had borrowings of £79.0m offset by £3.0m of loan arrangement costs in respect of its £125.0m revolving credit facility, which was entered into in January 2018. This loan refinanced previous loans provided by Bank Leumi UK, Coutts and AIG. The borrower under the facility is Audley Court Limited and all its assets, including all property assets of the Group, have been provided as security to the banks.

### Funding
In addition to the new £125.0m loan facility, the Group benefits from its equity funding from MAREF. The Group drew down £24.5m of equity from MAREF during the year and at 31 December 2018 a further £28.8m remained undrawn of which £12.5m was drawn down in March 2019.

**Jon Austen**
Chief Financial Officer
30 May 2019


END IN TEARS
ruth
rendell

# Minimising our exposure to risk

## THE RISK MANAGEMENT PROCESS

Risk is integral to Audley Group's business activities and, through a continual process to identify, assess, monitor and manage each risk, we can continue to implement our corporate strategy successfully.

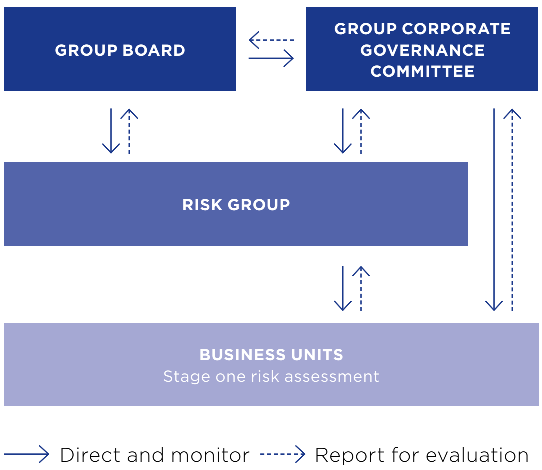
Risk management starts at Board level which sets risk appetite, provides policy, maintains risk oversight and enforces risk management reporting. The Corporate Governance Committee reports to the Board and oversees the regular review of risk management activities, is informed of all risk management activity which is considered or suspected to be significant and reviews and agrees the risk management improvement plan. Audley also has a Risk Management Group. The Risk Management Group meets by exception but for continuous monitoring of changing risks the risk register is kept up to date with progress towards risk improvements and new or emerging risks and all members of the Risk Management Group submit a bimonthly report to the Group Health and Safety Manager, who presents the results to the Corporate Governance Committee. All identified risks on the risk register are scored on a traffic light system on the consequence and likelihood of their occurrence.

## RISK APPETITE

Audley Group's approach is to minimise its exposure to reputational, compliance and excessive financial risk, whilst accepting and encouraging risk in a managed environment in pursuit of its missions and objectives.

Audley Group recognises that its appetite for risk varies according to activity undertaken, and acceptance of risk is subject always to ensuring that potential benefits and risks are fully understood before developments are authorised by the Group Governance Committee, and that sensible measures to mitigate the risk are established.


## RISK MANAGEMENT PROCESS FLOW



## PRINCIPAL RISK REVIEW

| RISK DESCRIPTION | MITIGATING ACTIONS | MOVEMENT IN YEAR |
|---|---|---|
| **ECONOMIC AND MARKET RISK**<br>Changing market conditions could hinder the Group's ability to sell properties. As housebuilding is cyclical and dependent on the broader economy, any deterioration in the economic outlook, including interest rates rises, inflation and buyer confidence, could impact on the Group's ability to sell units and consequently negatively impact the Group's turnover and EBIT.<br><br>The UK's decision to leave the EU and the subsequent ongoing Brexit negotiations have introduced uncertainty into the market. This could lead to potential Audley owners being unable to sell their properties or postponing their decision to purchase. | Management closely monitors the market and industry indicators. The Group models different scenarios of the impact of different market conditions. The Group partners with a part exchange company and a company which offers bridging loans to aid customers who want to buy our product but may be having difficulties selling their home due to market conditions.<br><br>Investment opportunities may be more evident. | ↑ |
| **LAND ACQUISITION RISK**<br>Failure to acquire land in identified locations with acceptable purchase conditions. | We have a specialist in-house land team. Land is usually acquired subject to planning permission or via an option. Unconditional land purchases are rare, reducing the risk of having to sell a site (at a potential loss) if we do not obtain planning permission. | → |
| **PLANNING RISK**<br>Failure to gain planning consent or satisfactory planning consent in the C2 use class. This would either result in us having to sell the site (at a potential loss) if we have acquired it or failure to acquire if it is a subject to planning contract. | We have a specialist in-house planning team which prepares viability assessments and establishes close working relationships with senior council members and key figures in local planning authorities to garner support for our applications. A sensitive approach to local planning policy coupled with the socio-economic advantages of our type of development meeting the needs of the increasing older population has helped us achieve a 100% successful planning record to date. | → |

↑ Increased risk    → Maintained risk    ↓ Decreased risk

## PRINCIPAL RISK REVIEW CONTINUED

| RISK DESCRIPTION | MITIGATING ACTIONS | MOVEMENT IN YEAR |
|---|---|---|
| **BUILD PROGRAMME AND BUILD COST RISK**<br>The Group's financial performance is dependent on its ability to deliver build programmes on time and on budget. Build programme or cost overruns could result in slower sales or reduced margins. | We partner with large 'blue chip' construction companies as well as Tier 2 contractors. We look to diversify our risk by using several different contractors for different size projects on whom we carry out due diligence before contracting. The large 'blue chip' businesses have strong and robust supply chains and are able to react quickly if a key sub-contractor fails. Regular site client progress meetings are held where production rate and programme position are thoroughly appraised with early warnings on time slippage assessed and recovery strategy agreed. | ↑ |
| **REPUTATIONAL RISK**<br>Marketing materials or websites displaying incorrect information either due to miscommunication between departments or human error in proofreading collateral, resulting in misselling to customers, cancelled sales, potential legal issues, negative impact on reputation and loss of revenue. | We ensure that any price changes, management fee changes, etc. are communicated between sales and marketing teams. All print materials are proofread by our agencies as well as internally. All print communications have a date printed for version control. Websites are regularly reviewed and updated. | → |
| **LOSS OF EMPLOYEES OR KEY MANAGEMENT PERSONNEL RISK**<br>The Group's continued success is reliant on its management and staff. Failure to recruit and retain sufficient staff resource of the right quality could constrain growth plans. | The Group has put in place attractive reward mechanisms for key management. We have a dedicated in-house learning and development team to provide personal development and training across the Group. | → |
| **HEALTH AND SAFETY RISK**<br>The nature of construction sites is inherently risky and could potentially expose contractors or employees to serious injury or fatality. The health and safety of our owners and visitors at our completed developments is equally important to us and the risk is we do not have sufficient safeguards in place. | We actively promote high standards of health and safety on construction sites and specifically discuss this at every site meeting with our contractors. We have employed a dedicated Group Health and Safety Manager for our completed developments who reports directly to the Managing Director – Operations to identify and address any areas of concern. | → |

↑ Increased risk  → Maintained risk  ↓ Decreased risk

| RISK DESCRIPTION | MITIGATING ACTIONS | MOVEMENT IN YEAR |
|---|---|---|
| **INTEREST RATE RISK**<br>The Group has both interest-bearing assets and liabilities. Interest-bearing assets include only cash balances, all of which earn a fixed interest rate. Interest-bearing liabilities relate to bank loans. The Group is at risk of increased interest rates on borrowings. | The Group has a policy of maintaining debt at fixed margin rates to ensure certainty of future cash flows. The Directors continually review the appropriateness of this policy. No hedging is currently in place but this is under regular review. | ↑ |
| **STANDARDS OF CARE**<br>A failure to meet our care obligations to our owners or to manage our health and safety obligations to our owners, contractors, employees and visitors could lead to proceedings or reputational damage. | Our care team is regularly inspected and through careful recruitment and ongoing training we aim to exceed statutory requirements.<br><br>During the period under review one of our care branches received a ‘requires improvement’ rating in two out of five key areas. An immediate action plan was put in place to address the concern. Upon reinspection the branch received a ‘good’ rating in all areas. We have achieved a ‘good’ rating by the CQC on all our other branches that have been inspected, achieving ‘outstanding’ in some key areas. | ↑ |
| **RISK OF DATA OR CYBER BREACH**<br>The Group relies on information technology to perform effectively and any failure of those systems, particularly those relating to customer or commercially sensitive data, could adversely impact the Group’s commercial advantage and result in penalties where the information is protected by law. | The Group engages with and actively manages its information technology experts to ensure the systems operate effectively and that we respond to the ever-evolving IT security environment. This includes regular off-site backups. Audley takes security of personal data very seriously and continuously reviews security and use of data, having undertaken a General Data Protection Regulation (GDPR) programme to ensure compliance in the prior year. | → |

## THE UK'S LEADING AND MOST TRUSTED PROVIDER OF RETIREMENT LIVING

The provision of retirement living is an issue that has been steadily gaining more attention from policymakers as Westminster debates how to support an ageing population which is largely in unsuitable accommodation and a social care model that is not working.

As set out in this Annual Report, the Audley Group's model is predicated on delivering both of these functions through its Audley and Mayfield Villages brands. Given these evolving policy priorities, Audley has this year had its voice heard in Westminster. A programme of meetings with ministers and civil servants has served to help deepen the knowledge of this audience on the sector and the role of Audley Group villages in addressing the challenges and opportunities it faces.

The key areas of discussion and Audley's position are as follows:

### EVENT FEES

Audley backs the government's direction of travel towards increased transparency surrounding event fees, underpinned by the Law Commission's Review. Audley both supports and is engaged fully with the process and is confident its existing practices will fall within the terms of any Code of Conduct.

Audley sets the level of the Deferred Management Charge – an event fee – to ensure that no owner will ever be asked for extra money during their occupancy. As a business, we need to be commercially viable to allow us to deliver the service our customers and prospective customers have come to expect and this fee, along with the Monthly Management Charge, allows us to make sure all costs of running an Audley Group village are met.

### LEASEHOLD REFORM

The government consultation into leaseholds on new-build houses has been an important development in the way domestic property is bought and sold and Audley supports the calls for transparency and fairness for all purchasers. The leasehold terms, and indeed all Audley's charges, are clearly communicated to those who are considering buying at an Audley Group village.

All Audley properties are sold under leasehold. Leases provide security under the law for our business to be paid certain fees which allow us to provide all the care and other services and facilities which our owners would expect. Therefore, in this respect, the type of leasehold which our owners purchase is far removed from the practices which have been identified by the Ministry of Housing, Communities and Local Government (HCLG) as needing to change. For this reason, Audley favours exemption for particular types of developments which provide facilities and services for older people, particularly care.

## HOUSING WITH CARE

Audley Group firmly believes that housing with care communities should sit within the C2 planning use class and has been seeking clarification to that effect. Furthermore, we are calling for housing with care to be recognised within the social care policy development process (ahead of the planned Social Care Green Paper).

## PLANNING GUIDANCE

We are keen to ensure that any planning frameworks recognise the role housing and care needs play in Local Plans, to ensure suitable provision for communities with older (and ageing) populations.

