

McCarthy & Stone Limited

ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS

**Year Ended
31 August 2015**

Company registration number: 06622199



McCarthy & Stone Limited

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McCarthy & Stone Limited

Directors and advisors

Directors

J White	Non-Executive Chairman
C Fenton	Chief Executive Officer
N W Maddock	Chief Financial Officer
F E Nelson	Independent Non-Executive Director and Senior Independent Director
M D Parsons	Independent Non-Executive Director
G Nanda	Independent Non-Executive Director (appointed 1 April 2015)
N Albert	Nominee Director*

*Mr Albert is a Nominee Director representing the interest of the Company's largest shareholder, Remich Holding I S.à.r.l.

Company Secretary

N W Maddock	Resigned 20 July 2015
P Hole	Appointed 20 July 2015

Registered office

4th Floor, 100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

Chartered Accountants and Statutory Auditor

Deloitte LLP
Mountbatten House
1 Grosvenor Square
Southampton
Hampshire
SO15 2BZ

Bankers

HSBC Bank Plc
70 Pall Mall
London
SW17 5EZ

Solicitors

Allen & Overy LLP
One Bishops Square
London
E1 6AD

Corporate Communications

Brunswick Group LLP
16 Lincoln's Inn Fields
London
WC2A 3ED

McCarthy & Stone Limited

Strategic Report

Business overview

McCarthy & Stone is the UK's leading retirement housebuilder. The Group buys land, secures detailed planning consent and then builds, sells and manages a range of high-quality developments that are specifically designed to meet the lifestyle needs of retirees. The Group is seeking to capitalise on the pressing need for specialised housing for older people by developing its high-quality land bank.

The Group pioneered the concept of owner-occupied retirement housing in the UK. Since building its first retirement development in 1977, it has sold approximately 50,000 units across more than 1,000 developments and is the largest and most well-known Company in the UK owner-occupied retirement housing market with an approximate 70 per cent market share¹, with a proven track record of designing high-quality and award-winning apartments.

McCarthy & Stone operates in a distinct sector of the UK housebuilding market by offering owner-occupied independent living, with apartments specifically designed around the needs of retirees. The Group offers three distinct products: Retirement Living, Assisted Living and Ortus Homes. McCarthy & Stone developments are typically located on central brownfield sites with good access to local amenities and feature various facilities, shared areas and management services to help those in later life.

The Group's Retirement Living developments provide high-quality owner-occupied apartments exclusively for those aged 60 and over, offering residents independence with peace of mind. The developments have been designed to address the specific needs and aspirations of its customers, providing for independent living in owner-occupied apartments while also offering security and companionship.

Assisted Living developments are designed exclusively for customers aged 70 and over, offering a retirement apartment with management services, domestic assistance, personal care and additional support. Assisted Living is an attractive alternative for people seeking additional support but who wish to retain independent home ownership and do not want to move into residential care. The Directors believe that the Group is currently the only national provider in the UK market offering an Assisted Living product with these characteristics.

Ortus Homes is the Group's new product for customers aged 55 and over looking to downsize for their leisure years. The Group launched Ortus Homes in October 2014 to expand its product range and to capture a wider share of the retiree market by appealing to more active retirees. Ortus Homes are designed for people looking to downsize into high-quality, well-located apartments.

The Group provides management services within its developments to support its residents during the purchase process and throughout ownership. In Assisted Living developments, the Group also provides domestic assistance, personal care and additional support. These services and expertise help the Group to maintain an on-going relationship with its residents, enabling it to provide high standards of support at all times, and contribute towards the Group's continued focus on meeting customer expectations. In 2015, McCarthy & Stone became the only UK housebuilder, of any size or type, to achieve the full 5 Star rating in the Home Builders Federation survey for customer satisfaction for an industry-record tenth consecutive year.

¹ Based on 1,919 registrations of properties specifically designed for the elderly with the NHBC during calendar year 2014, of which 1,355 were registered by McCarthy & Stone

McCarthy & Stone Limited

Strategic Report

Performance

The Group made solid financial progress during the financial year ended 31 August 2015 (FY15), which saw an increased number of legal completions, improved pricing, revenue, operating margins and profit before tax.

The Group delivered legal completion of 1,923 units, an increase of 15% over the prior year (FY14: 1,677), at a net average selling price of £239k (FY14: £214k). Visitor levels also remained high throughout the year supported by the continued recovery of the housebuilding market and the broader improvement in the UK's economic outlook. A key driver for the higher net average selling prices was improved management control over the level of discounts and incentives given to customers, which averaged at 6% of list price over the year (FY14: 7%).

During FY15 the Group's revenue increased from £387.8 million to £485.7 million. The level of overheads in the business continued to be well controlled.

The Group benefited from the new revolving credit facility put in place in December FY14 which significantly lowered the Group's ongoing interest costs and helped the Group to generate robust year-on-year growth in underlying profit before tax to £88.4 million (FY14: £63.2 million).

The Group continues to invest significantly in its land bank to support future growth and capture a wider share of the growing retirement market. The Group acquired 90 new sites during the year (FY14: 74 sites) at locations across the UK mainland, equating to 3,522 new plots (FY14: c.2,500). At the year end, the land bank under control stood at c. 10,087 plots, representing over 5 years' supply² of current sales. This includes 5,953 units across 212 sites with detailed planning consents already in place, representing approximately 3.1 years' supply of targeted sales.

This investment is supported by a strong Group balance sheet and robust financial position, with £542.5 million of net assets at 31 August 2015 (FY14: £477.2 million) and £33.1 million of net debt excluding land-related promissory notes of £11.3m (FY14: £48.9 million), giving gearing of 6% (FY14: 10%).

During FY15, the Group opened 44 new developments (FY14: 30), providing a total of 1,796 new apartments for sale (FY14: 1,236). Land acquisition activity moved sharply ahead in the year with 90 sites acquired (FY14: 74) and 56 planning consents delivered (FY14: 60) with 77 planning applications having been submitted.

As in FY14, no dividend has been proposed or paid in the year. Cash generated through sale of apartments has been retained within the business to support future investment in land and build, drive growth and reduce net debt.

Outlook

The Group has built a strong pipeline of land over recent years, with the land bank under control standing at 10,087 plots at the year end providing an attractive platform for profitable growth. The Group strategy is to create an efficient and scalable business capable of building and selling more than 3,000 units per annum over the medium term. In support of this strategy, the Group has announced increasing investment in its pipeline of high-quality land, developing its product to meet the changing needs of its customers and driving operational efficiencies. This enables the Group to target top quartile sector margins and returns on capital over the medium term³.

The Group started building work on 70 sites during the year (FY14: 43) and as a result is planning to release at least 60 new developments for sale during FY16 (FY15: 51). Coupled with 1,169 units of stock carried into FY16, this should provide a platform for further strong growth in profit in FY16.

2 Based on 1,923 legal completions in FY15

3 Top quartile amongst generalist housebuilder peer group comprising Barratt, Bellway, Bovis, Crest Nicholson, Persimmon, Redrow and Taylor Wimpey.

McCarthy & Stone Limited

Strategic Report

Principal risks and uncertainties

Economic Conditions

Risk: Housebuilding is cyclical and reliant on the broader economy. A deterioration in the economic outlook could have a significant impact on the Group's financial performance.

