

# **McCarthy & Stone (Developments) Limited**

## **ANNUAL REPORT & FINANCIAL STATEMENTS**

**For the year ended 31 August 2016**



**Company registration number: 06622183**

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## **DIRECTORS AND ADVISORS**

For the year ended 31 August 2016

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### **Directors**

C Fenton

N W Maddock (resigned 6 January 2017)

J M Tonkiss

R C Baker (appointed 6 January 2017)

### **Company Secretary**

P D Hole

### **Registered Office**

4<sup>th</sup> Floor, 100 Holdenhurst Road

Bournemouth

Dorset

BH8 8AQ

### **Independent Auditor**

Deloitte LLP

Chartered Accountants and Statutory Auditor

Mountbatten House

1 Grosvenor Square

Southampton

SO15 2BZ

### **Bankers**

HSBC Bank Plc

70 Pall Mall

London

SW17 5EZ

## STRATEGIC REPORT

For the year ended 31 August 2016

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The Directors present their Strategic Report for the Company for the year ended 31 August 2016. The Directors, in preparing this report, have complied with s414C of the Companies Act.

### Review of the business

McCarthy & Stone (Developments) Limited (the Company) is a subsidiary company ultimately owned by McCarthy & Stone plc (formerly McCarthy & Stone Limited), which produces consolidated financial statements and listed on the London Stock Exchange in November 2015. The Company follows the same strategy and is subject to the same principal risks and uncertainties as the McCarthy & Stone plc and its subsidiaries (the Group). Further details regarding the Group's strategy and the market in which it operates can be found in the Annual Report and Accounts of McCarthy & Stone plc which are available on the Company's website at [www.mccarthyandstonegroup.co.uk](http://www.mccarthyandstonegroup.co.uk).

McCarthy & Stone pioneered the concept of purpose-built accommodation for older people and currently provides c.70% of the owner occupied retirement market in the UK, having sold over 51,000 apartments in over 1,100 locations. The Group also provides management services which allows us to establish a unique relationship with our customers and provide personal and efficient services.

The Company is an intermediate holding company which also provides management services to other companies within the McCarthy & Stone Group.

### Performance during the year

During the year to 31 August 2016, turnover was £21.7m (2015: £24.9m), this is due to a lower management charge to Group entities. The operating profit excluding exceptional costs reduced in the year by £2.5m to £2.4m (2015: £4.9m). The operating margin, excluding exceptional costs, also declined in the year to 11% (2015: 20%). The Company made a loss after tax for the year of £6.5m (2015: profit £0.9m). These results were partially attributable to a reduction in other income as a result of no dividend income within the year (2015: £5.3m). During the year £9.1m of exceptional administrative expenses were incurred by the Company (2015: £4.6m). These costs relate to redundancy and restructuring costs (2015: £4.6m relating to redundancy, office relocation and restructuring costs following an operational review of the business). Net assets at 31 August 2016 totalled £408.3m (2015: £414.7m). The Directors are not proposing to pay any dividends in respect of the year (2015: nil).

### Key performance indicators

The Company's revenue has seen a reduction in the current year due to lower anticipated costs across Group entities.

Key performance indicators	2016	2015
Turnover (£m)	21.7	24.9
Underlying profit before tax (£m)	2.5	5.7
Underlying operating profit (£m)	2.4	4.9
Underlying operating margin (%)	11%	20%

All metrics stated pre exceptionals.

## STRATEGIC REPORT (CONTINUED)

For the year ended 31 August 2016

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### Principal risks and uncertainties

The Group maintains a robust risk management framework, providing a clear link between strategy and the strategic, operational and financial risks faced by the business. This provides an appropriate basis for the management of risk at all levels of management across all the Group companies within the McCarthy & Stone business. The focus on risk is set by the Directors of the parent company, who maintain a close involvement in identifying risk and risk mitigation throughout the business and monitor certain key risk indicators on an ongoing basis.

The principal risks and uncertainties for the Company are based on the performance of the trading subsidiaries of the Company. The performance of these subsidiaries relies on the following principal areas: economic conditions, reputation and customer satisfaction, availability and cost of buying land and developing sites. As part of managing the financial risk in the business, the potential financial impact of a down-turn in the housing market or the broader UK economic environment is regularly evaluated.

In addition, land acquisition is normally contracted subject to planning and commercial viability, providing the Group with a basis to review land acquisition decisions in light of planning outcomes and latest market conditions prior to confirming the commitment of capital.