## ARCO

Nick Sanderson, Audley Group CEO, has served as Chair of the Associated Retirement Community Operators (ARCO) this year, supporting its efforts to grow the sector as a whole and further the interests of its members, which are from both the private and not-for-profit sectors.

ARCO held a drop-in session for MPs in December, at which it launched its Vision 2030, a target of having 250,000 people living in retirement communities by 2030. Around 50 MPs attended to meet with representatives from ARCO members, including Audley Group.

To deliver Vision 2030, ARCO will focus on 10 key priority areas:

- Sector-specific legislation
- Intelligent use of technology
- A clear customer proposition
- Effective self-regulation
- Enhanced health and wellbeing
- Flexible models of tenure
- Sustainable funding streams
- Comprehensive and robust data
- Clarity in the planning system
- A highly trained workforce

## EMPLOYEES

Our team members are our most important asset as a business, and we are dedicated to providing a working environment in which they can develop and thrive. We encourage open and honest communication and have robust policies covering everything from equality and diversity to health and safety to ensure that their wellbeing is at the core of what we do. Through our equality and diversity policy the Board and senior management undertake to encourage the recruitment, development and retention of a diverse workforce and to eliminate discrimination. Appointments are made on merit, skills and expertise but with due regard to the benefits of diversity.

There have been a number of employee engagement activities undertaken throughout the year across all our business areas to provide operational and financial updates:

- An annual staff conference for the leadership of the organisation with special guest speakers and a staff recognition awards event in the evening
- An annual staff satisfaction survey
- Regional operational village management meetings (bimonthly)
- Care branch manager meetings (bimonthly)
- Head office all-staff meetings (bimonthly)
- A daily ‘10 at 10’: An update from the village general manager at 10 am at each operational village

### **EMPLOYEES** CONTINUED

Audley has an in-house learning and development team and we now have 52 employees enrolled into a new apprenticeship programme. Audley Group was named Employer Brand of the Year at the Personnel Today Awards and one of our Audley carers won Highly Commended in the Employee Engagement Awards (Unsung Hero category).

Audley recognises that performance schemes are a key tool in employee engagement and has a range of schemes to promote employee engagement across disciplines including an annual pay review, a bonus scheme, a commissions scheme, an incentive scheme, spot awards, an annual recognition event (small group abroad) and a long-term incentive plan.

### MODERN SLAVERY

As part of the property, hospitality and care sectors, we recognise that we have a responsibility to take a robust approach to slavery and human trafficking throughout our entire business. We are absolutely committed to preventing slavery and human trafficking in our business activities, and ensuring that our supply chains are free from slavery and human trafficking. Our full statement can be read at www.audleygroup.com/modern-slavery-statement.

### GENDER PAY GAP

Audley Group is proud to be an equal opportunities employer and gender has no impact on the recruitment process. Audley Group gender pay details reveal that the women's mean hourly rate has fallen from being 47.5% lower than the men's in 2017 to 27.4% lower than the men's in 2018. The women's median hourly rate has increased to being 3.2% lower than the men's from 1% in 2017. This data primarily reflects the fact Audley Group is a business which has three key functions: property, care and hospitality. Each function has different levels of pay. For example care accounts for nearly half of the organisation's headcount, of which 96% of those staff are female and generally fall into the lower quartiles for pay compared to other business units, which skews the figures. The median gender pay gap across the entire business is only 3%, which suggests that the main bulk of pay grades are very even and provides a more insightful view of the overall situation.

### SUSTAINABILITY

Each location, whether it be an Audley or Mayfield village, undergoes expert consultation, planning and construction to prevent any harmful impact to the site and surrounding area. Helping to preserve the existing ecological value of the site, existing habitats are retained and protected whenever possible, and landscaping is done to ensure it adds to the outstanding natural beauty of the area.

With mature trees and significant wooded areas being a common feature of the Audley sites, detailed tree surveys are central to design across all the villages. Every care is taken to ensure the preservation of trees, with radar tree surveys informing building work from the very beginning to avoid any damage. Other valuable aspects of the landscape such as hedgerows and wetlands are also conserved where possible. Whenever conservation has proved not to be feasible, Audley has created new habitats.

When it comes to the construction stage, reduction of waste and pollution is a key priority. In conjunction with contractors, Audley seeks to review site waste management to reduce overall waste during construction and reuse and recycle materials wherever possible.

We are in the initial stages of integrating more technology into our completed villages to minimise the energy use of owners, such as the ability to use apps to control heating, low ozone-depleting refrigerants and exploring the demand for electric car charging points. These are just some of the examples of how we intend to constantly evolve our sustainability efforts, alongside all of the Building Energy Management Systems (BEMS) that are already in place.

Audley Group recognises the need for sustainable development to be considered throughout our villages, with habitat creation, energy saving, recycling of materials and carefully considered maintenance central to each site. Other sustainability initiatives include:

- Sustainable travel plans to reduce car journeys. Each Audley scheme has its own bus, used by owners and staff for journeys to the city/village centre and to and from transport hubs

- During the refurbishment process Audley takes great care to maintain bat habitats. Surrounding trees are fitted with heated bat boxes; these have also been built into the external fabric of the buildings
- Solar photovoltaic (PV) technologies: convert sunlight into electrical energy, reducing Audley's carbon footprint
- Low-energy lighting: around 75% of light fittings make use of the latest light emitting diode (LED) technology
- Renewable air source heat pumps: high-efficiency technology provides heating for villages in areas where a mains gas service is unavailable
- Ground source heat pumps: highly efficient technology which has been introduced to provide heating to apartments where ground conditions are viable
- Energy recovery ventilation systems: during cooler weather, house ventilation systems recover heat from air being exhausted and use this to temper cooler fresh air coming into the buildings, reducing the need for thermal energy
- Combined heat and power: adopted where there is a cluster of buildings and the energy loads are favourable
- Water conservation: the incorporation of low-demand fittings and flow monitoring warn of potential leaks. The Group is also investigating opportunities for rainwater harvesting on larger developments
- In several sites allotments are provided to owners, helping to reduce the ecological footprint of the village and add to the natural beauty

**Nick Sanderson**
Chief Executive Officer
30 May 2019

**Jon Austen**
Chief Financial Officer

# BOARD OF DIRECTORS

MARC GILBARD

## Chairman

Marc has been the Chief Executive Officer of Moorfield Group since 1996 and has led Moorfield's transformation from a small company listed on the London Stock Exchange into one of the leading UK specialist real estate private equity fund managers.

Marc initially specialised in investment and development finance and then became a top-rated real estate equity analyst and adviser prior to becoming a private equity investor. Marc holds the external appointments of Non-Executive Director at Howard de Walden Estate and Policy Committee Member at British Property Federation and is a Member of the Bank of England Property Advisory Group.

MICHAEL BRUHN

## Non-Executive Director

Michael was educated as a Chartered Accountant and holds an MSc (Econ) from Copenhagen Business School. He has held various positions in the real estate industry and was a senior partner in DTZ before joining Valad as Head of Nordics in 2004. In 2013 Michael moved, after nine years with Valad, to the position of Chief Executive Officer of PFA Real Estate – the real estate arm of Denmark's largest private pension fund, PFA Pension.

NICK EDWARDS

## Non-Executive Director

Nick is the Chief Financial Officer of Moorfield Group, and sits on the Moorfield Group Board and Investment Committee.

Nick has a degree in History from Durham University and qualified as an ACA with Arthur Andersen. After qualifying he spent three years in corporate finance at Deutsche Bank before six years at Xchanging plc, where from 2005 to 2008 he was Finance and Commercial Director of Xchanging's 2,000-person insurance outsourcing business across the UK, the US and India. Nick holds the position of Chairman for the British Property Federation Finance Committee.

NICK SANDERSON

## Chief Executive Officer

Nick Sanderson is the founder and CEO of Audley Group. In the 1980s he founded, operated and then sold Beaumont Healthcare, one of the first corporate providers of private pay nursing care homes. In 1986, that company created close care housing which offered independent living to older people in their own homes adjacent to a Beaumont care home.

Nick created Audley Group to develop a portfolio of private retirement villages. The first two award-winning schemes in Tunbridge Wells and Harrogate were completed by 2004. In 2008 Moorfield Group invested in the Audley Group business.

As one of the founders of the retirement village sector in the UK, Nick is a regular speaker at national and international conferences and a contributor to several publications. He has acted as an adviser to public and private sector organisations. Nick is also Chair of the Associated Retirement Community Operators (ARCO).

JON AUSTEN

## Chief Financial Officer

Jon joined Audley Group in June 2016, having previously been Group Finance Director of Urban&Civic plc, the quoted UK property developer and investor. Previously he was the Finance Director of Terrace Hill, a position he held from joining in 2008, which merged with Urban&Civic in 2014.

He previously served as Chief Financial Officer at Arlington Securities Limited and Pricoa Property Investment Management, and joined Terrace Hill from Goodman Property Investors. Jon has been working in the property industry for over 30 years and is a fellow of the Institute of Chartered Accountants in England and Wales. Jon is a Non-Executive Director on the boards of McKay Securities PLC and Supermarket Income REIT plc.

PAUL MORGAN

## Managing Director – Operations

Paul joined Audley Group in 2007 as Operations Director and was promoted to Managing Director – Operations in early 2017. Previously Paul held senior management posts at Hilton UK, Corus and Regal Hotels and was Operations Director for Bespoke Hotels.

Paul's key responsibilities are for all of the operating departments within the Audley Group portfolio, including the restaurants, bars, health clubs and Audley Care, the Company's domiciliary care arm, as well as the HR disciplines across the Audley Group. Providing the strategic management of these businesses, Paul ensures delivery to the highest standards in both the care and hospitality sectors.

Through a fulfilled and well trained team, Paul is delivering a consistent, profitable service to Audley Group's internal and external customers.

KEVIN SHAW

## Managing Director – Development

Kevin is a Chartered Director with the Institute of Directors and joined Audley Group in May 2013. He joined the Company in the capacity of Sales Director. He was promoted to Development Director in January 2015 and subsequently Managing Director – Development in 2017.

Kevin is now responsible for the development arm of the business. Key responsibilities include planning, marketing, real estate, sales and construction. He has a very experienced team which is highly trained and focused on the success of the Company.

Prior to joining Audley, Kevin worked in the holiday park sector for 16 years. Kevin held various roles including Operations Director and Sales Director.

Kevin is a Non-Executive Director on the board of Two Rivers Housing.

## DIRECTOR – SUBSIDIARY COMPANIES

### JOHN NETTLETON
**Group Land Director**

John has worked in the property industry for over 20 years, firstly at Bidwells and DTZ (now Cushman and Wakefield) and subsequently Colliers International, where he was Regional Head of Residential. Whilst at Colliers he acquired Clevedon for Audley Villages following which, in 2007, he joined Audley as Regional Land Director. In 2015 John was promoted to the Board of Audley Court Limited.

His team is responsible for new site acquisitions across the Group, then working with the Planning and Development teams to obtain optimum planning consents. He is a Member of the Royal Institution of Chartered Surveyors.

