PegasusLife Development Limited

Annual Report and financial statements

For the year ended 30 June 2018

Registered number 09340939

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OFFICERS AND PROFESSIONAL ADVISERS

Registered Number 09340939

DIRECTORS
H P Phillips (resigned 19 April 2018)
I J Trinder
D J Petri
M J Gill
A Demargerie (appointed 19 April 2018)
M Shirburne Davies (resigned 12 June 2018)

SECRETARY
M D Evans

AUDITOR
Deloitte LLP
Statutory Auditor
Gatwick, United Kingdom

SOLICITORS
CMS Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

BANKERS
Barclays Bank PLC
1 Churchill Place
London
E14 5HP

REGISTERED OFFICE
Royal Court
Kings Worthy
Winchester
Hampshire
SO23 7TW

STRATEGIC REPORT

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

THE BUSINESS MODEL

The principal activity of the company is the development and sale of retirement accommodation.

BUSINESS REVIEW

The audited financial statements for the year ended 30 June 2018 are set out on pages 8-19. The loss for the year before taxation was £25,174,487 (2017: loss for the year £8,676,390) which was excepted during this development phase, with future profitability forecasted as stock becomes completed.

On June 2015 PegasusLife Limited completed a £450 million, 7 year debt finance facility with AIG. The AIG facility will finance sites through the development process from site acquisition through to construction and sales.

This was a significant milestone for the business and will support the growth of PegasusLife Development Limited, PegasusLife Limited and the wider group as it develops its current pipeline of sites and acquires new sites.

Of the loan facility above, a total of £280,822,000 (2017: £184,933,000) has been draw down to be used in construction of projects.

The business undertook an appraisal of all sites which resulted in some sites being classified as aborted with the intention to sell after a review of the business strategy following the acquisition, in the wider group, of further development sites. This appraisal formed part of the annual impairment review of sites which resulted in an inventory write down of £10,404,000 (2017: nil) recognised in cost of sales.

During the year ended 30 June 2018, the company acquired 5 sites (2017: 1 site).

KEY PERFORMANCE INDICATORS

Details of key performance indicators are as follows:

	30 June 2018	*30 June 2017*
Operating (loss) /profit	(£8,740,455)	£1,569,923
Loss before tax	(£25,174,987)	(£8,676,390)
Shareholders' deficit	(£36,255,482)	(£11,079,595)
Sites acquired	5	1
Sites under construction at year end	13	11
Land bank units at year end	1,071	941
GDV pipeline at year end	£815m	£813m

The movements in the key performance indicators are indicative of the business plan, with operating loss expected as the developments move through the building cycle and as a result of the impairment charge in the year of £10,404,000 (2017: nil).

FUTURE DEVELOPMENTS

The portfolio of sites owned by PegasusLife Development has a Gross Development Value of £814,000,000 (2017: £813,000,000), equivalent to 3 years of turnover based on current forecasts and well balanced in terms of size, location and value.

The business plans to complete construction and commence sales on 22 sites during the year ending 30 June 2019 and more significantly in the financial year ending 30 June 2020.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

Risks	Mitigation
Planning delays / failure to get consent	• Conditional contracts or fall-back positions • As business matures, individual site delays have less impact on overall performance
Build cost inflation / surety of supply	• Alternative forms of construction being reviewed • Mix of procurement methods utilised such as two-stage tendering and construction management • Explore developing relationship with mid-sized construction companies for ongoing programme of work • No start on site until KPI target enquiries / reservations hit
Market slowdown	• Selling off-plan extends sales period and gives visibility of pipeline • Alternative structures: Shared ownership purchase, discounted 'Home for Life', rent to buy, assured tenancy rental • Work with Part Exchange providers • Site appraisals and forecast margins allow for reductions in revenues without causing losses to be made
Decision to leave the European Union	• Impact considered when devising and amending business strategy and operating model • Alternative material suppliers identified • A clear and transparent rental package has been brought to market

In light of the ongoing decision of the UK to leave the European Union under the Brexit vote there is uncertainty in the markets in which the company operates. With all operations based in the UK and all sales in the UK market the company is, to some extent, shielded from the greater uncertainty that would exist with EU operations.

As a result of the uncertainty, there has been a slowdown in the UK Housing market as a whole compared to previous years. Due to the company's customer base not being reliant on mortgages or other financing to purchase properties there have been no observed significant reductions in the levels of demand for units. This has been supported by post year end sales performance with 40 unit sales. Nonetheless the Directors have taken the opportunity to review and refine both the selling prices achievable and timing of sales in forecasts.