### Outlook

The results of the Company are dependent on the performance of the Group, therefore the strategy of the Group is relevant to the success of the Company. McCarthy & Stone has built a strong pipeline of land over recent years, which represented 10,186 plots (2015: 10,087) as at 31 August 2016, and provided a platform for sustained growth. During 2016, the Group has been able to capitalise on this growth opportunity and the Directors are expecting further significant growth in volumes, revenue and profit during 2017. With the necessary operational infrastructure and quality land bank in place, our confidence in achieving our medium-term objective of building and selling 3,000 units per annum remains unchanged.

This Strategic Report was approved by the Board signed on its behalf by:



C Fenton  
Director

8 May 2017

McCarthy & Stone (Developments) Limited  
4<sup>th</sup> Floor  
100 Holdenhurst Road  
Bournemouth  
Dorset  
BH8 8AQ

## DIRECTORS' REPORT

For the year ended 31 August 2016

The Directors of McCarthy & Stone (Developments) Limited (the Company) (registered number 06622183) present their Annual Report and audited financial statements for the year ended 31 August 2016.

### Ownership

The Company is a subsidiary of McCarthy & Stone plc (formerly McCarthy & Stone Limited) which produces consolidated financial statements. McCarthy & Stone plc listed on the London Stock Exchange in November 2015. McCarthy & Stone plc and its subsidiaries are referred to as the Group.

### Directors and directors' interests

The Directors of the Company during the year and up to the date of signing were:

Name	Position	Date of appointment	Date of resignation
<i>Current Directors:</i>			
Clive Fenton	Chief Executive Officer	17 February 2014	-
Nick Maddock	Chief Financial Officer	19 September 2011	6 January 2017
Rowan Baker	Chief Financial Officer	6 January 2017	-
John Tonkiss	National Operations Director	5 November 2015	-
Nils Albert	Nominee Director	9 October 2013	21 October 2015
John White	Non-Executive Chairman	23 September 2013	5 November 2015
Mike Parsons	Independent Non-Executive Director	4 November 2013	5 November 2015
Frank Nelson	Senior Independent Non-Executive Director	18 November 2013	5 November 2015
Geeta Nanda	Independent Non-Executive Director	1 April 2015	5 November 2015

There have been no changes in the Directors' interests in the share capital of the Company since 31 August 2016.

### Directors' conflicts of interest

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where he has, or could have, a direct or indirect interest that conflicts with the interests of the Company. The Company's Articles of Association contain provisions for dealing with conflicts or potential conflicts. The procedures for dealing with conflicts of interest have operated effectively during the year under review.

### Directors' indemnities

As permitted by the Company's Articles of Association, qualifying third party indemnity provisions for the benefit of its Directors have been in place throughout the year under which the Company has agreed to indemnify the Directors, to the extent permitted by law and by the Articles, against all liability arising in respect of any act or omission in the course of performing their duties.

### Employees

At 31 August 2016 the Company had 108 employees (2015: 102).

### Financial risk management objectives and policies

As the Company is primarily an intermediate holding company, the Directors have determined that financial risk management objectives and policies are immaterial to the Company.

## DIRECTORS' REPORT (CONTINUED)

For the year ended 31 August 2016

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### Dividends

No dividends were proposed or paid during the year (2015: nil).

### Political donations

There were no political donations during the current or previous year.

### Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Through a combination of transactions with other Group entities and intra-group financing where appropriate, the Directors believe that the Company has sufficient resources to continue as a going concern. They have accordingly continued to adopt the going concern basis in preparing the financial statements.

### Information presented in other sections

Key events during the year up to the date of this report and the future development of the business are set out in the Strategic Report on page 3 and 4. The Strategic Report includes the financial review of the business.

Post balance sheet events are disclosed within note 21.

### Statement of disclosure of information to auditor

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

- As far as he is aware, there is no relevant audit information of which the Company's auditor is unaware.
- He has taken all the steps that he ought to have taken in order to make himself 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 have been reappointed as the Group's auditors at the Annual General Meeting of McCarthy & Stone plc held in January 2017.

### Approval of reduced disclosures

The Company, as a qualifying entity, has taken advantage, in respect of its separate financial statements, of the disclosure exemptions in FRS 102 paragraph 1.12. The Company's shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

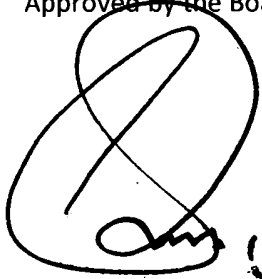
The Company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the Company by McCarthy & Stone plc, as the immediate parent of the entity. They should be served no later than 31 August 2017.

## DIRECTORS' REPORT (CONTINUED)

For the year ended 31 August 2016

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Approved by the Board and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'C Fenton', written over a large, stylized circular mark.