## SENIOR MANAGEMENT TEAM

### LISA RICKMAN
**Group HR Director**

Lisa joined Audley Group in 2017 having pursued a 25-year career as a HR professional across multiple industries including retail, consumer goods and pharmaceuticals and for the last eight years in the care sector. With responsibility for a human resource strategy that will support Audley's future growth, she leads resourcing, engagement, reward, learning and development and HR technology. This is all underpinned by the application of strong governance and compliance to ensure success. Lisa is passionate about understanding what is needed now and in the future for effective organisations, whilst recognising the people as the number one asset.

### BENEDICT KRAUZE
**Planning Director**

Ben qualified as a Chartered Architect in 1985. In 1987 he became a partner in a provincial architecture practice and senior partner in 1994. He worked with the Raven Group from 1992 as a consultant, specialising in planning aspects of the company's work, and in 1995 set up a building company, Oakhill Limited, that specialised in the restoration of listed buildings. In 2005 he joined Audley Group and leads the planning team.

### KEVIN HUDSON
**Construction Director**

Kevin joined Audley Group in 2015 having spent 10 years delivering large scale retirement villages for Extra Care Charitable Trust. His background is in construction, working with leading contractors on diverse projects including railways, roads and bridges before joining a north-west-based building contractor delivering new-build and refurbished residential schemes, including retirement villages. With 16 years in the sector Kevin is well placed to drive forward Audley's ambitious construction programme.

### JOANNA LANDER
**Care Director**

Continuing her successful career in domiciliary care, which saw her in area and regional roles, Jo joined Audley Group in 2010. In 2015 she was appointed Head of Care Operations and is responsible for providing services to Audley Group customers and the external market. She has developed Audley Care into a highly regarded business both in its locations as well as with regulatory bodies and has improved profitability year on year.

### ROSALIND ARCHER
**Group Financial Controller**

Roz joined Audley Group in June 2017. She is an associate of the Institute of Chartered Accountants in England and Wales as well as a member of the Association of Corporate Treasurers. Prior to joining Audley Group, Roz qualified with Menzies Chartered Accountants and then joined Terrace Hill. Here she was involved in the reverse merger of Terrace Hill and Urban&Civic plc, staying a further three years. Roz is responsible for financial compliance, reporting and planning.

The Directors present their report and the audited consolidated financial statements for Audley Group Limited for the year ended 31 December 2018.

Audley Group Limited is a company limited by shares incorporated in England and Wales and domiciled in the UK. The registered office is 65 High Street, Egham, Surrey TW20 9EY. The immediate Parent Company is MAREF Topco Ltd. The ultimate Parent Company is disclosed in note 25 of the financial statements.

## DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements are:

| Director | Appointed/ resigned |
|---|---|
| Nick Sanderson | – |
| Jon Austen | – |
| Paul Morgan | – |
| Kevin Shaw | – |
| Marc Gilbard | – |
| Nick Edwards | – |
| Michael Bruhn | – |

Biographies of serving Directors are on pages 50 and 51.

At 31 December 2018 Nick Sanderson owned 0.55% (2017: 0.55%) of the share capital of Audley Court Limited via direct and indirect holdings. Jon Austen owned 0.12% (2017: 0.12%) of the share capital of Audley Court Limited via direct and indirect holdings. At 31 December 2018 and 31 December 2017, Paul Morgan and Kevin Shaw held 0.11% and 0.13% respectively.

## RESULTS AND DIVIDENDS

The Group's loss for the year was £7,568,000 (2017: profit of £9,794,000). No dividends were paid in the period to 31 December 2018 (2017: £nil) and the Directors do not propose the payment of a final dividend.

## POLITICAL DONATIONS

During the year the Group did not make any political donations or incur any political expenditure.

## PRINCIPAL RISKS AND UNCERTAINTIES

Details of the principal risks and uncertainties are described on pages 40 to 43.

## FUTURE DEVELOPMENTS

Details of the likely future developments of the business are described in the Strategic Report on pages 4 to 47.

## EMPLOYEE AND ENVIRONMENTAL MATTERS

Information in respect of the Group's employment and environmental matters is contained within the Corporate Responsibility Report on pages 44 to 47.

## SUBSEQUENT EVENTS

In March 2019 the Group completed the purchase of an additional parcel of land adjacent to the Chalfont village.

## GOING CONCERN

In assessing going concern, the Directors have reviewed the Group's business plan, including five-year rolling cash forecasts, loan maturities, available funding and key risks. The business plan has been sensitised to take into account the current uncertain economic conditions and customer confidence and transactional volumes in the UK housing market. The business plan has been scenario tested with particular regard to sales rates in the next 12 months, completion of land contracts that are subject to planning permission, and existing contractual commitments of the business to ensure the ongoing compliance with banking covenants and the liquidity of the Group. Having undertaken this assessment the Directors have a reasonable expectation that the Company and Group have sufficient resources to continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements and the Board considers it appropriate to prepare the financial statements on a going concern basis.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

The Directors' Report and the Strategic Report were approved by the Board.

On behalf of the Board

**Jon Austen**
Chief Financial Officer
30 May 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## DIRECTORS' CONFIRMATIONS

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

**Jon Austen**
Chief Financial Officer
30 May 2019


Shake Well Before Use
TOM ISAACS
ORHAN PAMUK
Other Colours
THE BOURNE SUPREMACY
ROBERT LUDLUM
THE RHINEMANN EXCHANGE
ROBERT LUDLUM

# INDEPENDENT AUDITORS' REPORT – GROUP

To the members of Audley Group Limited

## REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

### Opinion

In our opinion, Audley Group Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the consolidated balance sheet as at 31 December 2018; the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

**REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS** CONTINUED

**Reporting on other information** continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

**Responsibilities for the financial statements and the audit**

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 54, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**OTHER REQUIRED REPORTING**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

**OTHER MATTER**

We have reported separately on the company financial statements of Audley Group Limited for the year ended 31 December 2018.

**Ian Benham (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 May 2019

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year to 31 December

| | Note | **Year ended 31 December 2018 £'000** | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| **Revenue** | 3 | **61,641** | 92,682 |
| Cost of sales | 3 | **(33,224)** | (62,540) |
| **Gross profit** | 3 | **28,417** | 30,142 |
| Administrative expenses | | **(33,110)** | (33,562) |
| Gain on revaluation of investment properties | 11 | **1,056** | 20,240 |
| **Operating (loss)/profit** | 4 | **(3,637)** | 16,820 |
| Operating (loss)/profit before exceptional items and revaluation gain | | **(3,595)** | 2,480 |
| Gain on revaluation of investment properties | | **1,056** | 20,240 |
| Exceptional items | 9 | **(1,098)** | (5,900) |
| Operating (loss)/profit after exceptional items | | **(3,637)** | 16,820 |
| Finance income | 7 | **894** | 2 |
| Finance expense | 7 | **(6,351)** | (4,190) |
| **(Loss)/profit before tax** | | **(9,094)** | 12,632 |
| Corporation tax | 8 | **1,526** | (2,838) |
| **(Loss)/profit and total comprehensive income for the year** | | **(7,568)** | 9,794 |
| Attributable to: | | | |
| – Equity holders of the Parent Company | | **(7,487)** | 9,689 |
| – Non-controlling interests | | **(81)** | 105 |
| | | **(7,568)** | 9,794 |

The Group had no amounts of other comprehensive income for the current or prior year.

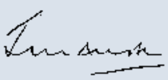
The accompanying accounting policies and notes form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December

| | Note | 2018 £'000 | Restated 2017* £'000 | Restated 2016* £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangible assets | 10 | **22,965** | 22,965 | 28,865 |
| Investment properties | 11 | **123,162** | 102,609 | 67,012 |
| Investments | 12 | **2,423** | 2,356 | — |
| Property, plant and equipment | 13 | **1,263** | 951 | 389 |
| Deferred tax asset | 14 | **6,550** | 4,995 | 4,605 |
| Trade and other receivables | 16 | **26,749** | 8,713 | 4,225 |
| **Total non-current assets** | | **183,112** | 142,589 | 105,096 |
| **Current assets** | | | | |
| Stocks and inventories | 15 | **160,675** | 121,479 | 122,651 |
| Trade and other receivables | 16 | **8,018** | 4,727 | 3,952 |
| Cash and cash equivalents | 17 | **10,750** | 47,038 | 35,330 |
| **Total current assets** | | **179,443** | 173,244 | 161,933 |
| **Total assets** | | **362,555** | 315,833 | 267,029 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 18 | **(22,907)** | (15,070) | (15,843) |
| Corporation tax | 18 | **—** | (117) | (6) |
| Loans and borrowings | 19 | **—** | (120) | (120) |
| **Total current liabilities** | | **(22,907)** | (15,307) | (15,969) |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 19 | **(76,048)** | (53,999) | (55,144) |
| Deferred tax liability | 14 | **(5,383)** | (5,242) | (2,125) |
| **Total non-current liabilities** | | **(81,431)** | (59,241) | (57,269) |
| **Total liabilities** | | **(104,338)** | (74,548) | (73,238) |
| **Total net assets** | | **258,217** | 241,285 | 193,791 |
| **Equity** | | | | |
| Share capital | 21 | **244,155** | 193,069 | 193,069 |
| Share premium | 22 | **10,914** | — | — |
| Capital contribution reserve | | **—** | 37,500 | — |
| Retained earnings | | **1,696** | 9,183 | (506) |
| **Total attributable to equity holders of the Parent Company** | | **256,765** | 239,752 | 192,563 |
| **Non-controlling interests** | | **1,452** | 1,533 | 1,228 |
| **Total equity** | | **258,217** | 241,285 | 193,791 |

The financial statements on pages 58 to 79 were approved and authorised for issue by the Board and were signed on its behalf on 30 May 2019.



**Jon Austen**
Director

The notes on pages 62 to 79 form part of these financial statements.

* Refer to note 16.