On the supply side, whilst construction is undertaken by subcontractors the Directors have given consideration to the risk of future price increases and impacts on labour supply and similarly assessed the impact on forecast margins for sites. The use of fixed price contracts where possible and the acquisition, in the wider group, of Hackwood Homes in the year has helped mitigate exposure to these risks to date as well as in future periods.

The company is financed through long-term loans from AIG. The Brexit result is not expected to impact these financing arrangements.

POST BALANCE SHEET EVENTS

The business completed construction on sites at Harpenden, One Bayshill Road and Cheltenham.

By Order of the Board

I J Trinder
Chief Financial Officer

29th March 2019
Royal Court
Kings Worthy
Winchester
SO23 7TW

DIRECTORS' REPORT

The directors present their report on the affairs of the company, together with the audited financial statements for the year ended 30 June 2018. The future developments section is included within the strategic report.

DIVIDENDS

The directors do not recommend the payment of a dividend (2017: £nil).

DIRECTORS

The directors who served the company during the year and subsequently, unless otherwise stated, are set out on page 1.

DIRECTORS' QUALIFYING INDEMNITY PROVISIONS

The company provided qualifying third party indemnity provisions to certain directors during the financial year and at the date of this report.

GOING CONCERN

The directors have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. In forming this view the directors have considered the company's net current asset position and net liability position and in particular the company's reliance on the continued support of its lenders in respect of the long term loans. The directors consider it is in the interests of the lenders to continue to provide the necessary financial support to ensure that the company is a going concern for the foreseeable future.

In addition, the AIG loan facility has a remaining duration of 3 years. At 30 June 2018, the company is compliant with all covenants and is not forecast to breach those covenants for the foreseeable future.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES

Information on financial risk management objectives as applicable to the company can be found in note 24 of consolidated financial statements of the parent company, PegasusLife Limited.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Deloitte LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

By Order of the Board

I J Trinder
Chief Financial Officer

29th March 2019
Royal Court
Kings Worthy
Winchester
SO23 7TW

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEGASUSLIFE DEVELOPMENT LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of PegasusLife Development Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 June 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEGASUSLIFE DEVELOPMENT LIMITED (continued)

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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

James Wright (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Gatwick, United Kingdom
29th March 2019

PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2018

	Notes	June 2018 £000	June 2017 £000
TURNOVER	1, 2	33,947	17,585
Cost of sales		(29,310)	(13,022)
Cost of sales – impairment of inventories		(10,404)	-
GROSS (LOSS) / PROFIT		(5,767)	4,563
Other operating income		41	24
Administration expenses		(3,014)	(3,017)
OPERATING (LOSS) / PROFIT		(8,740)	1,570
Interest payable and similar expenses	3	(16,435)	(10,246)
LOSS BEFORE TAXATION	5	(25,175)	(8,676)
Tax on loss	6	-	-
LOSS FOR THE FINANCIAL YEAR	13	(25,175)	(8,676)

Turnover and operating (loss) / profit are all derived from continuing activities.

There are no sources of other comprehensive income for the current and preceding year other than the loss for the year presented above. Accordingly no statement of comprehensive income has been presented.

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

BALANCE SHEET
At 30 June 2018

	Notes	30 June 2018 £000	30 June 2017 £000
FIXED ASSETS			
Investments	7	-	-
CURRENT ASSETS			
Stocks	8	469,288	342,317
Debtors	9	7,339	1,437
Cash at bank and in hand		15,521	11,785
		492,148	355,539
CREDITORS: Amounts falling due within one year	10	(258,848)	(191,104)
NET CURRENT ASSETS, BEING TOTAL ASSETS LESS CURRENT LIABILITIES		233,300	164,435
CREDITORS: Amounts falling due after more than one year	11	(269,555)	(175,515)
NET LIABILITIES		(36,255)	(11,080)
CAPITAL AND RESERVES			
Called-up share capital	12	-	-
Profit and loss account	13	(36,255)	(11,080)
SHAREHOLDERS' DEFICIT		(36,255)	(11,080)

The financial statements of PegasusLife Development Limited (registered number 09340939) were approved by the board of directors and authorised for issue on 29th March 2019. They were signed on its behalf by:

I J Trinder
Chief Financial Officer

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Called-up Share Capital £000	Profit and loss Account £000	Total £000
Balance at 1 July 2016	**-**	**(2,404)**	**(2,404)**
Total comprehensive loss for the year	-	(8,676)	(8,676)
Balance at 30 June 2017	**-**	**(11,080)**	**(11,080)**
Total comprehensive loss for the year	-	(25,175)	(25,175)
Balance at 30 June 2018	**-**	**(36,255)**	**(36,255)**

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

PegasusLife Development Limited (the company) is a company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic report on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC).