C Fenton  
Director

8 May 2017

McCarthy & Stone (Developments) Limited  
4<sup>th</sup> Floor  
100 Holdenhurst Road  
Bournemouth  
Dorset  
BH8 8AQ



## **DIRECTORS' RESPONSIBILITIES STATEMENT**

For the year ended 31 August 2016

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### **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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 McCARTHY & STONE (DEVELOPMENTS) LIMITED**

For the year ended 31 August 2016

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We have audited the financial statements of McCarthy & Stone (Developments) Limited for the year ended 31 August 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

### **Respective responsibilities of Directors and auditor**

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

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 August 2016 and of its loss for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCCARTHY & STONE (DEVELOPMENTS) LIMITED (CONTINUED)**

For the year ended 31 August 2016

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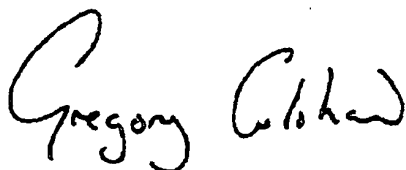
### **Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

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



Gregory Culshaw ACA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Southampton, United Kingdom

12 May 2017

# **PROFIT AND LOSS ACCOUNT**

For the year ended 31 August 2016

		2016	2016	2016	Restated	Restated	Restated
		Before	Exceptional		2015	2015	2015
		Exceptional	Item		Before	Exceptional	
	Notes	Item	Item		Exceptional	Item	
		£m	£m	£m	£m	£m	£m
Turnover	3	21.7	-	21.7	24.9	-	24.9
Cost of sales		(0.5)	-	(0.5)	(0.4)	-	(0.4)
Gross profit		21.2	-	21.2	24.5	-	24.5
Administrative expenses	3	(19.4)	(9.1)	(28.5)	(26.8)	(4.6)	(31.4)
Other operating income	3	0.6	-	0.6	7.2	-	7.2
Operating (loss)/profit	3	2.4	(9.1)	(6.7)	4.9	(4.6)	0.3
Net interest receivable and similar charges	6	0.1	-	0.1	0.8	-	0.8
(Loss)/profit on ordinary activities before tax		2.5	(9.1)	(6.6)	5.7	(4.6)	1.1
Tax credit/(charge)	7	0.1	-	0.1	(0.8)	0.6	(0.2)
(Loss)/profit for the financial year		2.6	(9.1)	(6.5)	4.9	(4.0)	0.9

All of the figures above relate to continuing operations.

There were no gains or losses other than those stated in the Profit or Loss Account above. Accordingly no Statement of Comprehensive Income is given.

# **BALANCE SHEET**

As at 31 August 2016

	Notes	2016 £m	Restated* 2015 £m
<b>Fixed assets</b>			
Intangible fixed assets: goodwill	8	26.7	28.8
brand	8	26.2	28.3
software	8	3.4	3.4
Tangible fixed assets: other	9	1.8	1.9
Investments	10	331.6	331.7
		<b>389.7</b>	<b>394.1</b>
<b>Current assets</b>			
Debtors: amounts due within one year	11	43.0	41.3
amounts due after one year	12	0.2	0.1
Cash		1.0	0.4
		<b>44.2</b>	<b>41.8</b>
Creditors: amounts falling due within one year	13	(25.6)	(21.2)
<b>Net current assets</b>		<b>18.6</b>	<b>20.6</b>
<b>Total assets less current liabilities</b>		<b>408.3</b>	<b>414.7</b>
<b>Net assets</b>		<b>408.3</b>	<b>414.7</b>
<b>Capital and reserves</b>			
Called up share capital	15	15.7	15.7
Share premium account	15	-	404.4
Profit and loss account	15	392.6	(5.4)
<b>Shareholders' funds</b>		<b>408.3</b>	<b>414.7</b>

\* Refer to note 22 for explanation regarding FRS 102 transitional adjustments.

The notes on pages 14 to 28 form part of these financial statements.

The financial statements were authorised for issue by the Board on 8 May 2017 and were signed on its behalf by:

  
C Fenton  
Director

Company registration number: 06622183

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2016

	Share capital £m	Share premium £m	Profit and loss account £m	Total £m
<b>Balance as at 31 August 2014 as previously stated</b>	<b>15.7</b>	<b>404.4</b>	<b>(7.1)</b>	<b>413.0</b>
Changes on transition to FRS 102 (see note 22)	-	-	(0.1)	(0.1)
<b>At 1 September 2014 as restated</b>	<b>15.7</b>	<b>404.4</b>	<b>(7.2)</b>	<b>412.9</b>
Profit for the year	-	-	0.9	0.9
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>0.9</b>	<b>0.9</b>
Share based payments	-	-	0.9	0.9
<b>Balance as at 31 August 2015</b>	<b>15.7</b>	<b>404.4</b>	<b>(5.4)</b>	<b>414.7</b>
Loss for the year	-	-	(6.5)	(6.5)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(6.5)</b>	<b>(6.5)</b>
Reduction of share premium	-	(404.4)	404.4	-
Share based payments	-	-	0.1	0.1
<b>Balance as at 31 August 2016</b>	<b>15.7</b>	<b>-</b>	<b>392.6</b>	<b>408.3</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2016

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### 1. Accounting Policies

The following accounting policies have been used in dealing with items that are considered material in the financial statements. They have been applied consistently throughout the current year and prior year.