Registered number: 09906780

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to 31 December

| | Share capital £'000 | Share premium £'000 | Capital contribution reserve £'000 | Retained earnings £'000 | Total attributable to equity holders of the Parent Company £'000 | Non-controlling interest £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2016 | 193,069 | — | — | (506) | 192,563 | 1,228 | 193,791 |
| Capital contribution | — | — | 37,500 | — | 37,500 | — | 37,500 |
| Transactions with owners | — | — | 37,500 | — | 37,500 | — | 37,500 |
| Profit for the year | — | — | — | 9,689 | 9,689 | 105 | 9,794 |
| Total comprehensive income | — | — | — | 9,689 | 9,689 | 105 | 9,794 |
| Non-controlling interest granted during the year | — | — | — | — | — | 200 | 200 |
| At 31 December 2017 | 193,069 | — | 37,500 | 9,183 | 239,752 | 1,533 | 241,285 |
| Shares issued | 51,086 | 10,914 | (37,500) | — | 24,500 | — | 24,500 |
| Transactions with owners | 51,086 | 10,914 | (37,500) | — | 24,500 | — | 24,500 |
| Loss for the year | — | — | — | (7,487) | (7,487) | (81) | (7,568) |
| Total comprehensive loss | — | — | — | (7,487) | (7,487) | (81) | (7,568) |
| **At 31 December 2018** | **244,155** | **10,914** | **—** | **1,696** | **256,765** | **1,452** | **258,217** |

# CONSOLIDATED CASH FLOW STATEMENT

For the year to 31 December

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| **Operating activities** | | |
| (Loss)/profit before tax | **(9,094)** | 12,632 |
| Adjustments for: | | |
| – Depreciation | **427** | 259 |
| – Gain on revaluation of investment properties | **(1,056)** | (20,240) |
| – Finance income | **(894)** | (2) |
| – Finance expense | **6,351** | 4,190 |
| – Loss/(profit) on disposal of property, plant and equipment | **—** | 54 |
| – Goodwill impairment | **—** | 5,900 |
| **Cash flows from operating activities before changes in working capital** | **(4,266)** | 2,793 |
| Increase in trade and other receivables | **(20,425)** | (5,265) |
| Increase/(decrease) in trade and other payables | **8,907** | (2,574) |
| (Increase)/decrease in stocks and inventories | **(39,195)** | 1,172 |
| **Cash absorbed by operating activities** | **(54,979)** | (3,874) |
| Finance income received | **15** | 2 |
| Finance costs paid | **(4,958)** | (1,410) |
| Corporation tax paid | **(6)** | — |
| **Net cash flows from operating activities** | **(59,928)** | (5,282) |
| **Investing activities** | | |
| Additions to investments | **(67)** | (2,356) |
| Additions to investment properties | **(19,497)** | (15,357) |
| Additions to property, plant and equipment | **(761)** | (873) |
| **Net cash flows from investing activities** | **(20,325)** | (18,586) |
| **Financing activities** | | |
| New loans | **79,000** | 12,757 |
| Issue costs of new loans paid | **(3,634)** | — |
| Repayment of loans | **(55,901)** | (14,881) |
| Issue of share capital | **24,500** | — |
| Capital contribution | **—** | 37,500 |
| Non-controlling interests granted during the period | **—** | 200 |
| **Net cash flows from financing activities** | **43,965** | 35,576 |
| **Net (decrease)/increase in cash and cash equivalents** | **(36,288)** | 11,708 |
| Cash and cash equivalents at start of year | **47,038** | 35,330 |
| **Cash and cash equivalents at 31 December** | **10,750** | 47,038 |

# NOTES TO THE ACCOUNTS

## 1 GENERAL INFORMATION

The Group's principal activity during the financial year was that of the development and management of retirement villages, including the provision of domiciliary care. The Company is a private company limited by shares and is incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is 65 High Street, Egham, Surrey TW20 9EY.

## 2 ACCOUNTING POLICIES

### Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) interpretations published by the International Accounting Standards Board (IASB) as adopted by the European Union ("EU adopted IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their financial statements in accordance with IFRS.

These financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties. The Company has elected to prepare its individual financial statements, on pages 82 to 88, in accordance with FRS 102.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been applied consistently to both periods, unless otherwise stated.

### Functional and presentation currency

These financial statements are presented in sterling (£), the Company's functional currency, and have been rounded to the nearest thousand (£'000) unless indicated to the contrary. The functional currency is the currency of the primary economic environment in which the Company operates. Accordingly, the Company measures its financial results and financial position in sterling.

### Going concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Group will continue to meet its liabilities as they fall due. The Directors have reviewed the Group's business plan, including five-year rolling cash forecasts, loan maturities, available funding and key risks. The business plan has been sensitised to take into account the current uncertain economic conditions and customer confidence and transactional volumes in the UK housing market. The business plan has been scenario tested with particular regard to sales rates in the next 12 months, completion of land contracts that are subject to planning permission, and existing contractual commitments of the business to ensure the ongoing compliance with banking covenants and the liquidity of the Group. Having undertaken this assessment the Directors have a reasonable expectation that the Company and Group have sufficient resources to continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements and the Board considers it appropriate to prepare the financial statements on a going concern basis.

### New standards and interpretations

The Group has adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" for the year ended 31 December 2018.

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods beginning on or after 1 January 2018. The adoption of IFRS 9 resulted in new criteria being applied in the measurement and disclosure of financial instruments. After a review of these requirements, management concluded that there are no impacts arising from IFRS 9 within the current reporting period and therefore no adjustments or disclosures are required.

IFRS 15 "Revenue from Contracts with Customers" supersedes IAS 11 "Construction Contracts", IAS 18 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group completed a transition exercise, under which its contracts were subject to review by reference to the rules set out in the five-step model. This exercise showed that, for all revenue streams, the impact on revenue recognition was not material.

The IASB has issued or amended the following standards that are mandatory for later accounting years and that are relevant to the Group and have not been adopted early. These are:

- IFRS 16 "Leases" (effective date – 1 January 2019).

**2 ACCOUNTING POLICIES** CONTINUED

**New standards and interpretations** continued

IFRS 16 “Leases” will be effective for the Group from the period beginning 1 January 2019, and will result in the Group recognising a financial asset and liability on the balance sheet initially at the present value of all future lease payments it is obliged to make for any material leases for which it is the lessee. These are disclosed in note 24. There is predicted to be no net impact on the profit and loss over the lease term, but under IFRS 16 part of the payment currently recognised within administrative expenses would be recognised as a finance cost.

The Group has assessed that the impact on assets, liabilities and profit and loss is not likely to be material. The treatment of leases where the Group is acting as a lessor is substantially unchanged from that currently applied under IAS 17.

### Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. A subsidiary is an entity where the Company has control over that investee. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. The results of subsidiary undertakings acquired or disposed of during the financial period are included from, or up to, the effective date of acquisition or disposal. Uniform accounting policies have been adopted across the Group.

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

### Intangible assets

Goodwill represents the excess of the cost of a business combination over the Group’s interest in the fair value of the identifiable assets and liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset, with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Goodwill is reviewed for impairment at each reporting date.

### Investments

Investments are initially recorded in the consolidated balance sheet at cost and annually reviewed for impairment.

### Investment property

Investment property is initially measured at cost and subsequently carried at fair value determined annually and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the consolidated statement of comprehensive income. Additions to investment properties in the course of development or refurbishment include directly attributable internal and external costs incurred during the period of development until the properties are ready for their intended use.

### Property, plant and equipment

Property, plant and equipment are stated at cost or fair value at the date of transfer less accumulated depreciation and accumulated impairment losses. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is provided on all plant and equipment at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the reporting date, of each asset over its expected useful life as follows:

| | | |
|---|---|---|
| Short-term leasehold property | – | 20% straight line basis or life of lease |
| Fixtures and fittings | – | 10% and 33% straight line basis |
| Equipment | – | 33% straight line basis |
| Motor vehicles | – | 33% straight line basis |

### Stocks and inventories

Stock comprises residential units under construction and completed units ready for sale and is stated at the lower of cost and net realisable value. Cost comprises land, cost, materials, wages and other construction costs. Net realisable value is defined as estimated selling price less all further costs of development and estimated selling expenses.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 ACCOUNTING POLICIES CONTINUED

### Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be readily measured. Revenue is measured at the fair value of the consideration receivable, excluding VAT.

Revenue represents sales proceeds from the sale of residential units, monthly and deferred management charges (see accrued income critical accounting estimates and judgements), income from provision of care and other income during the year stated net of value added tax. Sales of residential units are recognised on legal completion of sale. Turnover from the provision of services, including management fees and provision of care, is recognised in the period during which the service was provided.

### Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax expense is recognised in the statement of comprehensive income. Current or deferred taxation assets and liabilities are not discounted.

#### (i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

### Pensions

The Company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Company to the fund in respect of the year.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks and other short-term, highly liquid investments with original maturities of three months or less from inception.

#### Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently at amortised cost or their recoverable amount. Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable. The amount of such a provision is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Accrued income represents a deferred management charge that the Group levies from each owner upon exit from their premises. The deferred management charge is defined in the lease signed by each owner and is calculated as a fixed percentage of sale proceeds or agreed valuation of said premises per year, or part thereof, of occupation.

The Directors estimate the deferred management charge by applying a weighted average percentage increase in property value based on historical data of resales made in the year. Any increase or decrease in the calculated deferred management charge at year end is taken to the consolidated statement of comprehensive income in that period.

## 2 ACCOUNTING POLICIES CONTINUED

### Financial instruments continued

#### Trade and other payables

Trade and other payables are initially recorded at fair value and subsequently at amortised cost.

#### Borrowings

Interest-bearing loans are initially recorded at fair value, net of any directly attributable issue costs, and subsequently recognised at amortised cost.

#### Borrowing costs

Finance and other costs incurred in respect of obtaining borrowings are accounted for on an accruals basis and amortised to the consolidated statement of comprehensive income over the term of the associated borrowings using the effective interest rate method. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred. The Group does not capitalise borrowing costs into developments.

### Critical accounting estimates and judgements

The preparation of the financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors the Directors believe are reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The Directors consider the key estimates and critical judgements made in the financial statements to be related to:

#### Valuation of investment property

The fair value of investment properties is based on a valuation model using a cash flow methodology that reflects future income streams included in the village apartment leases. The future income streams are estimated based on current contractual arrangements and ancillary income streams. The initial cost of the investment property is dependent on an allocation based on GDV of costs to develop the village, split between the shared facilities and the saleable apartments.

#### Valuation of stocks and inventories

Stocks are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price (in the ordinary course of business) less all estimated costs of completion and overheads. Valuations of site/phase work in progress are carried out at regular intervals and estimates of the cost to complete a site/phase and estimates of anticipated revenues are required to enable a development profit to be determined. Management is required to employ considerable judgement in estimating the profitability of a site/phase and in assessing any impairment provisions which may be required.

#### Cost allocation and margin recognition

Gross profit is recognised for completed apartment sales based on the latest whole site/phase gross margin, which is an output of the site/phase valuation. These valuations, which are updated at frequent intervals throughout the life of the site/phase, use actual and forecast selling prices, land costs and construction costs and are sensitive to future movements in both the estimated cost to complete and expected selling prices. Forecast selling prices are inherently uncertain due to changes in market conditions.

#### Accrued income

The Group accrues deferred management charge income based on each village apartment's lease agreement, which includes a provision for the Group to earn a fixed percentage based on the selling price of the apartment that crystallises upon resale of the apartment in the future. Given the contingent timing of the event, the charge is accrued each period based on the average realised selling price at each village on a per square foot basis. Given the contingent timing of the event, the accrued income has been split between amounts due in greater than one year and due in less than one year. This has been estimated, informed by actuarial data, to reflect the timing of expected cashflows.

#### Deferred tax

The Group has made an assessment of the recoverability of deferred tax assets, where it has been assumed that sufficient taxable profits will be available in future periods, to allow the assets to be recovered.