Mitigating action: The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios. Decisions to allocate new capital to land and build are managed centrally through the Group Investment Committee. The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular locality or product type.

Reputation and customer satisfaction

Risk: The Group constructs and sells a quality product to an ageing and sometimes frail customer base and provides ongoing management and personal care services. Any issues with the products or services the Group provide could impact on customer satisfaction to the detriment of the Group's business model.

Mitigating action: The Group enforces strict procedures over the hand-over of developments for occupation and the hand-over of specific apartments to individual customers. Ongoing management and personal care services are provided within a robust framework of controls which is closely monitored. The business has dedicated customer services capability and tracks customer satisfaction through National House Building Council surveys and other routes.

Illiquidity of land and apartments

Risk: Land and apartments can be relatively illiquid assets affecting the Group's ability to value or liquidate part of its land bank in a timely fashion and at satisfactory prices in response to changes in economic, property market or other conditions.

Mitigating action: Whenever possible, the Group includes commercial viability clauses in its land contracts allowing the Group to exit from exchanged contracts should economic conditions require. The Group also closely monitors its forecasted cash position to ensure it is funded in the most cost effective manner.

Owned land may decline in value

Risk: The net realisable value of land owned by the Group may decline due to changes in the property market or other conditions, or the Group being unable to secure detailed planning consent on land purchased unconditionally.

Mitigating action: Whenever possible, contracts to purchase land are conditional on the Group obtaining detailed planning consent. The Group performs impairment reviews in line with IFRS requirements.

Build programmes and build costs

Risk: The Group's financial performance is dependent on its ability to deliver build programmes on time and on budget. Build programme or cost overruns could result in slower sales or reduced margins.

Mitigating action: Build progress and costs are reviewed regularly by dedicated regional commercial teams, as well as being reported to regional and group management. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply. The establishment in FY14 of a central procurement capability and the introduction of a new IT system for procurement provides a basis to drive out procurement efficiencies.

Employees

Risk: The Group's employees are central to the achievement of the Group's objectives. Failure to recruit and retain sufficient staff resource of the right quality could constrain growth plans.

Mitigating action: The Group has put in place attractive reward mechanisms and provides extensive opportunities for personal development and training, both of which are regularly reviewed against peer housebuilders and other employers in local markets. Resource requirements are assessed against annual budgets and recruitment processes are designed to ensure the availability of the right resource to deliver against the Group's plans.

Health & Safety

Risk: Construction sites are inherently risky, which could expose employees/contractors to the risk of serious injury/fatality. Residents in the developments the Group manages are ageing and sometimes frail, with the risk that they can be more susceptible to injury.

Mitigating action: The Group strives for excellence in health and safety and considers it to be the top priority. The Head of Health & Safety reports directly to the Executive Leadership Team, identifying areas of concern, near misses and accidents, and supports this with a rigorous, independent site inspection process which routinely assesses and reports on standards.

McCarthy & Stone Limited

Strategic Report

Key performance indicators

Revenue and profit measures

Revenue from sales of new apartments is the primary driver of the Group's profitability. The fundamentals of the retirement housing market, the Group's unique business model and its high-quality land bank provide the platform for sustained revenue growth over the medium term.

All dates are for years ended 31 August.

Units sold		Net average selling price		Revenue		Underlying operating profit	
FY15	1,923	FY15	£239k	FY15	£486m	FY15	£95m
FY14	1,677	FY14	£214k	FY14	£388m	FY14	£75m
FY13	1,527	FY13	£184k	FY13	£311m	FY13	£45m

Underlying operating profit is calculated by adding amortisation of brand and exceptional expenses to operating profit for the year. Further information is disclosed in note 6.

The Group has continued to grow volumes in FY15 at higher prices, supported by an improved site mix, the improved market backdrop and management's focus on reducing discounts and other sales incentives.

Workflow measures

The Group's medium term growth is dependent on its ability to target and invest in new profitable land and sell its current stock to generate cash for reinvestment.

Land bank under control		Sites acquired		Finished stock (units)	
FY15	10,087	FY15	90	FY15	1,169
FY14	8,701	FY14	74	FY14	1,370
FY13	8,368	FY13	48	FY13	1,783

An increase in the number of sites acquired in FY15 enabled further growth in the land bank. The strong sales performance helped reduce the closing stock of finished units and provide cash for reinvestment.

Return measures

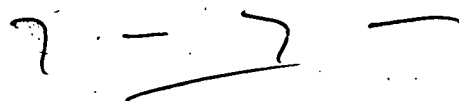
A combination of revenue growth, margin improvement and capital discipline will deliver increased returns on capital.

Tangible gross asset value		ROCE		Gearing	
FY15	£502m	FY15	20%	FY15	6%
FY14	£451m	FY14	17%	FY14	10%
FY13	£421m	FY13	12%	FY13	15%

The Group saw further progress on returns on capital in the year and higher margins as a result of acceleration of the capital cycle, notably as a result of faster sales.

Approval

This Strategic Report was approved by the Board on 2 October 2015 and signed on its behalf by:



N W Maddock
Director
McCarthy & Stone Limited
4th Floor, 100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ
2 October 2015

McCarthy & Stone Limited

Directors' Report

The Directors of McCarthy & Stone Limited (registered number 06622199) ('the Company') present their Report for the year ended 31 August 2015.

Directors and Directors' interests

The Directors of the Company during the year were:

Name	Position	Date of appointment
<i>Current directors:</i>		
John White	Non-Executive Chairman	23 September 2013
Clive Fenton	Chief Executive Officer	17 February 2014
Nick Maddock	Chief Financial Officer	19 September 2011
Frank Nelson	Independent Non-Executive Director and Senior Independent Director	18 November 2013
Mike Parsons	Independent Non-Executive Director	4 November 2013
Geeta Nanda	Independent Non-Executive Director	1 April 2015
Nils Albert	Nominee Director	18 September 2013

No Director has any interest in the shares of the Company apart from Mr Albert who is a Director of TPG Capital (which, together with Goldman Sachs owns Remich Holding I S.à.r.l., the Company's largest investor). Mr Albert is the Nominated Shareholder Representative of Remich Holding I S.à.r.l.

There have been no changes in the Directors' interests in the share capital of the Company since 31 August 2015.

Directors' conflicts of interest

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts with the interests of the Company. The Company's Articles of Association contains 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.

Dividends

No dividends have been paid or proposed during the year (FY14: nil).

McCarthy & Stone Limited

Directors' Report

Political donations

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

Employees

The Group recognises that attracting and retaining employees is only possible if the right working environment is created and attractive reward mechanisms and opportunities for personal development and training are provided. The Group has a wide range of policies relating to employees to support this.

The Group's employees are central to the delivery of the Group's objectives. At 31 August 2015 the Group employed 1,158 people (2014: 900). A further 517 persons (2014: 391) were employed by a subsidiary company of the Group at 31 August 2015, but their costs were borne outside of the Group.

Disability Policy

The Group gives full consideration to applications for employment from persons with disabilities where the requirements of the job can be adequately fulfilled by a person with a disability. Should any employee become disabled, it is the Group's policy, wherever possible, to continue the employment of that person and to provide equal opportunities for the career development of employees with disabilities.