McCarthy & Stone (Developments) Limited (the Company) is a private company limited by shares, and incorporated in England under the Companies Act 2006. The address of the Company's registered office is shown on page 2. The principal activities of the Company and the nature of the Company's operations are set out in the Strategic Report on pages 3 to 4.

#### Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The prior year financial statements were restated for adjustments on adoption of FRS 102 in the current year. For more information see note 22.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

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 exemption by the Company's shareholders. The Company has taken advantage of the following exemptions on the basis that the consolidated accounts of McCarthy & Stone plc include equivalent disclosures:

- The requirement to prepare a statement of cash flows.
- Financial instrument disclosures, including:
  - Categories of financial instruments.
  - Items of income, expenses, gains or losses relating to financial instruments.
  - Exposure to and management of financial risks.
- A reconciliation of the number of shares outstanding at the beginning and end of the period.
- Remuneration of key management personnel.

The Company has not prepared Group financial statements as the trading results of McCarthy & Stone (Developments) Limited and those of its subsidiaries are reported as consolidated within McCarthy & Stone plc, its parent company.

#### Going concern

The financial statements have been prepared on the going concern basis. For further details please refer to the Directors' Report on pages 5 to 7.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

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### 1. Accounting Policies (continued)

#### **Intangible assets - goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the separable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. The Directors have reviewed the appropriateness of this useful life, and consider that in view of the reputation of the Group and the continuing popularity of the McCarthy & Stone product, a useful economic life of 20 years from 2009 is justified. Impairment tests on the carrying value of goodwill are undertaken in accordance with FRS 102 Section 27 as follows:

- At the end of the first full year following acquisition.
- Annually, if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **Intangible assets - brand**

The brand on the Balance Sheet represents the fair value of the McCarthy & Stone brand name purchased as part of the business acquisition in 2009. This amount is written off on a straight line basis over its useful economic life. The Directors consider that in view of the continuing popularity of the McCarthy & Stone brand, it has a useful economic life of 20 years from 2009.

#### **Internally-generated intangible assets – software**

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent year.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed ten years. Development expenditure relating to software has been capitalised and is detailed in note 8.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

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### 1. Accounting Policies (continued)

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses. Costs include those costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the Balance Sheet date, of each asset over its expected useful life, on a straight line basis, as follows:

Fixtures, fittings and equipment      -      over 3 to 10 years.

#### **Impairment of non-current assets**

The carrying values of non-current assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. This impairment is based on the asset's recoverable amount, being the higher of value in use or fair value less costs of disposal.

#### **Investments in subsidiaries**

Investments in subsidiary undertakings are included in the Balance Sheet at cost less any provision for impairment.

#### **Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset, are classified as operating leases and rentals payable are charged in the Profit and Loss Account on a straight line basis over the lease term.

#### **Cash and cash equivalents**

Cash and short-term deposits in the Balance Sheet comprise cash at banks and in hand.

#### **Corporation tax**

Corporation tax comprises current tax and deferred tax. Current tax is based on taxable profits for the year.

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

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### 1. Accounting Policies (continued)

#### **Corporation tax (continued)**

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise tax is recognised in the Profit and Loss Account.

#### **Pensions and other post-retirement benefits**

The Company provides a defined contribution pension scheme arrangement. Contributions to the scheme are recognised in the Profit and Loss Account in the period in which they become payable. The amount charged to the Profit and Loss Account represents contributions payable to the individual policies held by employees with independent insurance companies.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

#### **Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

#### **Finance costs**

Finance costs of financial liabilities are recognised in the Profit & Loss Account over the term of such instruments at a constant rate on the carrying amount.

Finance costs which are directly attributable to the issue of loans are capitalised and amortised over the period of the debt.

#### **Share-based payments**

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. In valuing equity-settled transactions, no account is taken of any non-market based vesting conditions and no expense is recognised for awards that do not ultimately vest as a result of a failure to satisfy a non-market based vesting condition.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each reporting period end thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 August 2016

**2. 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.

*Share-based payments*

Assumptions are made in determining the fair value of employee services received in exchange for the grant of options under share-based payment awards at the date of grant. Assumptions are around lapse rates, share performance and the expected outcome of performance conditions.