#### Impairment of goodwill

Goodwill has been assessed for impairment on a fair value less cost to sell basis. The fair value of the operations CGU is based on the estimated cash flows and a yield consistent with those used in the valuation of investment properties The fair value reflects the expected cash flows at maturity of the village assuming all units are sold. The Group recognises the value of these cash flows in investment properties as the units are sold. Consequently, the excess cash flow values supporting goodwill will reduce as units are sold, with the value realised in investment properties, and may result in an impairment to goodwill in the future.

## 2 ACCOUNTING POLICIES CONTINUED

**Critical accounting estimates and judgements** continued

Impairment of goodwill continued

The fair value of the development CGU is based on the residual land value using the estimated remaining gross development value less costs to complete. The key assumptions are number of units sold, costs to complete and development margin. The development margin varies from 5% to 20% depending on the stage of the development, with the margin reducing as the village development nears completion. In deriving the fair value the Group attributes value to sites where planning has been obtained, but no value is attributed to sites where an option to purchase exists but planning has not been granted. These assumptions are reviewed by the Board annually and revised in light of current economic conditions and the future outlook of the business.

Management is required to employ considerable judgement in estimating the profitability and cash flows as well as the timing of a site/phase and in assessing any impairment provision which may be required.

## 3 REVENUE AND GROSS PROFIT

All revenue is generated in the United Kingdom.

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Property sales | **42,326** | 74,653 |
| Estate management fees | **11,502** | 11,457 |
| Care income | **5,133** | 4,617 |
| Other | **2,680** | 1,955 |
| **Total revenue** | **61,641** | 92,682 |
| Property cost of sales | **(28,770)** | (58,950) |
| Other | **(4,454)** | (3,590) |
| **Total cost of sales** | **(33,224)** | (62,540) |
| **Gross profit** | **28,417** | 30,142 |

## 4 OPERATING PROFIT

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| This has been arrived at after charging: | | |
| Depreciation of tangible fixed assets | **427** | 259 |
| Repairs and maintenance | **54** | 35 |
| Auditors' remuneration – audit of the Company | **25** | 25 |
| Auditors' remuneration – audit of subsidiaries | **150** | 212 |
| Total auditors' remuneration – audit services | **175** | 237 |
| Auditors' remuneration – non-audit services: tax compliance | **68** | 78 |
| Auditors' remuneration – non-audit services: transaction services | **383** | — |
| Total auditors' remuneration | **626** | 315 |
| Operating lease rentals: | | |
| – Other | **199** | 198 |
| – Land and buildings | **278** | 272 |

## 5 SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors. The two principal segments are development and operations. The development segment includes the purchase of land and construction of a retirement village on that land. The operating segment includes the management of the retirement villages, the deferred management charges, the provision of care and the operations of the central facilities at each village.

## **5 SEGMENTAL REPORTING** CONTINUED

Segmental information is reported in the table that follows in respect of the current period in accordance with the requirements of IFRS 8 "Operating Segments".

| 2018 | **Development £'000** | **Operations £'000** | **Unallocated £'000** | **Total £'000** |
|---|---|---|---|---|
| Revenue | **42,326** | **19,315** | **—** | **61,641** |
| Cost of sales | **(28,770)** | **(4,454)** | **—** | **(33,224)** |
| **Gross profit** | **13,556** | **14,861** | **—** | **28,417** |
| Administrative expenses | **(10,097)** | **(12,028)** | **(9,887)** | **(32,012)** |
| Other exception items | **—** | **—** | **(1,098)** | **(1,098)** |
| Gain on revaluation of investment properties | **—** | **1,056** | **—** | **1,056** |
| **Operating profit/(loss)** | **3,459** | **3,889** | **(10,985)** | **(3,637)** |
| Net finance expense | **—** | **—** | **(5,457)** | **(5,457)** |
| Profit/(loss) before tax | | | | **(9,094)** |

| 2018 | **Development £'000** | **Operations £'000** | **Unallocated £'000** | **Total £'000** |
|---|---|---|---|---|
| Intangible assets | **14,706** | **8,259** | **—** | **22,965** |
| Investment property | **—** | **123,162** | **—** | **123,162** |
| Investments | **2,423** | **—** | **—** | **2,423** |
| Property, plant and equipment | **184** | **183** | **896** | **1,263** |
| Deferred tax assets | **—** | **—** | **6,550** | **6,550** |
| Trade and other receivables | **15,130** | **11,619** | **—** | **26,749** |
| **Non-current assets** | **32,443** | **143,223** | **7,446** | **183,112** |
| Stocks and inventories | **160,606** | **69** | **—** | **160,675** |
| Trade and other receivables | **5,006** | **2,081** | **931** | **8,018** |
| Cash and cash equivalents | **—** | **3,000** | **7,750** | **10,750** |
| **Current assets** | **165,612** | **5,150** | **8,681** | **179,443** |
| Loans and borrowings | **—** | **—** | **(76,048)** | **(76,048)** |
| Trade and other payables | **(16,046)** | **(2,657)** | **(4,204)** | **(22,907)** |
| Deferred tax liability | **—** | **—** | **(5,383)** | **(5,383)** |
| **Total liabilities** | **(16,046)** | **(2,657)** | **(85,635)** | **(104,338)** |
| **Net assets** | **182,009** | **145,716** | **(69,508)** | **258,217** |

In the current and prior year no single customer represented 10% or more of total revenue.

| 2017 | Development £'000 | Operations £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|
| Revenue | 74,653 | 18,029 | — | 92,682 |
| Cost of sales | (58,950) | (3,590) | — | (62,540) |
| **Gross profit** | 15,703 | 14,439 | — | 30,142 |
| Administrative expenses | (8,521) | (10,229) | (8,912) | (27,662) |
| Goodwill impairment | (5,900) | — | — | (5,900) |
| Gain on revaluation of investment properties | — | 20,240 | — | 20,240 |
| **Operating profit/(loss)** | 1,282 | 24,450 | (8,912) | 16,820 |
| Net finance expense | — | — | (4,188) | (4,188) |
| **Profit before tax** | | | | 12,632 |

## 5 SEGMENTAL REPORTING CONTINUED

| 2017 | Development £'000 | Operations £'000 | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|
| Intangible assets | 14,706 | 8,259 | — | 22,965 |
| Investment property | — | 102,609 | — | 102,609 |
| Investments | 2,356 | — | — | 2,356 |
| Property, plant and equipment | 221 | 99 | 631 | 951 |
| Deferred tax assets | — | — | 4,995 | 4,995 |
| Trade and other receivables | — | 8,713 | — | 8,713 |
| **Non-current assets** | 17,283 | 119,680 | 5,626 | 142,589 |
| Stocks and inventories | 121,416 | 63 | — | 121,479 |
| Trade and other receivables | 2,377 | 1,715 | 635 | 4,727 |
| Cash and cash equivalents | 39,966 | 507 | 6,565 | 47,038 |
| **Current assets** | 163,759 | 2,285 | 7,200 | 173,244 |
| Loans and borrowings | (51,368) | (2,751) | — | (54,119) |
| Trade and other payables | (9,549) | (2,431) | (3,207) | (15,187) |
| Deferred tax liability | — | — | (5,242) | (5,242) |
| **Total liabilities** | (60,917) | (5,182) | (8,449) | (74,548) |
| **Net assets** | 120,125 | 116,783 | 4,377 | 241,285 |

## 6 EMPLOYEE BENEFIT EXPENSES

| Employee benefit expenses (including Directors) are as follows: | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Wages and salaries (including discretionary bonus) | **15,209** | 13,416 |
| Defined contribution pension costs | **489** | 389 |
| Social security costs | **1,469** | 1,098 |
| | **17,167** | 14,903 |

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £489,000 (2017: £389,000), of which £64,000 (2017: £54,000) was outstanding at the period end and included within other payables.

### Key management personnel compensation

The compensation disclosure below relates to the Company Directors and key senior managers within the Group, who constitute the people having authority and responsibility for planning, directing and controlling the Group's activities. For the period ended 31 December 2018, the key senior managers within the Group are deemed to be the Board members and Katherine Rose and John Nettleton, who are members of the Operations and Development Boards. No amounts are included in respect of Non-Executive Directors. No balances are outstanding from key management personnel at the period end. During the year no amounts were paid to key management personnel in respect of compensation for loss of office.

### Directors' emoluments

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Wages and salaries | **1,779** | 1,847 |
| Defined contribution pension costs | **31** | 29 |
| Social security costs | **264** | 211 |
| | **2,074** | 2,087 |

The highest paid Director received £545,000 (2017: £553,000) in the year, including £10,300 (2017: £10,300) for pension contributions. Non-Executive Directors do not receive a salary but are compensated as part of a management fee as disclosed in note 25.

## 6 EMPLOYEE BENEFIT EXPENSES CONTINUED

**Key management personnel compensation** continued

Key management personnel

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Wages and salaries | **2,222** | 2,388 |
| Defined contribution pension costs | **47** | 42 |
| Social security costs | **331** | 264 |
| | **2,600** | 2,694 |

The average monthly number of employees (full-time equivalent) employed by the Company during the year was as follows:

| | 2018 Number | 2017 Number |
|---|---|---|
| Estate management | **125** | 100 |
| Care provision | **156** | 149 |
| Restaurant | **63** | 46 |
| Central management and administration | **56** | 42 |
| Sales and marketing | **40** | 36 |
| | **440** | 373 |

## 7 FINANCE INCOME AND FINANCE EXPENSE

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Preference share interest receivable | **879** | — |
| Other interest receivable | **15** | 2 |
| **Finance income** | **894** | 2 |
| Bank interest payable | **(2,529)** | (2,983) |
| Amortisation of loan arrangement costs | **(2,464)** | (1,141) |
| Other finance costs (including facility fees) | **(1,351)** | (50) |
| Finance lease costs | **(7)** | (16) |
| **Finance expense** | **(6,351)** | (4,190) |
| **Net finance expense** | **(5,457)** | (4,188) |

## 8 CORPORATION TAX

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| **Current tax expense** | | |
| Corporation tax | **(112)** | 111 |
| **Deferred tax (credit)/expense** | | |
| In respect of revenue losses | **(1,555)** | (410) |
| In respect of revaluation gains | **141** | 3,115 |
| Origination and reversal of other temporary differences | **—** | 22 |
| **Total tax (credit)/expense in period** | **(1,526)** | 2,838 |

## 8 CORPORATION TAX CONTINUED

The reasons for the difference between the actual tax (credit)/expense for the period and the Group rate of corporation tax applied to the (loss)/profit before tax for the year are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| (Loss)/profit before tax for the period | **(9,094)** | 12,632 |
| (Loss)/profit before tax on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.25%) | **(1,728)** | 2,432 |
| Expenses not deductible | **148** | 1,209 |
| Rate change on current period deferred tax | **94** | (72) |
| Other | **(40)** | (731) |
| Total tax (credit)/expense | **(1,526)** | 2,838 |

### Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016. These included reductions to the main rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

## 9 EXCEPTIONAL ITEMS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Exceptional items | **1,098** | 5,900 |

The exceptional costs in the current year relate to an impairment of goodwill of £nil (2017: £5,900,000) and £1,098,000 in relation to corporate structuring activity.