Diversity Policy

The Group is committed to promoting policies to ensure that those who are employed by the Group's businesses are treated equally, regardless of status, sex, age, colour, race or ethnic origin. At the end of the financial year, 61% of all employees were female and 49% were over the age of 50.

Training and Development

The Group's ability to achieve its commercial objectives and to meet the needs of its customers in a profitable, competitive and safe manner depends on the contribution of employees throughout the Group. Employees are encouraged to develop their contribution to the business wherever they work and the Group has an ongoing commitment to their training and development.

Performance against objectives is reviewed bi-annually and the process includes a personal development plan. Programmes focused on quality and customer service provide an opportunity for all employees to be involved in making improvements.

Employee Communications

In addition, the Group communicates with its employees about its objectives, progress and activities through a variety of channels including regular quarterly updates and the Group's intranet. The Group has established a set of corporate values and conducts regular employee surveys. Group-wide roadshows were conducted during the year to update all employees on the business and to allow employees the opportunity to provide feedback to management.

Health and Safety

Health and safety is a top priority for the Group and it has implemented a strong health and safety monitoring programme. The Head of Health and Safety reports directly to the Executive Leadership Team, identifying areas of concern and reporting on near misses and accidents. The Head of Health and Safety is supported by an independent site inspection programme which routinely assesses and reports on compliance with health and safety standards. The Group employs the Building Safety Group to undertake independent audits of its construction sites throughout the year and they visit each site every three weeks during the build process.

Environmental sustainability

The Group works hard to build environmentally friendly developments, with each scheme having high standards of insulation and energy efficiency. Sites are usually on previously developed land, helping to preserve green fields and undeveloped areas. Sites are selected that are usually close to towns, local shops, facilities and transport links, which means that residents have a reduced reliance on their own cars and a smaller 'carbon footprint'. In addition to this, every effort is made to keep on-site waste to a minimum and to segregate waste for recycling.

Positive relationships with communities during construction are as important as building excellent schemes. The Group manages every aspect of the construction process and looks to ensure that their activities have regard to site neighbours and the general public.

The Group is committed to working with suppliers who can provide good quality products and materials from sustainable and local sources in a responsible and ethical manner. The Group works with their supply chain to develop a waste minimisation programme that encourages the reduction, reuse and recycling of viable products from all waste streams. The supply chain is required to demonstrate an acceptable standard of environmental performance and this is assessed using a balanced scorecard.

The Group has an open and competitive tendering process to enable the development of commercial relationships with suppliers who meet the Group's values in quality, safety and sustainability. The Group encourages the use of framework agreements to create open, transparent and fair trading terms and ensure that payment terms and other conditions are fulfilled.

McCarthy & Stone Limited

Directors' Report

Capital structure and going concern

The Directors have acknowledged the guidance on going concern and financial reporting published by the Financial Reporting Council in October 2009.

At 31 August 2015 the Group had cash at bank and in hand of £56.9 million (2014: £111.1 million) and a five year £200.0 million revolving credit facility which was put in place in December 2014, of which £90.0m was drawn down.

As explained above, the Group maintains adequate committed banking facilities. As stated in note 24 to the financial statements, at 31 August 2015 the Group had £110.0m of undrawn committed borrowing facilities. The Group currently has an ancillary facility of £11.3 million relating to land-related promissory notes, meaning £98.7 million of the revolving credit facility was undrawn and available to the Group as at 31 August 2015.

After making appropriate enquiries, the Directors consider they have a reasonable expectation for stating that the Group and the Company have adequate resources to continue trading for the foreseeable future. These enquiries consisted of a detailed review of the Groups' financial forecast for the period to 31 August 2016, and a five year business plan together with risk-based future scenario analysis. The forecasts take into account current market trends with reasonable judgements and estimates applied to arrive at future cash flow estimates. As part of the review, the Group analysed its forecast covenant compliance over this period linked to its banking facility, arriving at an assessment of the headroom evident between the forecast covenant test out-turn and the out-turn necessary to achieve covenant compliance. The review confirmed that there was sufficient headroom within both financial covenants and facilities.

Accordingly the Directors continue to adopt the going concern basis in preparing the financial statements.

Risk management

Effective management of risk is integral to the successful implementation of McCarthy & Stone's corporate strategy. Risk is managed through a five-step risk management process, led from the Board. The Group's risk management framework requires the maintenance and regular update of Group, regional and functional risk registers to identify the risks to the Group's business model and strategic plan, with the major risks reviewed by the Board in the context of the Group's appetite for risk.

These risk registers are supported by frameworks of key operational and financial controls that enable risks to be treated, tolerated or transferred to third parties. The risk registers are complemented by the monitoring of a set of key risk indicators, which provide early warning of potential issues and enable management to react accordingly.

Assurance is provided over the effective design and operation of the risk framework through a formal programme of assurance activity. This is structured around three lines of defence: management assurance, through operational controls and reporting; functional support in the form of formal policies and procedures; and a programme of assurance activity, including internal and external audit.

Oversight is provided by the Board, with individual members of the Board and the Executive Leadership Team sponsoring each of the key risks.

The maintenance of formal risk registers, the identification of key control frameworks, the monitoring of key risk indicators and the pursuit of a broad assurance programme provide all levels of management with a clear framework within which to operate.

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including interest rate risk, credit risk, liquidity risk and price risk. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Group does not use derivative financial instruments for speculative purposes.

Interest rate risk

In May 2015, the Group entered into a 3 year interest rate cap arrangement to hedge a proportion of its risk under the five year revolving credit facility into which the Group entered in December 2014. Management is comfortable it could absorb any financial risk of reasonably foreseeable changes in interest rates outside of the interest rate cap arrangement.

Credit risk

The Group's financial assets are bank balances and cash, long-term receivables and investment properties. The Group has adopted a Treasury Management Policy to ensure that credit risk is appropriately diversified.

Liquidity risk

The Group aims to mitigate liquidity risk by forecasting requirements and managing cash generated by its operations, and ensuring that the Group is able to service debt as it falls due. Details of the debt repayment profile are provided in note 24 of the financial statements.

The Group aims to maintain a balance between continuity of funding and flexibility through the use of a five year revolving credit facility and other ancillary facilities. All capital expenditure over an agreed threshold requires Directors' approval before it is committed.

Price risk

The Group is exposed to commodity price risk. The Group manages commodity price risk through supplier negotiations. The Group procurement function meets with the Group's national agreement suppliers at least once a year. Such agreements tend to be of a high volume and are considered to be of strategic importance to the business.

McCarthy & Stone Limited

Directors' Report

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 pages 5 to 8. The Strategic Report includes the financial review and a description of the principal risks and uncertainties facing the Group.

Financial statements

The Directors have elected to prepare these financial statements under International Financial Reporting Standards as endorsed for use by the EU ('IFRS'). Details of the financial impact of conversion to IFRS are shown in note 36 to the financial statements. In order to provide a greater level of comparability with the Group's historic results under UK GAAP, the Directors have elected to present two years of comparative information under IFRS, making the conversion date 1 September 2012.

Aligned to the aspirations of the Group, the Directors have voluntarily elected to adopt accounting standards on segmental information and earnings per share which are only mandatory for listed companies.

Statement of disclosure of information to auditors

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

- as far as he/she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he/she has taken all the steps that he/she ought to have taken 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.