**3. Operating (loss)/profit****a. Turnover**

Turnover is attributable to one continuing activity within the UK, being the provision of management services to companies within the McCarthy & Stone Group.

**b. (Loss)/profit before taxation**

	2016 £m	2015 £m
Depreciation of owned assets	0.9	0.9
Amortisation of goodwill	2.1	2.0
Amortisation of brand	2.1	2.1
Amortisation of software	0.4	0.2
Impairment of investments	0.1	-
Operating lease rentals - plant and machinery	0.2	0.2
Auditor's remuneration - audit services	0.2	0.2
non audit services	-	-
Exceptional items (see note 3.d.)	9.1	4.6

The analysis of auditor's remuneration is as follows:	2016 £m	2015 £m
Fees payable to the company's auditor for the audit of the Company's annual financial statements	0.2	0.2
<b>Total audit fees</b>	<b>0.2</b>	<b>0.2</b>

There have been no other fees payable to the Company's auditors relating to the Company (2015: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 3. Operating (loss)/profit (continued)

#### b. (Loss)/profit before taxation (continued)

Remuneration of the auditor is settled by McCarthy & Stone (Developments) Limited on behalf of all companies within the McCarthy & Stone plc Group. The total Group audit fee was £0.2m (2015: £0.2m). The amount in respect of McCarthy & Stone (Developments) Limited was £19,278 (2015: £11,456).

#### c. Other operating income

	2016 £m	2015 £m
Dividends received from other Group companies	-	5.3
Other income	0.6	1.9
	<b>0.6</b>	<b>7.2</b>

Other income predominantly relates to a receipt of £0.5m (2015: £1.5m) from Monarch Realisations 1 PLC (formerly McCarthy & Stone plc). In April 2009 McCarthy & Stone (Developments) Limited purchased the business and assets of McCarthy & Stone plc which included all cash and proceeds from the insolvency proceedings of Homelife SA and Quadrant SA which had yet to be settled. Monarch Realisations 1 PLC was the main shareholder of Homelife SA, which in turn was the main shareholder in Quadrant SA. Any surplus in the liquidation payments would be made to the shareholders of Monarch Realisations 1 PLC as part of the purchase agreement. The remainder of the other income in the prior year relates to VAT refunds relating to previously blocked input VAT now reclaimed.

#### d. Exceptional items

Within the year £9.1m of exceptional administrative expenses were incurred by the company. These costs relate to redundancy and restructuring costs (2015: £4.6m relating to redundancy, office relocation and restructuring costs following an operational review of the business).

### 4. Employees

The average monthly number of employees, including Directors, during the year ended 31 August 2016 was 111 (2015: 96). The total number of persons employed by the Company at 31 August 2016 was 108 (2015: 102).

	2016 £m	2015 £m
<i>The aggregate payroll cost, including Directors, was as follows:</i>		
Wages and salaries	6.8	6.8
Social security costs	0.8	0.9
Other pension costs	0.4	0.4
	<b>8.0</b>	<b>8.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 5. Directors' remuneration

	2016 £m	2015 £m
Wages and salaries	1.1	1.4
Social security costs	0.2	0.2
Share based payments	0.5	0.5
Company contributions to Group personal pension schemes	0.2	0.1
	<b>2.0</b>	<b>2.2</b>
<i>Highest paid Director:</i>		
Emoluments (excluding pension contributions)	0.9	0.7
Company contributions to Group personal pension schemes	-	-
	<b>0.9</b>	<b>0.7</b>
	2016	2015
Number of Directors in Group personal pension schemes	<b>2</b>	<b>2</b>

The emoluments disclosed above include nil (2015: nil) sums payable to third parties for Directors' services.

### 6. Net interest receivable and similar charges

	2016 £m	2015 £m
Shareholder loans and overdrafts	(0.1)	(0.3)
Interest receivable from other Group companies	0.2	1.1
<b>Net interest receivable</b>	<b>0.1</b>	<b>0.8</b>

Interest is receivable from Group companies at a rate of 2.2% at the year end date, this was amended from 3.5% during the year (2015: 8.0%). Interest is due on balances with McCarthy & Stone plc, McCarthy & Stone Rental Interests No.1 Limited and McCarthy & Stone Management Services Limited.