## 10 INTANGIBLE ASSETS

| | Goodwill £'000 |
|---|---|
| **Cost or valuation** | |
| **At 1 January 2017, 1 January 2018 and 31 December 2018** | **29,288** |
| **Accumulated amortisation and impairment** | |
| At 1 January 2017 | (423) |
| Impairment | (5,900) |
| **At 1 January 2018 and 31 December 2018** | **(6,323)** |
| **Net book value** | |
| **At 31 December 2018** | **22,965** |
| At 31 December 2017 | 22,965 |

The Group has two CGUs to which goodwill has been allocated, being development with £14,706,000 (2017: £14,706,000) and operations with £8,259,000 (2017: £8,259,000).

Goodwill has been assessed for impairment on a fair value less cost to sell basis.

The fair value of the operations CGU is based on the estimated cash flows and a yield consistent with those used in the valuation of investment properties; see note 11. The fair value reflects the expected cash flows at maturity of the village assuming all units are sold. The Group recognises the value of these cash flows in investment properties as the units are sold. Consequently, the excess cash flow values supporting goodwill will reduce as units are sold, with the value realised in investment properties, and may result in an impairment to goodwill in the future.

### 10 INTANGIBLE ASSETS CONTINUED

The fair value of the development CGU is based on the residual land value using the estimated remaining gross development value less costs to complete. The key assumptions are number of units sold, costs to complete and development margin. The development margin varies from 5% to 20% depending on the stage of the development, with the margin reducing as the village development nears completion. In deriving the fair value the Group attributes value to sites where planning has been obtained, but no value is attributed to sites where an option to purchase exists but planning has not been granted.

This represents a level 3 valuation.

These assumptions are reviewed by the Board annually and revised in light of current economic conditions and the future outlook of the business. An impairment of £nil (2017: £5.9m) has been recognised in the development CGU.

### 11 INVESTMENT PROPERTIES

| | £'000 |
|---|---|
| **Valuation** | |
| At 1 January 2017 | 67,012 |
| Additions | 15,357 |
| Gain on revaluation | 20,240 |
| At 1 January 2018 | 102,609 |
| Additions | 19,497 |
| Gain on revaluation | 1,056 |
| **At 31 December 2018** | **123,162** |

The historical cost of investment properties at 31 December 2018 was £98,265,000 (2017: £78,768,000).

The Group's investment properties are the central buildings and club facilities at each retirement village. The investment properties are valued annually on the basis of fair value, either by an external surveyor or the Directors. At 31 December 2018 the Directors valued the investment properties. The valuations are in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (the "Red Book") and are classified as level 3 within the fair value hierarchy. The fair values were arrived at by a valuation model using a cash flow methodology that reflects future income streams included in the village apartment leases and other ancillary income streams. The future income streams are estimated based on current contractual arrangements and non-contractual ancillary revenue.

The key inputs to the valuation model included:

- management charges (£300–£800 per unit per month);
- deferred management charges (typically between 1.0% and 2.0% of gross development value);
- net initial yield (6.5%);
- estate management and lifecycle costs;
- resale fee income and ground rent; and
- lease term (125 years).

#### The interrelationship between significant unobservable inputs and fair value measurement

The estimated fair value would increase/(decrease) if:

- expected management charges were higher/(lower);
- expected deferred management charges were higher/(lower);
- net initial yield was lower/(higher);
- estate management and lifecycle costs were lower/(higher); and
- lease term was higher/(lower).

## 11 INVESTMENT PROPERTIES CONTINUED

During the year ended 31 December 2018, £11,502,000 (2017: £11,457,000) was recognised in the consolidated statement of comprehensive income in relation to income derived from investment properties (management fee income). Direct operating expenses arising from investment properties that generated income amounted to £3,148,000 (2017: £2,747,000). The Group did not incur any direct operating expenses arising from investment properties that did not generate income. Recognised in the statement of comprehensive income is a £1,056,000 (2017: £20,240,000) gain in fair value on investment properties. There are no obligations, except those already contracted, to construct or develop the Group's investment properties. At 31 December 2018 contractual obligations to develop investment properties amounted to £4,844,000 (2017: £16,204,000).

## 12 INVESTMENTS

| Cost | £'000 |
|---|---|
| At 1 January 2018 | 2,356 |
| Additions | 67 |
| **At 31 December 2018** | **2,423** |

At 31 December 2018 and 31 December 2017 the Group held a 4% interest in Audley Nightingale Lane Limited. The company is developing a retirement village and is registered in Jersey. The Group's share of loss from continued operations and its total comprehensive loss for the period to 31 December 2018 was £43,000 (2017: £1,000). The Group is contracted to purchase the entire share capital of Audley Nightingale Lane Limited. The purchase price is estimated to be approximately £18.0m in August 2021. Both amount and timing are contingent on the successful development of the retirement village in that entity.

A full list of Group subsidiaries is included in note 4 of the Company financial statements.

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Short-term leasehold property £'000 | Fixtures and fittings £'000 | Equipment and motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 111 | 36 | 410 | 557 |
| Additions | 601 | 23 | 256 | 880 |
| Disposals | (111) | — | — | (111) |
| At 1 January 2018 | 601 | 59 | 666 | 1,326 |
| Additions | 151 | 50 | 560 | 761 |
| Disposals | — | (3) | (21) | (24) |
| **At 31 December 2018** | **752** | **106** | **1,205** | **2,063** |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 33 | 9 | 126 | 168 |
| Depreciation charge for the year | 49 | 15 | 195 | 259 |
| Depreciation on disposals | (52) | — | — | (52) |
| At 1 January 2018 | 30 | 24 | 321 | 375 |
| Depreciation charge for the year | 149 | 12 | 266 | 427 |
| Depreciation on disposals | — | (1) | (1) | (2) |
| **At 31 December 2018** | **179** | **35** | **586** | **800** |
| **Net book value** | | | | |
| **At 31 December 2018** | **573** | **71** | **619** | **1,263** |
| At 31 December 2017 | 571 | 35 | 345 | 951 |

## 14 DEFERRED TAX

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Disclosed as: | | |
| Deferred tax asset (tax losses) | **6,550** | 4,995 |
| Total deferred tax assets | **6,550** | 4,995 |
| Recoverable within one year | **70** | 768 |
| Recoverable after more than one year | **6,480** | 4,227 |
| | **6,550** | 4,995 |
| Deferred tax liability (revaluation surpluses) | **(5,383)** | (5,112) |
| Deferred tax liability (other) | **–** | (130) |
| Total deferred tax liabilities | **(5,383)** | (5,242) |
| Arising within one year | **–** | (130) |
| Arising after more than one year | **(5,383)** | (5,112) |
| | **(5,383)** | (5,242) |
| | **1,167** | (247) |

| | £'000 |
|---|---|
| At 1 January 2017 | 2,480 |
| Movement in the period | (2,727) |
| **At 31 December 2017** | (247) |
| Movement in the period | 1,414 |
| **At 31 December 2018** | **1,167** |

At 31 December 2018 the Group had unused tax losses of £55,125,000 (2017: £50,448,000), of which £34,645,000 (2017: £29,839,000) has been recognised as a deferred tax asset. Tax losses of £20,480,000 (2017: £20,609,000) have not been recognised as it is not considered sufficiently certain that these losses can be utilised in future periods.

The Group's deferred tax balances have been measured at rates between 17% and 19%, being the enacted rates of corporation tax in the UK at the balance sheet date when the temporary differences giving rise to the deferred tax are expected to reverse. The UK rate of corporation tax reduced to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020 as enacted by the Finance Act 2016.

## 15 STOCKS AND INVENTORIES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Land and work in progress | **95,498** | 73,293 |
| Finished goods | **65,177** | 48,186 |
| | **160,675** | 121,479 |

| | £'000 |
|---|---|
| At 1 January 2017 | 122,651 |
| Additions | 57,578 |
| Disposals | (58,750) |
| **At 31 December 2017** | 121,479 |
| Additions | 68,311 |
| Disposals | (29,115) |
| **At 31 December 2018** | **160,675** |

There were no significant differences between the replacement cost of stocks and its carrying value.

## 16 TRADE AND OTHER RECEIVABLES

### Trade and other receivables – greater than one year

| | 2018 £'000 | Restated 2017 £'000 | Restated 2016 £'000 |
|---|---|---|---|
| Other receivables | **15,130** | — | — |
| Accrued income | **11,619** | 8,713 | 4,225 |
| | **26,749** | 8,713 | 4,225 |

Other receivables represent preference shares and accrued interest in Audley Nightingale Lane Limited.

Included within trade and other receivables, accrued income has been restated to split the amount between due in greater than one year and due in less than one year. The Directors have estimated these amounts, informed by actuarial data, to more appropriately classify the amounts based on the timing of expected cash flows. This had no impact on Group's profit and loss or the net assets of the Group for 2017 or 2016.

The ageing of trade and other receivables greater than one year was as follows:

| | 2018 £'000 | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Between one and two years | **862** | 153 | — |
| Between two and five years | **18,626** | 1,424 | 980 |
| Greater than five years | **7,261** | 7,136 | 3,245 |
| **Total** | **26,749** | 8,713 | 4,225 |

### Trade and other receivables – less than one year

| | 2018 £'000 | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Trade receivables | **2,681** | 1,723 | 1,421 |
| Provision for impairment of trade receivables | **(7)** | (16) | (103) |
| Trade receivables (net) | **2,674** | 1,707 | 1,318 |
| Other receivables | **3,186** | 58 | — |
| Taxes and social security costs | **810** | 1,849 | 1,892 |
| Prepayments | **703** | 674 | 357 |
| Accrued income | **645** | 439 | 385 |
| | **8,018** | 4,727 | 3,952 |

The ageing of trade receivables was as follows:

| | 2018 £'000 | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Up to 30 days overdue | **2,071** | 1,297 | 784 |
| 31 to 60 days overdue | **370** | 176 | 122 |
| 61 to 90 days overdue | **140** | 61 | 107 |
| Over 90 days overdue | **82** | 160 | 272 |
| **Total** | **2,663** | 1,694 | 1,285 |
| **Amounts not yet due** | **11** | 13 | 33 |
| **Trade receivables (net)** | **2,674** | 1,707 | 1,318 |

## 17 CASH AND CASH EQUIVALENTS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash and cash equivalents | **7,750** | 7,175 |
| Cash and cash equivalents – held in restricted bank accounts | **3,000** | 39,863 |
| Borrowings – repayable within one year | **—** | (120) |
| Borrowings – repayable after one year | **(76,048)** | (53,999) |
| Net debt | **(65,298)** | (7,081) |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash and liquid investments | **10,750** | 47,038 |
| Gross debt – variable interest rates | **(76,048)** | (54,119) |
| Net debt | **(65,298)** | (7,081) |

| | Other assets | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash £'000 | Borrowings – due within one year £'000 | Borrowings – due after one year £'000 | Total £'000 |
| Net debt as at 1 January 2018 | 47,038 | (120) | (53,999) | (7,081) |
| Cash flows | (36,288) | 120 | (23,502) | (59,670) |
| Other non-cash movements | — | — | 1,453 | 1,453 |
| **Net debt as at 31 December 2018** | **10,750** | **—** | **(76,048)** | **(65,298)** |

## 18 TRADE AND OTHER PAYABLES

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade payables | **8,500** | 7,483 |
| Other payables | **3,671** | 2,340 |
| Accruals | **10,264** | 4,898 |
| Deferred income | **472** | 349 |
| | **22,907** | 15,070 |
| Corporation tax | **—** | 117 |
| | **22,907** | 15,187 |

## 19 LOANS AND BORROWINGS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank loans | **79,000** | 55,901 |
| Loan arrangement costs | **(2,952)** | (1,782) |
| | **76,048** | 54,119 |
| **Maturity profile** | | |
| Less than one year | **—** | 120 |
| Between one and five years | **76,048** | 15,179 |
| More than five years | **—** | 38,820 |
| | **76,048** | 54,119 |

On 24 January 2018, Audley Court Limited entered into a five-year £125.0m revolving credit facility agreement. All 34 direct subsidiaries of Audley Court Limited are guarantors to the loan and the loan is secured by means of charges over the investment properties, stock and work in progress of those entities. Interest is based on three-month LIBOR plus 3.50%.