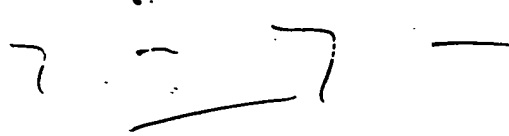
This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Events after the balance sheet date

There were no events after the reporting period that required adjustment or disclosure in the financial statements.

The Directors' Report was approved by the Board on 2 October 2015 and signed on its behalf by:



N W Maddock
Director
McCarthy & Stone Limited
4th Floor, 100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ
2 October 2015

McCarthy & Stone Limited

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 year. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies ;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

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

McCarthy & Stone Limited

Independent Auditors' Report to the Members of McCarthy & Stone Limited

Independent Auditors' Report to the Members of McCarthy & Stone Limited

We have audited the financial statements of McCarthy & Stone Limited for the year ended 31 August 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, the Parent Company Statement of Financial Position, the related Consolidated notes 1 to 36 and the Parent Company notes 1 to 7. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and 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 Group's and the Parent 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 Group's and of the Parent Company's affairs as at 31 August 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

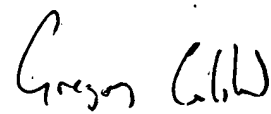
Opinion on other matter prescribed by the Companies Act 2006

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


Gregory Culshaw ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Southampton, United Kingdom
2 October 2015

McCarthy & Stone Limited

Consolidated statement of comprehensive income

		Year ended 31 August		
		2015 £m	2014 £m	2013 £m
	Note			
Revenue	4	485.7	387.8	310.8
Cost of sales		(362.6)	(283.8)	(244.2)
Gross profit		123.1	104.0	66.6
Other operating income	8	9.1	7.9	5.5
Administrative expenses		(39.9)	(38.0)	(37.9)
Other operating expenses		(4.5)	(3.4)	(2.3)
Operating profit		87.8	70.5	31.9
Amortisation of brand		(2.1)	(2.1)	(2.1)
Exceptional administrative expenses	6	(5.4)	(2.5)	(11.2)
Underlying operating profit		95.3	75.1	45.2
Share of results of joint ventures accounted for using the equity method	17	-	-	-
Finance income	9	1.2	1.0	1.3
Exceptional finance expenses		-	(1.5)	-
Finance expense, other	10	(8.1)	(12.9)	(25.6)
Profit before tax		80.9	57.1	7.6
Income tax expense	11	(16.6)	(12.7)	(3.2)
Profit for the year from continuing operations and total comprehensive income	6	64.3	44.4	4.4
Profit attributable to:				
Owners of the Company		64.1	44.3	4.4
Non-controlling interest		0.2	0.1	-
		64.3	44.4	4.4
Earnings per share				
Basic (p per share)	12	3.4	2.3	3.5
Diluted (p per share)	12	3.4	2.3	3.5

Notes 1 to 36 form part of the financial statements shown above. All trading derives from continuing operations.

		Year ended 31 August		
		2015 £m	2014 £m	2013 £m
Underlying operating profit	6	95.3	75.1	45.2
Underlying profit before tax	6	88.4	63.2	20.9

McCarthy & Stone Limited

Consolidated statement of financial position

	Note	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Assets				
Non-current assets				
Goodwill	13	41.7	41.7	41.7
Intangible assets	14	31.7	33.2	33.1
Property, plant and equipment	15	2.6	2.9	2.7
Investments in joint ventures	17	0.4	0.3	0.5
Investment properties		0.5	0.6	0.8
Trade and other receivables	19	31.5	28.0	26.3
Derivative financial instruments	21	0.3	-	-
Deferred tax asset	20	-	0.6	1.5
Total non-current assets		108.7	107.3	106.6
Current assets				
Inventories	18	585.8	495.8	449.8
Trade and other receivables	19	10.9	8.9	9.4
Cash and cash equivalents	29	56.9	111.1	96.9
Total current assets		653.6	615.8	556.1
Total assets		762.3	723.1	662.7
Equity and liabilities				
Capital and reserves				
Share capital	26	381.1	381.1	381.1
Share premium	27	56.4	56.4	56.4
Retained earnings		104.3	39.3	(5.1)
Equity attributable to owners of the Company		541.8	476.8	432.4
Non controlling interest		0.7	0.4	-
Total equity		542.5	477.2	432.4
Current liabilities				
Trade and other payables	22	83.8	62.0	49.1
Land payables	23	36.5	23.9	23.1
Total current liabilities		120.3	85.9	72.2
Non-current liabilities				
Long-term borrowings	24	99.2	160.0	158.1
Deferred tax liability	20	0.3	-	-
Total liabilities		219.8	245.9	230.3
Total equity and liabilities		762.3	723.1	662.7

Notes 1 to 36 form part of the financial statements shown above.

These financial statements were approved by the Board on 2 October 2015 and signed on its behalf by:

N W Maddock

Director

McCarthy & Stone Limited

Consolidated statement of changes in equity

	Share capital	Share premium	Retained earnings	Total	Non- controlling interest	Total Equity
	£m	£m	£m	£m	£m	£m
Balance at 1 September 2012	14.1	56.4	(10.0)	60.5	-	60.5
Profit & total comprehensive income for the year	-	-	4.4	4.4	-	4.4
Transactions with owners of the Company:						
Issue of ordinary shares	367.0	-	-	367.0	-	367.0
Capital contributions	-	-	0.5	0.5	-	0.5
Balance at 31 August 2013	381.1	56.4	(5.1)	432.4	-	432.4
Profit & total comprehensive income for the year	-	-	44.3	44.3	0.1	44.4
Transactions with owners of the Company:						
Share based payments	-	-	0.1	0.1	-	0.1
Movement in non-controlling interest	-	-	-	-	0.3	0.3
Balance at 31 August 2014	381.1	56.4	39.3	476.8	0.4	477.2
Profit & total comprehensive income for the year	-	-	64.1	64.1	0.2	64.3
Transactions with owners of the Company:						
Share based payments	-	-	0.9	0.9	-	0.9
Movement in non-controlling interest	-	-	-	-	0.1	0.1
Balance at 31 August 2015	381.1	56.4	104.3	541.8	0.7	542.5

Notes 1 to 36 form part of the financial statements shown above.

McCarthy & Stone Limited

Consolidated cash flow statement

Year ended 31 August			
Note	2015 £m	2014 £m	2013 £m
Net cash inflow/(outflow) from operating activities	29	19.7	17.3
			(48.5)
Investing activities			
Purchases of property, plant and equipment	(2.0)	(0.8)	(1.1)
Purchases of intangible assets	(1.0)	(2.5)	(0.7)
Proceeds from sale of property, plant and equipment	1.5	-	2.3
Proceeds from sale of investment properties	-	0.2	-
Net cash (used in) /from investing activities	(1.5)	(3.1)	0.5
Financing activities			
Proceeds from Issue of share capital	-	-	150.7
Proceeds from long-term borrowings	87.9	-	97.0
Repayment of long-term borrowings	(160.0)	-	(230.6)
Capital contributions	-	-	0.5
Purchase of interest rate cap	(0.3)	-	-
Repayment of interest rate swap	-	-	(8.6)
Net cash (used) in/ from financing activities	(72.4)	-	9.0
Net (decrease)/ increase in cash and cash equivalents	(54.2)	14.2	(39.0)
Cash and cash equivalents at beginning of year	111.1	96.9	135.9
Cash and cash equivalents at end of year	56.9	111.1	96.9

Notes 1 to 36 form part of the financial statements shown above.