### 7. Tax on (loss)/ profit

#### a. Analysis of tax (credit)/charge for the year

	2016 £m	2015 £m
<i>Current tax:</i>		
UK corporation tax in year	0.4	-
Adjustments in respect of previous years	(0.4)	0.1
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(0.2)	0.2
Adjustments in respect of previous years	0.1	(0.1)
<b>Total tax (credit)/charge on (loss)/profit on ordinary activities</b>	<b>(0.1)</b>	<b>0.2</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 7. Tax on (loss)/profit (continued)

#### b. Factors affecting tax charge for the current year

	2016 £m	2015 £m
(Loss)/profit on ordinary activities before tax	(6.6)	1.1
Anticipated tax (credit)/ charge based on profit before tax at 20.00% (2015: 20.58%)	(1.3)	0.2
<i>Effects of:</i>		
Movement in short term timing differences	0.1	-
Expenses not deductible for tax purposes	1.4	1.1
Income not taxable		(1.1)
Adjustment to tax charge in respect of previous years	(0.3)	-
<b>Total tax (credit)/charge for the year</b>	<b>(0.1)</b>	<b>0.2</b>

The effective tax rate for the year was 20% following a reduction to the rate on 1 April 2015. Further reductions to 19% from 1 April 2017 and 17% from 1 April 2020 have been substantively enacted. Deferred tax assets and liabilities are measured at the rate at which they are expected to reverse.

#### c. Deferred tax movements

	Notes	2016 £m	2015 £m
Deferred tax			
At 1 September		0.1	0.2
Credit for the year		0.2	(0.2)
Adjustments in respect of previous years		(0.1)	0.1
<b>At 31 August (included in debtors)</b>	<b>12</b>	<b>0.2</b>	<b>0.1</b>

#### d. Deferred tax reflected in the financial statements

	Provided 2016 £m	Provided 2015 £m
Capital allowances lower than depreciation	-	(0.1)
Short term timing differences	0.2	0.2
<b>Deferred tax asset provided in the financial statements</b>	<b>0.2</b>	<b>0.1</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 8. Intangible fixed assets

	Goodwill £m	Brand £m	Software intangibles £m	Total £m
<i>Cost:</i>				
At 31 August 2015	42.0	41.4	3.9	87.3
Additions	-	-	0.4	0.4
<b>At 31 August 2016</b>	<b>42.0</b>	<b>41.4</b>	<b>4.3</b>	<b>87.7</b>
<i>Amortisation:</i>				
At 31 August 2015	(13.2)	(13.1)	(0.5)	(26.8)
Charge for the year	(2.1)	(2.1)	(0.4)	(4.6)
<b>At 31 August 2016</b>	<b>(15.3)</b>	<b>(15.2)</b>	<b>(0.9)</b>	<b>(31.4)</b>
<b>Net book value at 31 August 2016</b>	<b>26.7</b>	<b>26.2</b>	<b>3.4</b>	<b>56.3</b>
Net book value at 31 August 2015	28.8	28.3	3.4	60.5

The fair value of the brand has been calculated by discounting to present value the cash flows from intra-Group royalty receipts at an appropriate discount rate. The values attributed to the royalties are turnover-based and represent the monies that the Company would expect to achieve should the McCarthy & Stone brand be sold at arm's length to a third party.

Amortisation is classified within administrative expenses within the Profit and Loss Account.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 9. Tangible fixed assets

	Fixtures, fittings and equipment £m	Total £m
<i>Cost:</i>		
At 31 August 2015	4.3	4.3
Additions	0.9	0.9
Disposals	(0.2)	(0.2)
<b>At 31 August 2016</b>	<b>5.0</b>	<b>5.0</b>
<i>Depreciation:</i>		
At 31 August 2015	(2.4)	(2.4)
Charged during the year	(0.9)	(0.9)
Eliminated on disposal	0.1	0.1
<b>At 31 August 2016</b>	<b>(3.2)</b>	<b>(3.2)</b>
<b>Net book value at 31 August 2016</b>	<b>1.8</b>	<b>1.8</b>
Net book value at 31 August 2015	1.9	1.9

### 10. Investments

	Investments £m
<b>Shares in unlisted subsidiary undertakings</b>	
<i>Cost:</i>	
At 31 August 2015	331.7
Impairment	(0.1)
<b>At 31 August 2016</b>	<b>331.6</b>
<b>Net book value at 31 August 2016</b>	<b>331.6</b>
Net book value at 31 August 2015	331.7



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 10. Investments (continued)

The Company's subsidiary undertakings for the period are listed below, including the name, country of incorporation, principal activity and proportion of ownership interest. The registered office for all entities is the address included on page 2:

Name	Country of incorporation	Principal activity	Class of shares	2016 %	2015 %
McCarthy & Stone Retirement Lifestyles Limited*	England	Developer	Ordinary	100	100
McCarthy & Stone (Equity Interests) Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone (Home Equity Interests) Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone Investment Properties No. 23 Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone (Total Care Living) Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone (Alnwick) Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone (Extra Care Living) Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone Total Care Management Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone Rental Interests No. 1 Limited*	England	Property Investment	Ordinary	100	100
McCarthy & Stone Management Services Limited	England	Development management	Ordinary	100	100
McCarthy & Stone Lifestyle Services Limited*	England	Holding Company	Ordinary	100	100
McCarthy & Stone Financial Services Limited	England	Financial Services	Ordinary	100	100
Keyworker Properties Limited	England	Property Investment	Ordinary	100	100
McCarthy & Stone Estates Limited	England	Property Resale	Ordinary	100	100
YourLife Management Services Limited	England	Development Management	Ordinary	50	50
McCarthy & Stone Independent Living Limited	England	Dormant	Ordinary	100	100
McCarthy & Stone Properties Limited*	England	Dormant	Ordinary	100	100
The Planning Bureau Limited*	England	Dormant	Ordinary	100	100
Ortus Homes Limited*	England	Dormant	Ordinary	100	100

\* Held directly by McCarthy & Stone (Developments) Limited

The following companies have been dissolved in the year:

Behappy (McCarthy & Stone) Limited	England	Dormant	Ordinary	-	100
City Living Limited	England	Dormant	Ordinary	-	100
McCarthy & Stone (FRI Interests No.1) Limited	England	Dormant	Ordinary	-	100
McCarthy & Stone Assisted Living Limited	England	Dormant	Ordinary	-	100
McCarthy & Stone Care Services Limited	England	Dormant	Ordinary	-	100
McCarthy & Stone Scottish Properties No. 1 Limited	England	Dormant	Ordinary	-	100
McCarthy & Stone Tailored Care Living Limited	England	Dormant	Ordinary	-	100
Ortus Buildings Limited	England	Dormant	Ordinary	-	100
Ortus Construction Limited	England	Dormant	Ordinary	-	100
Ortus Developments Limited	England	Dormant	Ordinary	-	100
Ortus Housing Limited	England	Dormant	Ordinary	-	100
Ortus Properties Limited	England	Dormant	Ordinary	-	100

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 11. Debtors: amounts due within one year

	2016 £m	2015 £m
Other debtors and prepayments	1.4	1.6
Amounts owed by subsidiary undertakings	41.6	39.7
	<b>43.0</b>	<b>41.3</b>

Balances owed by subsidiary undertakings are repayable on demand.

### 12. Debtors: amounts due after one year

	Notes	2016 £m	2015 £m
Deferred tax	7	0.2	0.1
		<b>0.2</b>	<b>0.1</b>

### 13. Creditors: amounts due within one year

	2016 £m	Restated* 2015 £m
Trade creditors	0.7	1.4
Amount owed to subsidiary undertakings	12.8	-
Corporation tax	8.4	8.5
Other taxes and social security costs	1.8	1.6
Other creditors	1.9	9.7
	<b>25.6</b>	<b>21.2</b>

\* Refer to note 22 for explanation regarding FRS 102 transitional adjustments.

Balances owed to subsidiary undertakings are repayable on demand.

### 14. Operating lease commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land & buildings 2016 £m	Other 2016 £m	Land & buildings 2015 £m	Other 2015 £m
Payments due:				
In less than one year	-	0.2	-	0.2
In two to five years	-	0.3	-	0.3
	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>0.5</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 15. Share capital and reserves

	Authorised No. '000	Authorised £'000	Allotted, called up & fully paid No. '000	Allotted, called up & fully paid £'000
<b>Equity share capital</b>				
'A' ordinary shares of 20p each	80,000	16,000	70,550	14,110
Ordinary shares of 20p each	7,839	1,568	7,839	1,568
<b>Total share capital as at 31 August 2015</b>	<b>87,839</b>	<b>17,568</b>	<b>78,389</b>	<b>15,678</b>
<b>Equity share capital</b>				
Ordinary shares of 20p each	87,839	17,568	78,389	15,678
<b>Total share capital as at 31 August 2016</b>	<b>87,839</b>	<b>17,568</b>	<b>78,389</b>	<b>15,678</b>

Within the year the A ordinary share class were converted into ordinary shares. The Company now only has one class of ordinary shares. All shares are now entitled to one vote, the shares carry the right to participate in dividends and carry the right to participate in a capital distribution on winding up. The shares are non-redeemable.

During the year McCarthy & Stone (Developments) Limited undertook a capital reduction, resulting in a reduction of the share premium and an increase in the Profit & Loss Account.