As at 31 December 2017, the Group had three loan facilities in place, which were all repaid in 2018.

## 20 FINANCIAL INSTRUMENTS

### Capital risk management

The Group's primary capital management objective is to ensure the Group's ability to continue as a going concern for the foreseeable future. The Group's capital comprises equity and capital contributions from its shareholders, cash and cash equivalents and borrowings.

The Group's capital structure is managed through its budget and business plan and is monitored via daily cash flow forecasts and monthly management accounts.

### Financial risk management

The Group's principal financial instruments at 31 December 2018 comprise bank loans and cash. The main purpose of these financial instruments is to provide finance for the Group's development and operation of retirement villages at appropriate risk levels. The Group has other financial instruments that arise directly from its operations, including trade and other receivables, and trade and other payables.

The Group considers the main risks arising from its financial instruments to be credit risk, price risk, liquidity risk and interest rate risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Group's finance department. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

### Credit risk

Credit risks arise from the possibility that customers might not be able to settle their obligations as agreed. On the sale of a property, the Group takes a reservation fee and retains ownership of the property until completion, thus minimising risk. The deferred management charge is accrued throughout the period the property is owned by the resident and is settled upon resale of the property; effectively the deferred management charge is secured on the property. The primary risk is that care customers do not settle their obligations as agreed. To manage this risk the Group periodically assesses the financial reliability of customers, taking into account their financial position, past experience and other factors. The Group is not reliant on any major customer to continue as a going concern. The Group's cash is held with reputable banking institutions and in client accounts with solicitors and therefore credit risk is considered low.

### Cash and cash equivalents

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Cash held in restricted bank accounts | **3,000** | 39,863 |
| Cash at bank and in hand | **7,750** | 7,175 |
| **Cash and cash equivalents** | **10,750** | 47,038 |

The cash held in the restrictive bank accounts can only be used to pay for lifecycle costs which in aggregate exceed the deferred management income received.

### Price risk

The Group is exposed to commodity price risk (as pertaining to raw materials for construction) as a result of its operations. The Group manages this by the use of fixed-price construction contracts where possible. The Group has no exposure to equity securities price risk as it holds no listed equity investments.

### Liquidity risk

Liquidity risk is the risk that the Group would not be able to settle or meet its obligations on time or at a reasonable price.

The Group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions. Management monitors the Group's net liquidity position through rolling forecasts on the basis of expected cash flows.

The maturity analysis of the undiscounted contractual cash flows of the Group's contracted financial liabilities is as follows:

| **At 31 December 2018** | **Current interest rate** | **Year of maturity** | **Carrying amount £'000** | **Contractual cash flow £'000** | **In less than one year £'000** | **Between one and two years £'000** | **Between two and five years £'000** |
|---|---|---|---|---|---|---|---|
| **Bank loan** | **3.18%** | **2023** | **76,048** | **93,769** | **3,630** | **3,630** | **86,509** |

## 20 FINANCIAL INSTRUMENTS CONTINUED

### Liquidity risk continued

| At 31 December 2017 | Current interest rate | Year of maturity | Carrying amount £'000 | Contractual cash flow £'000 | In less than one year £'000 | Between one and two years £'000 | Between two and five years £'000 | After five years £'000 |
|---|---|---|---|---|---|---|---|---|
| Bank loan | 5.11% | 2019 | 12,558 | 13,553 | 651 | 12,902 | — | — |
| Bank loan | 4.11% | 2020 | 2,751 | 3,119 | 234 | 230 | 2,655 | — |
| Bank loan | 5.86% | 2024 | 38,810 | 55,158 | 2,366 | 2,366 | 7,097 | 43,329 |
| | | | 54,119 | 71,830 | 3,251 | 15,498 | 9,752 | 43,329 |

At 31 December 2018 the Group has undrawn loan facilities of £46.0m (2017: £39.4m).

### Interest rate risk

The Group has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include preference shares and cash balances, all of which earn interest at a fixed rate. Interest-bearing liabilities relate to bank loans. The Group has a policy of maintaining debt at fixed margin rates to ensure certainty of future interest cash flows. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

The analysis below shows the sensitivity of the statement of comprehensive income to a 0.5% change in interest rate on the Group's financial instruments that are affected by market risk.

| 0.5% increase in interest rates | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest on borrowings | **(395)** | (280) |
| Interest on cash deposits | **54** | 235 |
| **Total impact on pre-tax profit and equity** | **(341)** | (45) |

| 0.5% decrease in interest rates | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Interest on borrowings | **395** | 280 |
| Interest on cash deposits | **(54)** | (235) |
| **Total impact on pre-tax profit and equity** | **341** | 45 |

### Categories of financial assets and financial liabilities

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying value £'000 | Fair value £'000 | Carrying value £'000 | Fair value £'000 |
| **Current financial assets – loans and receivables** | | | | |
| Cash and cash equivalents | **10,750** | **10,750** | 47,038 | 47,038 |
| Trade and other receivables (excluding prepayments) | **21,800** | **21,800** | 3,614 | 3,614 |
| Accrued income | **12,264** | **12,264** | 9,152 | 9,152 |
| **Total financial assets** | **44,814** | **44,814** | 59,804 | 59,804 |
| **Current financial liabilities – amortised cost** | | | | |
| Bank loans | **—** | **—** | 120 | 120 |
| Trade payables | **8,500** | **8,500** | 7,483 | 7,483 |
| Other payables | **13,933** | **13,933** | 7,355 | 7,355 |
| **Total current financial liabilities** | **22,433** | **22,433** | 14,958 | 14,958 |
| **Non-current financial liabilities – amortised cost** | | | | |
| Bank loans | **76,048** | **76,048** | 55,781 | 55,781 |
| **Total non-current financial liabilities** | **76,048** | **76,048** | 55,781 | 55,781 |
| **Total financial liabilities** | **98,481** | **98,481** | 70,739 | 70,739 |

## 21 SHARE CAPITAL
### Issued and fully paid

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Number** | **£'000** | Number | £'000 |
| Ordinary shares of £1 each | | | | |
| Issued | **244,154,846** | **244,155** | 193,068,848 | 193,069 |

### Movements in ordinary share capital

| | Number | £'000 |
|---|---|---|
| At 1 January 2017 and 31 December 2017 | 193,068,848 | 193,069 |
| Share issue (2 November 2018) | 51,085,998 | 51,086 |
| **At 31 December 2018** | **244,154,846** | **244,155** |

## 22 RESERVES
The movement on reserves is set out in the consolidated statement of changes in equity.

The capital contribution reserve was converted into ordinary share capital during the year.

Share premium account represents the excess of the value of shares issued over their nominal amount.

Retained earnings represent the cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

## 23 CONTINGENT LIABILITIES, CAPITAL COMMITMENTS AND GUARANTEES
Capital commitments relating to the Group's development sites are as follows:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Contracted but not provided for | **31,761** | 47,507 |

Additionally, the Group is contracted to purchase the entire share capital of Audley Nightingale Lane Limited. The purchase price is estimated to be approximately £18.0m in August 2021. Both amount and timing are contingent on the successful development of the retirement village in that entity.

Upon receipt of satisfactory planning consents, the Group is committed to complete three site acquisitions. Total amounts payable are between £38.9m and £48.2m, depending on planning granted.

## 24 LEASES
### Operating lease commitments where the Group is the lessee
The future aggregated minimum rentals payable under non-cancellable operating leases are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Land and buildings £'000** | **Motor vehicles £'000** | Land and buildings £'000 | Motor vehicles £'000 |
| In one year or less | **244** | **173** | 244 | 149 |
| Between one and five years | **974** | **181** | 974 | 168 |
| In five years or more | **4,286** | **—** | 4,431 | — |
| | **5,504** | **354** | 5,649 | 317 |

## 25 RELATED PARTY TRANSACTIONS

### Key management personnel

The Directors who served during the period are considered to be key management personnel. Directors' remuneration is disclosed in note 6.

The Company's immediate Parent Company is MAREF Topco Ltd, which is registered in England and Wales.

The Group's ultimate controlling parties are Moorfield Audley Real Estate Fund 'A' Limited Partnership and Moorfield Audley Real Estate Fund 'B' Limited Partnership, both registered in England and Wales.

During the period Moorfield Investment Management Limited charged £1,725,000 (2017: £1,154,000) for management services. Included in accruals at the period end was £567,000 (2017: £329,000).

During the year the Company's ultimate controlling parties advanced £24.5m to Audley Group Limited via the immediate parent MAREF Topco Ltd in exchange for issued new shares. The Company also issued shares to the Company's immediate Parent Company to convert the capital contribution reserve into new share capital.

There is an agreement between Audley Court Limited and Audley Court Hollins Hall Limited that grants Audley Court Hollins Hall Limited a royalty-free licence to use the trademarks of Audley. Audley Court Hollins Hall is part owned by Nick Sanderson, a Director of Audley Group Limited and Audley Court Limited. During the year no (2017: £nil) amounts were received in respect of the licence agreement and no (2017: £nil) amounts were outstanding from Audley Hollins Hall Limited at year end.

During the year Audley Court Limited entered into an option, at a cost of £100,000, to acquire Audley Court Hollins Hall Limited and Audley Court Estates Limited (the management company of Hollins Hall) for consideration equal to the net asset value of the target, estimated to be in the region of £6.0m.

# INDEPENDENT AUDITORS' REPORT – COMPANY

To the members of Audley Group Limited

## REPORT ON THE AUDIT OF THE COMPANY FINANCIAL STATEMENTS

### Opinion

In our opinion, Audley Group Limited's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the company balance sheet as at 31 December 2018 and the company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

**REPORT ON THE AUDIT OF THE COMPANY FINANCIAL STATEMENTS** CONTINUED

**Reporting on other information** continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

**Responsibilities for the financial statements and the audit**

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 54, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**OTHER REQUIRED REPORTING**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**OTHER MATTER**

We have reported separately on the group financial statements of Audley Group Limited for the year ended 31 December 2018.