McCarthy & Stone Limited

Notes to the consolidated financial statements

1. Significant accounting policies

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

Basis of preparation

McCarthy & Stone Limited is a Company incorporated in England and Wales. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as 'the Group') and include the Group's interest in jointly controlled entities. The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS) and have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; these are presented on pages 56 to 58. Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company recorded a loss for the year of £nil (2014: £nil, 2013: £0.3m). Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its consolidated financial statements, which include the Company, are publicly available.

Going Concern

The Group meets its day-to-day working capital requirements through cash in hand and its bank facilities. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Group's borrowings is given in note 24.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. For the purposes of consolidation, subsidiaries are entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities. The results of subsidiaries acquired during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is attained (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from synergies arising from a business combination. Cash-generating units to which goodwill has been attributed are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the cash-generating unit.

The Group has chosen to take advantage of the exemption available under IFRS 1, 'First time adoption of IFRS', for reassessing acquisitions completed before 1 September 2012. The goodwill arising on business combinations of the Group prior to 1 September 2012 remains unchanged and is subject to an annual impairment review.

McCarthy & Stone Limited

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, rebates, VAT and other sales taxes or duty.

The Group recognises revenue when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue recognised in the statement of comprehensive income but not yet invoiced is held on the statement of financial position within 'Trade and other receivables'. Revenue invoiced but not yet recognised in the statement of comprehensive income is held on the statement of financial position within 'Deferred revenue'.

Revenue is classified as follows:

Sales of leasehold interests

Revenue represents the consideration received from the sale of leasehold interests in retirement apartments and is recognised on legal completion. Where the Group commits on completion to provide an additional cash amount above an offer given by a third-party part exchange provider, this additional cash amount is recognised as a deduction from revenue. Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction of revenue.

Freehold reversionary interests (FRIs) and House Manager Flat Freehold Interests (HMFIs)

FRIs and HMFIs in respect of developed sites are periodically sold to third parties. Revenue arising from these sales is recognised only to the extent that the underlying leasehold interest in the retirement apartment has been contractually sold.

Other operating income

Other operating income includes Management Services income, net rental income, profits arising from the disposal of undeveloped land sites, VAT refunds and profits arising from the realisation of shared equity receivables.

Finance income

Revenue is recognised as interest accrues, using the effective interest rate method, being the rate used to discount the estimated future cash receipts over the expected life of the financial instrument.

Cost of sales

Costs directly attributable to the unit sales are included within cost of sales. This includes the cost of bringing the inventory into use and regional marketing costs that are directly attributable to sales, including show flat running costs and estate agent referral fees.

Exceptional Items

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material, non-recurring and unusual in nature or of such significance that they require separate disclosure. These are detailed further in note 6.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Retirement benefit costs

The Group operates a stakeholder retirement benefit scheme.

A retirement benefit scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to benefit schemes are recognised as an expense in the statement of comprehensive income in the years during which services are rendered by employees.

McCarthy & Stone Limited Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, where the Group is unable to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted by the year end. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tangible and intangible assets

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets less their residual value over their useful lives, using the straight-line method, on the following bases:

Freehold buildings	50 years
Leasehold land and buildings	over the shorter of the lease term and 50 years
Fixtures, fittings and equipment	3 - 10 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income on the transfer of the risks and rewards of ownership.

The Group has no class of tangible fixed asset that has been revalued. On transition to IFRS the net book values recorded at 1 September 2012 have been applied and these are based on historic cost or fair value recognised at the date of acquisition.

Intangible assets – brand

Separately acquired brands are shown at historical cost. Brands have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their useful lives, estimated at 20 years.

McCarthy & Stone Limited

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Tangible and intangible assets (continued)

Internally-generated intangible assets – research and development expenditure

Costs associated with maintaining computer software programmes 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 Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

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 does not exceed ten years.

Development expenditure relating to software has been capitalised and is detailed in note 14 to the financial statements.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of: (i) fair value less costs to sell and (ii) value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation balance is greater than the impairment loss.

Joint ventures

The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreement to share control over these entities. Joint ventures are accounted for using the equity method of accounting.

The Group classifies its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangement). When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cost of sites in the course of construction and finished stock comprises the cost of land purchases, which are accounted for from the date of contract exchange, when the Group obtains the effective control of the site, building costs and attributable construction overheads. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution, completion and disposal. In 2014, there was a change to the way in which attributable production overheads were estimated and these costs now include an increased proportion of design, construction, commercial and planning costs. During 2014, this resulted in a net positive impact on the statement of comprehensive income of £8.1m. £8.1m was reclassified from cost of sales to inventory, with a further £0.5m being reclassified from cost of sales to administrative expenses.

Land inventories and the associated land payables are recognised in the statement of financial position from the date of unconditional exchange of contracts. Where, through deferred purchase credit terms, cost differs from the nominal amount which will be paid in settling the deferred purchase terms liability, the initial cost of the land is discounted to fair value. The land payable is then increased to settlement value over the period of financing, with the financing element being charged to the statement of comprehensive income as a finance cost.

McCarthy & Stone Limited

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Tangible and intangible assets (continued)

Inventories (continued)

Options purchased in respect of land are capitalised initially at the cost of the option. Regular reviews are completed for impairment in the value of these options and provisions made accordingly to reflect loss of value. The impairment reviews consider the period elapsed since the date of purchase of the option given that the option contract has not been exercised at the review date. Further, the impairment reviews consider the remaining life of the option, taking into account any concerns over whether the remaining time will allow successful exercise of the option. The carrying cost of the option at the date of exercise is included within the cost of land purchased as a result of the option exercise.

Expenditure on land without the benefit of planning consent, either through purchase of freehold land or non-refundable deposits paid on land purchase contracts subject to residential planning consent, are capitalised initially at cost. Regular reviews are completed for impairment in the value of these investments, and provision made to reflect any irrecoverable element. The impairment reviews consider the existing value of the land and assess the likelihood of achieving residential planning consent and the value thereof.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are normally recognised and derecognised on the date that an agreement has been entered into 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. They 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 Group held no financial assets classified as held-to-maturity or AFS during the reporting periods presented herein.

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 other than those financial assets classified as at FVTPL.

Classes of financial asset

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.
- A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
 - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

McCarthy & Stone Limited

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

Tangible and intangible assets (continued)

Classes of financial asset (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other operating income line item in the statement of comprehensive income. Fair value is determined in the manner described in note 31.

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not issue or hold derivative financial instruments for speculative purposes.

Shared equity receivables

Shared equity interests arise from sales incentive schemes under which the Group acquires a contractual entitlement to receive a proportion of the proceeds of sale of an apartment. These interests are normally protected by a legal charge over the relevant apartment and/or a restriction on title.

The value of the shared equity receivables changes in response to an underlying variable and therefore is accounted for as a derivative. The shared equity receivables are initially recognised at fair value, being the estimated future amount receivable by the Group, discounted to present value. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and the expected timing of receipts. The Directors revisit the future anticipated cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income/expense.

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.

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 Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

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.