The Company's other reserves are as follows:

- The share premium reserve contains the premium arising on issue of equity shares, net of any issue expenses.
- The profit and loss account represents cumulative profits or losses net of dividends paid and other adjustments.

### 16. Contingent liabilities

The Company is a guarantor of the revolving credit facility, including ancillary facilities. At 31 August 2016, the amount outstanding under those facilities was £66.3m (2015: £101.3m).

### 17. Pensions

A defined contribution money purchase pension arrangement is operated for employees in the UK to which the Company makes a contribution under specified circumstances. The Company's pension cost for the year was £0.4m (2015: £0.4m). The unpaid contributions outstanding at the year end are £0.2m (2015: £0.2m).

### 18. Related parties

All related party transactions within the year have been entered into between members of the same Group. All subsidiary entities are wholly owned by a member of the Group, with the exception of Yourlife Management Services Limited (YLMS), a joint venture.

No transactions have been entered into with YLMS during the year, there are no balances payable or receivable with YLMS as at 31 August 2016 (2015: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

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### 19. Share based payments

Directors and selected employees have entered into a Management Incentive Plan. The Management Incentive Plan entitles the participants to a cash bonus and shares if certain future conditions are met. The split of cash and equity will be based on a hurdle mechanism which accrues from a predetermined starting equity value compounded at a set rate of interest per annum. The cash payment will be a percentage of the final valuation above the starting equity value but below the hurdle. The shares will entitle the participants to a percentage of the total value created above the hurdle.

#### *Equity-Settled Share Based Payment*

The cost of equity-settled transactions with the participants is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the expected vesting period. In 2014, 19,150 shares were issued to participants and the fair value of the shares at the grant date was measured at £1.3m based on management's most recent valuation. The Company recognised costs in the Profit and Loss Account of £0.1m in the year ended 31 August 2016 (2015: £0.9m) in relation to the equity-settled share based payment.

#### *Cash-Settled Share Based Payment*

The fair value in relation to the cash payment of the scheme as at 31 August 2016 was £nil following full settlement (2015: £0.9m). Due to the crystallisation within the year there is no fair value in relation to the cash payment of the scheme as at 31 August 2016 (2015: £0.9m). The Company recognised a total cost of £0.3m (2015: £0.6m) in relation to the cash-settled share-based payment during the year ended 31 August 2016.

### 20. Ultimate parent undertaking and controlling party

McCarthy & Stone plc, which is registered in England and Wales, is considered to be the Company's immediate parent undertaking and ultimate controlling party.

The financial statements of McCarthy & Stone plc can be obtained from its registered office:

4<sup>th</sup> Floor, 100 Holdenhurst Road  
Bournemouth  
Dorset  
BH8 8AQ

The smallest and largest Group in which this Company's financial statements are consolidated is McCarthy & Stone plc.

### 21. Post balance sheet events

There are no events after the Balance Sheet date which are required to be disclosed.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2016

### 22. Explanation of transition to FRS 102

For all periods up to and including the year ended 31 August 2015, the Company prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). As stated in note 1, these financial statements for the year ended 31 August 2016 are the first the Company is required to prepare in accordance with FRS 102.

Accordingly, the Company has prepared financial statements which comply with FRS 102 applicable for periods beginning on or after 1 September 2014. The significant accounting policies meeting those requirements are described in note 1 and have been consistently applied throughout the period.

As a consequence of adopting FRS 102, certain accounting policies have been changed to comply with that standard:

- **Intangible assets - other:** Software development costs under UK GAAP were capitalised and classified within tangible fixed assets. Under FRS 102 the development costs continue to meet the criteria for capitalisation, however this is now under the classification of intangible assets. All software assets have been reclassified from tangible assets to intangible assets in line with FRS 102 section 18. Total net book value of the assets transferred to intangibles for the year ending 31 August 2015 is £3.4m.
- **Amounts owed to/by group undertakings:** Under UK GAAP these balances were held at the net proceeds value received. Under FRS 102 amounts owed to group undertakings will initially be recognised at the transaction value and subsequently at amortised cost. Due to the balances not having a set repayment date, and therefore being current balances, the amortised cost is deemed to equal the value recorded at the transaction date, and therefore there will be no adjustment required to comply with FRS 102.
- **Holiday pay accrual:** Under FRS 102 companies are required to accrue for holiday pay owed to employees at the period end. The additional accrual has been booked across all periods.

Reconciliation of equity:

	At 1 September 2014 £m	At 31 August 2015 £m
Shareholders' funds previously stated	413.0	414.8
<b>Adjustments to equity on transition to FRS 102</b>		
Holiday pay accrual	(0.1)	(0.1)
Equity reported under FRS 102	412.9	414.7