**Ian Benham (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 May 2019

# COMPANY BALANCE SHEET

As at 31 December 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | **158,636** | 158,569 |
| **Current assets** | | | |
| Stocks | 5 | **1,668** | — |
| Debtors: amounts falling due within one year | 6 | **93,761** | 72,010 |
| Cash at bank and in hand | | **76** | — |
| | | **95,505** | 72,010 |
| Creditors due within one year | 7 | **(541)** | (148) |
| **Net current assets** | | **94,964** | 71,862 |
| **Total assets less current liabilities** | | **253,600** | 230,431 |
| **Net assets** | | **253,600** | 230,431 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **244,155** | 193,069 |
| Share premium | 9 | **10,914** | — |
| Capital contribution reserve | 9 | **—** | 37,500 |
| Accumulated losses | | **(1,469)** | (138) |
| **Total shareholders' funds** | | **253,600** | 230,431 |

As permitted by Section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss for the financial period was £1,331,000 (2017: loss of £124,000).

The financial statements on pages 82 to 88 were approved and authorised for issue by the Board and were signed on its behalf on 30 May 2019.

**Jon Austen**
Director

The notes on pages 84 to 88 form part of these financial statements.

Registered number: 09906780

# COMPANY STATEMENT OF CHANGES IN EQUITY

For the year to 31 December 2018

| | Called up share capital £'000 | Share premium £'000 | Capital contribution reserve £'000 | Accumulated losses £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 193,069 | — | — | (14) | 193,055 |
| Capital contribution | — | — | 37,500 | — | 37,500 |
| Loss for the financial year | — | — | — | (124) | (124) |
| At 31 December 2017 | 193,069 | — | 37,500 | (138) | 230,431 |
| Share issue | 51,086 | 10,914 | (37,500) | — | 24,500 |
| Loss for the financial year | — | — | — | (1,331) | (1,331) |
| **At 31 December 2018** | **244,155** | **10,914** | **—** | **(1,469)** | **253,600** |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1 ACCOUNTING POLICIES

The Company is a private company limited by shares and is incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is 65 High Street, Egham, Surrey TW20 9EY. The financial statements of Audley Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 “The Financial Reporting Standard Applicable in the UK and Republic of Ireland” (FRS 102) and the Companies Act 2006.

### Basis of preparation of financial statements

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been applied consistently to both years, unless otherwise stated.

These financial statements are prepared on a going concern basis, under the historical cost convention. The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies.

### Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company’s shareholders.

The Company has taken advantage of the following exemptions:

- from preparing a statement of cash flows, required under FRS 102 section 7, on the basis that it is a small company. A consolidated cash flow statement is included in the Group financial statements;
- from the financial disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statements disclosures; and
- from disclosing the Company key management compensation, as required by FRS 102 paragraph 33.7.

### Investments

Fixed asset investments are stated at their purchase cost less any provision for impairment.

### Stocks and inventories

Stocks and inventories are stated at the lower of cost and net realisable value. Cost comprises land deposits and associated expenditure.

### Financial instruments

The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

#### Financial assets

Basic financial assets, including other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where it is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset’s original effective interest rate. The impairment loss is recognised in the statement of comprehensive income. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income. Financial assets are derecognised when: (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (iii) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the liability is extinguished, which is when the contractual obligation is discharged or cancelled or expires.

**1 ACCOUNTING POLICIES** CONTINUED

**Related party transactions**

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

**Critical accounting estimates and judgements**

Investments

The Directors review the investments for impairment annually. Where there are indicators of impairment or reversals of previous impairments management performs an impairment test for the investment. The recoverable values of these investments are estimated taking into account forecast cash flows. Management is required to employ considerable judgement in assessing the future cash flows and profitability.

## 2 RESULTS OF THE PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the Parent Company's profit and loss account has not been included in these financial statements. The Parent Company's loss for the financial period was £1,331,000 (2017: £124,000). No dividends were paid in the period to 31 December 2018 (2017: £nil) and the Directors do not propose the payment of a final dividend.

## 3 DIRECTORS' AND AUDITORS' REMUNERATION

Directors' remuneration is given in note 6 of the consolidated financial statements. Remuneration paid to the Company's auditors for audit and non-audit services is disclosed in note 4 of the consolidated financial statements.

## 4 INVESTMENTS

| | £'000 |
|---|---|
| **Cost** | |
| At 1 January 2018 | 158,569 |
| Additions | 67 |
| **At 31 December 2018** | **158,636** |
| **Amounts written off** | |
| At 1 January 2018 | — |
| **At 31 December 2018** | — |
| **Net book value** | |
| **At 31 December 2018** | **158,636** |
| At 31 December 2017 | 158,569 |

### Subsidiaries

The subsidiaries of Audley Group Limited, all of which have been included in these consolidated financial statements, are as follows:

| Name | **Proportion of ownership interest at 31 December 2018 %** | Proportion of ownership interest at 31 December 2017 % | Nature of business |
|---|---|---|---|
| Audley Court Limited | **98.92** | 98.92 | The development and management of retirement villages, including the provision of domiciliary care |
| Audley Nightingale Lane Holdings Limited | **100** | 100 | Holding company |
| Audley Nightingale Place Management Limited | **100** | 100 | Dormant |

## 4 INVESTMENTS CONTINUED

**Subsidiaries** continued

The following are the subsidiaries that are all 100% owned by Audley Court Limited:

| Name | Nature of business |
|---|---|
| Audley Binswood Limited | Village development company |
| Audley Binswood Management Limited | Management company |
| Audley Care Ltd | Care provider |
| Audley Care White Horse Ltd | Care provider |
| Audley Chalfont Limited | Village development company |
| Audley Chalfont Management Limited | Management company |
| Audley Clevedon Limited | Village development company |
| Audley Clevedon Management Limited | Management company |
| Audley Coopers Hill Limited | Village development company |
| Audley Coopers Hill Management Limited | Management company |
| Audley Court Management Limited | Apartment resales |
| Audley Ellerslie Limited | Village development company |
| Audley Ellerslie Management Limited | Management company |
| Audley Financial Services Limited | Dormant |
| Audley Flete Limited | Village development company |
| Audley Flete Management Limited | Management company |
| Audley Homewood Limited | Village development company |
| Audley Inglewood Limited | Village development company |
| Audley Inglewood Management Limited | Management company |
| Audley Group Developments 1 Limited | Village development company |
| Audley Mote Management Limited | Management company |
| Audley Redwood Limited | Village development company |
| Audley Redwood Management Limited | Management company |
| Audley St Elphins Limited | Village development company |
| Audley St Elphins Management Limited | Management company |
| Audley St George's Limited | Village development company |
| Audley St George's Management Limited | Management company |
| Audley Stanbridge Earls Limited | Village development company |
| Audley Stanbridge Earls Management Limited | Management company |
| Audley Sunningdale Park Limited | Village development company |
| Audley Sunningdale Park Management Limited | Management company |
| Audley Willicombe Limited | Village development company |
| Audley Willicombe Management Limited | Management company |
| Mayfield Villages Limited | Village development company |
| Mayfield Watford Limited | Village development company |

Audley Group Limited and all of its subsidiaries listed above are all incorporated in England and Wales and their registered office is 65 High Street, Egham, Surrey TW20 9EY.

## 5 STOCKS AND WORK IN PROGRESS

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Work in progress | **1,668** | — |
| | **1,668** | — |

## 6 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Other debtors | **156** | 10 |
| Amounts owed by Group undertakings | **93,605** | 72,000 |
| | **93,761** | 72,010 |

Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

## 7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade creditors | **219** | — |
| Accruals and deferred income | **322** | 44 |
| Amounts owed to Group undertakings | **—** | 104 |
| | **541** | 148 |

Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

## 8 RELATED PARTY TRANSACTIONS

During the period Audley Group Limited made loans of £10.2m (2017: £37.5m) to Audley Court Limited. The amount outstanding at 31 December 2018 was £93.6m (2017: £72.0m).

During the year the Company's ultimate controlling parties advanced £24.5m to Audley Group Limited via the immediate parent MAREF Topco Ltd in exchange for issued new shares. The Company also issued shares to the Company's immediate Parent Company to convert the capital contribution reserve into new share capital.

There is an agreement between Audley Court Limited and Audley Court Hollins Hall Limited that grants Audley Court Hollins Hall Limited a royalty-free licence to use the trademarks of Audley. Audley Court Hollins Hall is part owned by Nick Sanderson, a Director of Audley Group Limited and Audley Court Limited. During the year no (2017: £nil) amounts were received in respect of the licence agreement and no (2017: £nil) amounts were outstanding from Audley Hollins Hall Limited at year end.

During the year Audley Court Limited entered into an option, at a cost of £100,000, to acquire Audley Court Hollins Hall Limited and Audley Court Estates Limited (the management company of Hollins Hall) for consideration equal to the net asset value of the target, estimated to be in the region of £6.0m.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

### 9 CALLED UP SHARE CAPITAL

**Issued and fully paid**

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Number** | **£'000** | Number | £'000 |
| Ordinary shares of £1 each | | | | |
| Issued | **244,154,846** | **244,155** | 193,068,848 | 193,069 |

**Movements in ordinary share capital**

| | Number | £'000 |
|---|---|---|
| At 1 January 2018 | 193,068,848 | 193,069 |
| Share issue (2 November 2018) | 51,085,998 | 51,086 |
| **At 31 December 2018** | **244,154,846** | **244,155** |

The Company issued ordinary shares on 2 November 2018 at a premium at the same time the capital contribution reserve was converted into share capital.

### 10 IMMEDIATE PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTIES

The Company's immediate parent undertaking is MAREF Topco Ltd, which is registered in England and Wales.

The Company's ultimate controlling parties are Moorfield Audley Real Estate Fund 'A' Limited Partnership and Moorfield Audley Real Estate Fund 'B' Limited Partnership, both registered in England and Wales.

MAREF Topco Ltd is the undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements are available from Companies House.

## CORPORATE INFORMATION

**REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS**
65 High Street
Egham
Surrey
TW20 9EY

Registered number: 09906780

**INDEPENDENT AUDITORS**
**PricewaterhouseCoopers LLP**
1 Embankment Place
London
WC2N 6RH

**PRINCIPAL BANKERS**
**Bank Leumi UK**
20 Stratford Place
London
W1C 1BG

**HSBC**
60 Queen Victoria Street
London
EC4N 4TR

**PRINCIPAL LAWYERS**
**Eversheds Sutherland**
1 Wood Street
London
EC2V 7WS

MIX
Paper from responsible sources
FSC® C001785

The Audley Group Ltd commitment to environmental issues is reflected in this Annual Report which has been printed on UPM Fine SC, a FSC® certified material.

This document was printed by Park Communications using their environmental print technology, which minimises the impact of printing on the environment.

Vegetable based inks have been used and 99 per cent of dry waste is diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

Produced by
designportfolio

Audley Group Limited
65 High Street
Egham
Surrey
TW20 9EY

www.audleygroup.com

AUDLEY GROUP