Land-related promissory notes

Land-related promissory notes are treated as financial liabilities and are classified as land creditors or borrowings depending on the substance of the contractual arrangements.

Share based payment schemes

The Group has established a share based payments scheme known as the Management Incentive Scheme ('the Scheme'). The terms of the Scheme stipulate that amounts will become payable to the participants if certain future conditions are satisfied. This agreement is calculated for partly as a cash-settled and partly an equity-settled share-based payment.

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.

McCarthy & Stone Limited

Notes to the consolidated financial statements

Further details regarding the Scheme are set out in note 32.

2. Outlook for adoption of future Standards (new and amended)

The following new and revised standards and interpretations are relevant to the Group and have been adopted for the first time for the financial year. Their adoption has not had any significant impact on the amounts reported in the financial statements:

- Annual Improvements 2010 – 2012 Cycle
- Annual Improvements 2011 – 2013 Cycle

These financial statements have been prepared in accordance with the accounting policies and standards that will be adopted in the Group's next published annual financial statements. At the date of approval of the financial statements, the following Standards and Interpretations which have not been applied by the Group in the financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial Instruments', was reissued in October 2010 as the second step in the IASB project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. During the year the International Accounting Standards Board ("IASB") reissued IFRS 9 to include hedge accounting and details on early adoption. The final revision to the standard incorporating the impairment, classification and measurement requirements was issued by the IASB in July 2014 and the standard is expected to be effective from 31 December 2018. The Group is currently assessing the impact of the revisions on the Group's results and financial position.
- IFRS 15 'Revenue from Contracts with Customers' was issued on 28 May 2014. This standard sets out revenue recognition conditions for the Group. The impact of this standard on the Group is being assessed.
- Amendments to IFRS 11 Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures
- Annual Improvements 2012 – 2014 Cycle
- Amendments to IAS 1 Presentation of Financial Statements

No other new or amended standards are expected to have a significant impact on the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Fair value of shared equity receivables

Shared equity receivables are initially recognised within revenue at fair value, being the estimated future amount receivable by the Group, discounted to present day values. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and expected timing of receipts. The assessment of future anticipated future cash flows from the assets is carried out at each reporting date.

Land held for development and housing work in progress

The Group holds inventories which are stated at the lower of cost and net realisable value. To assess the net realisable value of land held for development and sites in the course of construction, the Group completes a financial appraisal of the likely revenue which will be generated when these inventories become residential retirement properties for sale and are sold. Where the financial appraisal demonstrates that the revenue will exceed the costs of the inventories and other associated costs of constructing the residential retirement properties, the inventories are stated at cost. Where the assessed revenue is lower, the extent to which there is a shortfall is written off through the statement of comprehensive income leaving the inventories 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 inventories may be different.

A review taking into account estimated achievable net revenues, actual inventory and costs to complete as at each reporting date has been carried out, which has identified no material net movement in the carrying value of the provision. 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, write-downs of land and work in progress may be necessary. Further detail on the carrying value of inventories is laid out in note 18.

McCarthy & Stone Limited

Notes to the consolidated financial statements

4. Revenue

	Continuing operations Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Legal completions	468.8	370.6	296.1
Revenue from sales of freehold reversionary interests	16.9	17.2	14.7
	<u>485.7</u>	<u>387.8</u>	<u>310.8</u>

All revenue arose from the sale of goods and is attributable to continued operations. All revenue was generated within the UK. No individual customer is significant to the Group's revenue in any period.

5. Segmental analysis

IFRS 8, *Operating Segments*, establishes standards for reporting information about operating segments and related disclosures, products and services, geographic areas and major customers. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Group conducts its activities through a single operating segment. Consequently, no detailed segment information has been presented.

None of the Group's customers represented more than 10% of the Group's revenue generated from the building of retirement apartments for any reporting period presented herein.

6. Profit for the year

Profit for the year has been arrived at after charging (crediting):

	Continuing operations Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Depreciation of property, plant and equipment (note 15)	1.0	1.2	0.8
Amortisation of intangibles (note 14)	2.5	2.1	2.1
Operating lease rental expense (note 28)			
Land and buildings	1.0	1.2	1.0
Plant and machinery	2.0	1.8	1.6
Cost of inventories recognised as an expense	314.6	239.6	189.9
Staff costs (note 7)	59.2	54.1	46.9
Change in fair value of derivatives	0.1	-	17.0
Share based payments charge to profit and loss (note 32)	1.5	0.3	-
Movement in inventory provision	(2.5)	(0.5)	2.1

McCarthy & Stone Limited

Notes to the consolidated financial statements

6. Profit for the year (continued)

Reconciliation to underlying operating profit and profit before tax

The following tables present a reconciliation between the statutory profit measures disclosed on the statement of comprehensive income and the underlying measures used by the Board to appraise performance.

Exceptional items are items which, due to their one-off, non-trading and non-recurring nature, have been separately classified by the Directors in order to draw them to the attention of the reader. Amortisation of brand has been adjusted in order to reconcile to underlying operating profit and underlying profit before tax given the Directors do not believe this cost reflects the underlying trading of the business. In the judgement of the Directors this presentation shows the underlying performance of the Group.

Year ended 31 August 2015

	Note	Statutory £m	Exceptional Costs Restructuring and transaction related costs	Refinancing costs	Adjusted cost Amortisation of brand	Underlying £m
Operating profit		87.8	5.0	0.4	2.1	95.3
Share of results of joint ventures accounted for using the equity method		-	-	-	-	-
Finance income	9	1.2	-	-	-	1.2
Finance expense	10	(8.1)	-	-	-	(8.1)
Profit before tax		80.9	5.0	0.4	2.1	88.4
Income tax expense	11	(16.6)	(0.9)	(0.1)	(0.4)	(18.0)
Profit for the year from continuing operations and total comprehensive income		64.3	4.1	0.3	1.7	70.4
Earnings per share						
Basic (p per share)	12	3.4	0.2	-	0.1	3.7
Diluted (p per share)	12	3.4	0.2	-	0.1	3.7

The operating exceptional costs in 2015 relate to advisory costs in relation to a potential transaction, redundancy, office relocation and restructuring costs following an operational review of the business, and advisory costs in relation to the refinancing of the Group's debt.

In 2014 there was a change to the way in which production overheads were attributed to inventory. Inventory now includes an increased proportion of design, construction, commercial and planning costs. During 2015, this resulted in a net positive impact on cost of sales, gross margin and operating profit of £12.0m.

McCarthy & Stone Limited

Notes to the consolidated financial statements

6. Profit for the year (continued)

Year ended 31 August 2014

	Note	Statutory £m	Exceptional Costs Redundancy and restructuring	Write off of debt issue costs	Adjusted cost Amortisation of brand	Underlying £m
Operating profit		70.5	2.5	-	2.1	75.1
Share of results of joint ventures accounted for using the equity method		-	-	-	-	-
Finance income	9	1.0	-	-	-	1.0
Finance expense	10	(14.4)	-	1.5	-	(12.9)
Profit before tax		57.1	2.5	1.5	2.1	63.2
Income tax expense	11	(12.7)	(0.6)	(0.3)	(0.5)	(14.1)
Profit for the year from continuing operations and total comprehensive income		44.4	1.9	1.2	1.6	49.1
Earnings per share						
Basic (p per share)	12	2.3	0.1	0.1	0.1	2.6
Diluted (p per share)	12	2.3	0.1	0.1	0.1	2.6

The operating exceptional items in 2014 relate to redundancy costs and restructuring costs following an operational review of the business, the exit of the previous Chief Executive Officer and the write-off of debt issue costs incurred in relation to the 2014 refinancing of the Group's liabilities.