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been given in the group financial statements of Pegasuslife Limited. The group financial statements of Pegasuslife Limited are available to the public and can be obtained as set out in note 15.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group financial statements of PegasusLife Limited. The group financial statements of PegasusLife Limited are available to the public and can be obtained as set out in note 15.

Adoption of new and revised Standards

In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 Disclosure Initiative	The Company has adopted the amendments to IAS1 disclosure initiative for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on bases of aggregating and disaggregating information for disclosure purposes. However, the amendments re-iterate that a company should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance. The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the company.
Annual Improvements to IFRSs: 2012-2014	The Company has adopted the various amendments to a number of standards. The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

1. ACCOUNTING POLICIES (continued)

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report.

The company meets its day-to-day working capital requirements through its cash balances and its long term loans.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facility. The company will open renewal negotiations with its lenders at the renewal date about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

The directors have a reasonable expectation that the company has adequate resources to continue operating for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. In forming this view the directors have considered the company's net current asset position and net liability position and in particular the company's reliance on the continued support of its lenders in respect of the long term loans. The directors consider it is in the interests of the lenders to continue to provide the necessary financial support to ensure that the company is a going concern for the foreseeable future.

In addition, the AIG loan facility has a remaining duration of 3 years. At 30 June 2018, the company is compliant with all covenants and is not forecast to breach those covenants for the foreseeable future.

Turnover

Turnover represents amounts receivable from the sale of specialist retirement housing and associated land, and is stated net of VAT and trade discounts. Turnover from the sale of units is recognised on legal completion. Turnover from the sale of freehold land is recognised at the point at which the risks and rewards of ownership of the freeholds transfer to the purchaser. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Stock

Stock, including work in progress, is stated at the lower of cost and net realisable value. Cost comprises actual land purchases which are accounted for from the date of contract exchange, when the company obtains effective control of the site, actual building costs and attributable direct overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

1. **ACCOUNTING POLICIES (continued)**

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The company does not hold any financial assets at FVTPL, 'held-to-maturity' investments or AFS financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

1. ACCOUNTING POLICIES (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The company does not hold any financial liabilities at FVTPL.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

1. **ACCOUNTING POLICIES (continued)**

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in financial statements. The directors believe that no critical judgements have been made.

Carrying value of stock and estimation of costs to complete and achievable revenues

Stock is stated at the lower of cost and net realisable value. Such stock includes land, work in progress and completed units. Residential development is largely speculative by nature and it is normal that not all stock is covered by forward sales contracts. To assess the net realisable value of land held for development and sites in the course of construction, the company maintains a financial appraisal of the likely revenue which will be generated when this stock becomes residential retirement properties for sale and are sold. Where the financial appraisal demonstrates that the revenue will exceed the costs of the stock and other associated costs of constructing the residential retirement properties, the stock are stated at cost. Where the projected revenue is lower, the extent to which there is a shortfall is written off through the profit and loss account leaving the stock stated at net realisable value. To the extent that the revenues which can be generated change, or the final cost to complete for the site varies from estimates, the realisable value of stock may be different. Appraisals taking into account estimated achievable net revenues, actual stock and costs to complete as at each reporting date have been completed, identified an impairment in the current year of £10,404,000 (2017: nil) in the carrying value. These estimates were made by management having regard to actual sales prices, together with competitor and marketplace evidence. Should there be a future significant decline in UK house pricing, further impairments of land and work in progress may be necessary.

2. **TURNOVER**

The directors consider there to be one continuing class of business and one geographical destination of business only, being the UK.

Revenue is derived as follows:

	30 June 2018 £000	*30 June 2017 £000*
Legal completions on retirement property	33,947	13,485
Land sales	-	4,100
	33,947	17,585

3. **INTEREST PAYABLE AND SIMILAR EXPENSES**

	30 June 2018 £000	*30 June 2017 £000*
Interest payable on AIG loan	14,119	8,738
Amortisation of facility fees	2,316	1,508
	16,435	10,246

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

4. **STAFF COSTS**

During the year the company had 6 directors (2017:5) none of whom are remunerated by the company. Remuneration was borne by PegasusLife Limited and not recharged as none of their remuneration was attributable to their services to the company. The company has no other employees other than Directors.

5. **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

Auditor's remuneration of £303,000 (2017: £113,000) for the audit of all group companies was borne by PegasusLife Limited and not recharged. Fees payable to the auditor and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements of the parent company are required to disclose such fees on a consolidated basis.
During the year £28,346,000 of inventory was recognised as an expense in cost of sales (2017: £13,016,384).
During the year inventory was written down by £10,404,000 and recognised as an expense in cost of sales (2017: nil).