In 2014 there was a change to the way in which production overheads were attributed to inventory. Inventory now includes an increased proportion of design, construction, commercial and planning costs. During 2014, this resulted in a net positive impact on cost of sales, gross margin and operating profit of £8.1m.

Year ended 31 August 2013

	Note	Statutory £m	Exceptional Costs Refinancing	Adjusted costs Amortisation of brand	Underlying £m
Operating profit		31.9	11.2	2.1	45.2
Share of results of joint ventures accounted for using the equity method		-	-	-	-
Finance income	9	1.3	-	-	1.3
Finance expense	10	(25.6)	-	-	(25.6)
Profit before tax		7.6	11.2	2.1	20.9
Income tax expense	11	(3.2)	(1.6)	(0.5)	(5.3)
Profit for the year from continuing operations and total comprehensive income		4.4	9.6	1.6	15.6
Earnings per share					
Basic (p per share)	12	3.5	7.6	1.3	12.4
Diluted (p per share)	12	3.5	7.6	1.3	12.4

The 2013 exceptional items relate to one-off legal, professional, financing and management incentive costs incurred as a result of the successful refinancing of the Group. £7.4m of the costs relate to the satisfaction of a management incentive scheme upon refinancing, with the remaining amount relating to professional fees associated with the structuring of the Group, tax advice and costs associated with the repayment of the shareholder loan. These did not constitute directly attributable debt arrangement fees.

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Notes to the consolidated financial statements

6. Profit for the year (continued)

Auditor's remuneration

	Continuing operations Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Fees payable to the Group's auditors:			
Annual audit	0.2	0.1	0.1
Other services pursuant to taxation	-	0.1	0.2
Other non-audit services	0.5	-	-
	<u>0.7</u>	<u>0.2</u>	<u>0.3</u>

7. Staff costs

	Continuing operations Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Wages and salaries	50.3	46.7	40.4
Social security costs	5.7	5.4	5.1
Other pension costs	1.7	1.7	1.4
Share based payments	1.5	0.3	-
	<u>59.2</u>	<u>54.1</u>	<u>46.9</u>

The average number of persons, including executive directors, employed by the Group during the year was as follows:

	2015 Number	2014 Number	2013 Number
Office management	824	779	748
Construction	220	163	151
	<u>1,044</u>	<u>942</u>	<u>899</u>

At 31 August 2015 the Group employed 1,158 people (2014: 900). A further 517 persons (2014: 391) were employed by a subsidiary company of the Group at 31 August 2015, but their costs were borne outside of the Group.

McCarthy & Stone Limited

Notes to the consolidated financial statements

7. Staff costs (continued)

Amounts recognised in the income statement in respect of Directors emoluments

	Year ended 31 August		
	2015	2014	2013
	£m	£m	£m
Wages and salaries	1.4	1.3	1.3
Social security costs	0.4	0.2	0.2
Share based payments	0.8	0.2	-
	<u>2.6</u>	<u>1.5</u>	<u>1.5</u>

The emoluments of the highest paid director were £0.7m (2014: £0.4m, 2013: £0.7m), including pension contributions of nil (2014: nil, 2013: nil). The number of directors in the Company pension plan was 1 (2014:1, 2013: 1).

8. Other operating income

	Continuing operations Year ended 31 August		
	2015	2014	2013
	£m	£m	£m
Net rental income	0.3	0.4	0.7
Other income	4.6	3.9	3.6
Non core business revenue	3.9	2.9	1.2
Land sales profit	0.3	0.7	-
	<u>9.1</u>	<u>7.9</u>	<u>5.5</u>

Non core business revenue arises on the services provided by McCarthy & Stone on certain sites to manage the estates.

9. Finance income

	Continuing operations Year ended 31 August		
	2015	2014	2013
	£m	£m	£m
Change in fair value of shared equity receivables	0.9	0.7	0.5
Fair value gain on interest rate swap	-	-	0.5
Interest income received	0.3	0.3	0.3
	<u>1.2</u>	<u>1.0</u>	<u>1.3</u>

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Notes to the consolidated financial statements

10. Finance expense

	Continuing operations Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Loans and overdraft fees	7.7	12.5	8.4
PIK notes	-	-	17.2
Refinancing issue costs	0.3	1.9	-
Movement in fair value of interest rate cap	0.1	-	-
	<u>8.1</u>	<u>14.4</u>	<u>25.6</u>

Significant financing costs were incurred in 2013 in relation to the refinancing of the Group and settlement of previous loan arrangements. Within the £1.9m of refinancing issue costs, there is £1.5m of exceptional finance costs relating to the accelerated amortisation of debt arrangement fees. Further detail is disclosed in note 24.

11. Tax

	Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Corporation tax charges:			
Current year	16.0	11.8	-
Adjustments in respect of prior years	(0.3)	-	-
Deferred tax charges:			
Current year deferred tax charges (note 20)	0.7	0.8	3.2
Adjustments in respect of prior years	0.2	0.1	-
	<u>16.6</u>	<u>12.7</u>	<u>3.2</u>

The tax charge for each year can be reconciled to the profit per the statement of comprehensive income as follows:

	Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Profit before tax	80.9	57.1	7.6
Tax charge at the UK corporation tax rate of 20.58% (2014: 22.17%, 2013: 23.58%)	<u>16.6</u>	<u>12.7</u>	<u>1.8</u>
Tax effect of:			
Expenses that are not deductible in determining taxable profit	0.3	0.4	2.0
Income not taxable in determining taxable profit	(0.3)	(0.5)	(0.6)
Adjustments in respect of previous years	-	0.1	-
Tax charge for the year	<u>16.6</u>	<u>12.7</u>	<u>3.2</u>

Reductions in the rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 were substantively enacted on 17 July 2013. The UK deferred tax assets and liabilities at 31 August 2015 have been calculated based on the rate of 20%.

McCarthy & Stone Limited

Notes to the consolidated financial statements

12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	64.3	44.4	4.4
Earnings for the purposes of diluted earnings per share	64.3	44.4	4.4

Number of shares	Year ended 31 August		
	2015 Number '000	2014 Number '000	2013 Number '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,905,550	1,905,550	125,851
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,905,550	1,905,550	125,851

Earnings per share

	Year ended 31 August		
	2015 p	2014 p	2013 p
Basic earnings per share	3.4	2.3	3.5
Diluted earnings per share	3.4	2.3	3.5

A management incentive scheme was established in 2014. Upon the achievement of certain hurdles at an exit event, additional shares could be issued to the beneficiaries of the management incentive scheme. Further detail is provided in note 32.

13. Goodwill

	£m
Cost	
At 1 September 2012 and 31 August 2013, 2014 and 2015	41.7
Carrying amount	
At 31 August 2013, 2014 and 2015	41.7

No impairment losses have been recognised in any of the reporting periods presented herein.

Goodwill arose as a result of an acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc (in liquidation). As the goodwill relates to the business as a whole, it has not been allocated to a specific CGU. For key assumptions in determining recoverable amount in goodwill impairment testing, refer to note 16.