6. **TAX ON LOSS**

Analysis of credit in the year:

	30 June 2018 £000	*30 June 2017 £000*
Current tax		
UK corporation tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	-
Total tax credit	-	-

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	30 June 2018 £000	*30 June 2017 £000*
Loss before tax	(25,175)	(8,676)
Tax on loss at standard UK tax rate of 19.00% (2017: 19.75%)	(4,783)	(1,714)
Effects of:		
Unrelieved tax losses	4,783	1,714
Total tax credit	-	-

A deferred tax asset of £6,164,000 (2017: £1,884,000) relating to unrelieved tax losses has not been recognised in the year as at present it is not envisaged that any tax will become payable in the foreseeable future against which these losses could be utilised as deductions.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

7. INVESTMENTS

Company	30 June 2018 £000	30 June 2017 £000
Cost at 1 July	-	-
Additions	-	-
Cost at 30 June	-	-

To 30 June 2017 the company acquired one £1 share in each of the below subsidiaries, at par value, representing 100% of their respective share capital. There were no additions in the current year.

The company has investments in 100% of the ordinary share capital of the following subsidiary undertakings. The registered address of the below subsidiaries is Royal Court, Kings Worthy, Winchester, Hampshire, SO23 7TW.

Name	Country of incorporation	Activity
PegasusLife Development (Bartrams) Limited	England & Wales	Development & sale of retirement accommodation
PegasusLife Development (OBR) Limited	England & Wales	Development & sale of retirement accommodation
PegasusLife Development (Westminster) Limited	England & Wales	Development & sale of retirement accommodation
PegasusLife Development - (QVH) Limited	England & Wales	Development & sale of retirement accommodation

8. STOCKS

	30 June 2018 £000	30 June 2017 £000
Land	23,647	44,166
Work in progress	380,021	249,639
Completed stock	65,620	48,512
	469,288	342,317

Stock of £69,288,000 (2017: £342,317,000) has been pledged by the company as security against the AIG loan.

9. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 2018 £000	30 June 2017 £000
VAT	133	451
Other debtors	1,870	274
Prepayments and accrued income	426	712
Amounts due from subsidiary undertakings	4,910	-
	7,339	1,437

Amounts due from subsidiary undertakings are unsecured, repayable on demand and non-interest bearing.

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 June 2018 £000	*30 June 2017 £000*
Trade creditors	5,478	5,605
Accruals and deferred income	5,027	5,082
Amounts due to subsidiary undertakings	16,797	2,197
Amounts due to parent undertakings	231,546	178,220
	258,848	191,104

Amounts due to subsidiary and parent undertakings are unsecured, repayable on demand and non-interest bearing.

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 June 2018 £000	*30 June 2017 £000*
AIG loans	280,822	184,933
Issue costs associated with AIG loan	(11,267)	(9,418)
	269,555	175,515

The AIG loan has a 7 year term ending 26 June 2022. It incurs interest at 5.50% above LIBOR. It comprises a loan of £280,822,000 less transaction costs of £11,267,000 which are amortised over the period of the loan. The loan is secured by way of a first charge over the assets of PegasusLife Development Limited and a debenture over the shares of PegasusLife Holdings Limited, its immediate parent company.

12. CALLED-UP SHARE CAPITAL

	30 June 2018 £000	*30 June 2017 £000*
Allotted, called-up and fully paid		
100 ordinary shares of £1 each	-	-

The company has one class of ordinary shares which carry no right to fixed income.

13. PROFIT AND LOSS ACCOUNT

	£000
Balance at 1 July 2017	(11,080)
Loss for the year	(25,175)
Balance at 30 June 2018	(36,255)

NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2018

14. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under FRS 101 not to disclose transactions between group undertakings, where 100% of the voting rights are controlled in the group.

There were no further transactions with related parties in the current year or preceding year.

15. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The immediate holding company is PegasusLife Holdings Limited and the ultimate holding company is Oaktree Capital Group Holdings GP, LLC.

PegasusLife Limited, a company incorporated in the United Kingdom, is the parent of the smallest group, of which PegasusLife Development Limited is a member, to prepare group financial statements. The group financial statements can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

Oaktree Capital Holdings GP, LLC a company incorporated in the United States of America, is the parent of the largest group, of which PegasusLife Development Limited is a member, to prepare group financial statements. The group financial statements can be obtained from 333 S Grand Ave, Los Angeles, CA 99071.