McCarthy & Stone Limited **Notes to the consolidated financial statements**

14. Intangible assets

	Brand £m	Software £m	Total £m
Cost			
At 1 September 2012	41.4	-	41.4
Additions	-	0.7	0.7
At 1 September 2013	41.4	0.7	42.1
Additions	-	2.2	2.2
At 1 September 2014	41.4	2.9	44.3
Additions	-	1.0	1.0
At 31 August 2015	41.4	3.9	45.3
Amortisation			
At 1 September 2012	(6.9)	-	(6.9)
Charge for the year	(2.1)	-	(2.1)
At 1 September 2013	(9.0)	-	(9.0)
Charge for the year	(2.1)	-	(2.1)
At 1 September 2014	(11.1)	-	(11.1)
Charge for the year	(2.1)	(0.4)	(2.5)
At 31 August 2015	(13.2)	(0.4)	(13.6)
Carrying amount			
At 31 August 2013	32.4	0.7	33.1
At 31 August 2014	30.3	2.9	33.2
At 31 August 2015	28.2	3.5	31.7

Brand assets represent McCarthy & Stone brand name purchased as part of the business combination in 2009.

All amortisation charged is recognised in administrative expenses in the consolidated statement of comprehensive income.

McCarthy & Stone Limited **Notes to the consolidated financial statements**

15. Property, plant and equipment

	Land and Buildings		Fixtures, fittings & equipment £m	Total £m
	Freehold £m	Long leasehold £m		
Cost				
At 1 September 2012	0.2	3.8	4.8	8.8
Additions	-	-	1.2	1.2
Disposals	(0.2)	(3.7)	(0.1)	(4.0)
At 1 September 2013	-	0.1	5.9	6.0
Additions	-	-	1.4	1.4
Disposals	-	(0.1)	(0.4)	(0.5)
At 1 September 2014	-	-	6.9	6.9
Additions	-	-	2.0	2.0
Disposals	-	-	(2.9)	(2.9)
At 31 August 2015	-	-	6.0	6.0
Accumulated depreciation and impairment				
At 1 September 2012	(0.1)	(1.5)	(2.6)	(4.2)
Charge for the year	(0.1)	-	(0.7)	(0.8)
Eliminated on disposal	0.2	1.4	0.1	1.7
At 1 September 2013	-	(0.1)	(3.2)	(3.3)
Charge for the year	-	-	(1.2)	(1.2)
Eliminated on disposal	-	0.1	0.4	0.5
At 1 September 2014	-	-	(4.0)	(4.0)
Charge for the year	-	-	(1.0)	(1.0)
Eliminated on disposal	-	-	1.6	1.6
At 31 August 2015	-	-	(3.4)	(3.4)
Carrying amount				
At 31 August 2013	-	-	2.7	2.7
At 31 August 2014	-	-	2.9	2.9
At 31 August 2015	-	-	2.6	2.6

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Notes to the consolidated financial statements

16. Impairment testing

During the periods reported in the financial statements, no impairments have been recognised against the Group's assets. For each reported period, management have performed an impairment review of goodwill, being an indefinitely lived asset. The Group only has one cash generating unit, being the McCarthy & Stone Development's business, which was acquired in 2009.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to earnings before interest, tax, depreciation and amortisation (EBITDA is used as a proxy of free cash flows beyond the budgeted years) as well as the level of capital expenditure required to maintain the existing business into the future. These assumptions are reviewed and revised annually in light of current economic conditions and the future outlook for the business. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. This has been generally set at between 9 and 11 per cent.

The forecast period employed in the impairment assessment was 5 years followed by an assessment of cash flows and growth into perpetuity. The growth rates used are based on management's assessment of the cash flow forecasts over the medium term. The growth for the next 5 years is based on either the rate forecast for year 5 or the average annual growth rate derived over the initial 5 year term and does not exceed the average long-term growth rate for the business. These are based on conservative estimates of the Group's ability to participate in the growth expected in the industry. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The value of goodwill recognised in the financial statements has been compared to the derived value in use with no impairment charges arising. The Group has conducted a sensitivity analysis on the key assumptions which are material to the impairment assessment including the discount rate, the cash flow projections and the terminal growth rate and concluded no material sensitivity exists in these calculations.

No impairment charges were recorded on items of property, plant and equipment throughout the period covered by these financial statements.

17. Investment in joint ventures

The Group has a 50% ownership interest of ordinary shares in each of Kindle Housing UK (Worthing) Limited, Kindle Housing UK (Christchurch) Limited and Kindle Housing (Exeter) Limited, which rent affordable housing to local key worker employees. The Group also has a 50% ownership interest in Kindle Housing Limited, which manages affordable housing. These companies are all registered in England and Wales.

The Group accounts for its interests in these companies using the equity method of accounting.

The share of the assets, liabilities, income and expenses of the jointly controlled entities is not material.

18. Inventories

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Land held for development	130.9	115.8	100.3
Sites in the course of construction	258.8	191.6	130.7
Finished stock	196.1	188.4	218.8
	<u>585.8</u>	<u>495.8</u>	<u>449.8</u>

Days in inventory amounted to 685 days in 2015 (2014: 755 days and 2013: 865 days).

In 2014 there was a change to the way in which production overheads were attributed to inventory. Inventory now includes an increased proportion of design, construction, commercial and planning costs. During 2015, this resulted in a net positive impact on cost of sales, gross margin and operating profit of £12.0m (2014: £8.1m).

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19. Trade and other receivables

Trade and other receivables due in less than one year

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Trade receivables	1.0	1.4	0.4
Other debtors and prepayments	9.9	7.5	7.0
Corporation tax	-	-	2.0
	<u>10.9</u>	<u>8.9</u>	<u>9.4</u>

Trade and other receivables due in greater than one year

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Secured mortgages	3.5	3.7	4.4
Shared equity receivables	28.0	24.3	21.9
	<u>31.5</u>	<u>28.0</u>	<u>26.3</u>

Trade receivables and secured mortgages disclosed above are classified as loans and receivables and are measured at amortised cost.

The Directors consider that the carrying amounts of trade and other receivables and non-current receivables, approximates their fair value.

20. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group:

	Accelerated tax depreciation £m	Other temporary differences £m	Unrelieved tax losses £m	Total £m
At 1 September 2012	0.1	4.2	0.4	4.7
(Charge) /credit to profit or loss	0.2	(3.4)	-	(3.2)
At 1 September 2013	0.3	0.8	0.4	1.5
Charge to profit or loss	(0.1)	(0.4)	(0.4)	(0.9)
At 1 September 2014	0.2	0.4	-	0.6
Charge to profit or loss	(0.2)	(0.7)	-	(0.9)
As 31 August 2015	-	(0.3)	-	(0.3)

Deferred tax assets are represented by positive values and deferred tax liabilities are represented by negative values in the table above.

Deferred tax assets of £0.3m in relation to capital losses carried forward have not been recognised as there is uncertainty as to whether these losses will be utilised by the Group prior to expiry (2014: £1.6m, 2013: £1.6m). These losses have no expiry date.

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21. Derivative financial assets

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Interest rate cap	0.3	-	-
	<u>0.3</u>	<u>-</u>	<u>-</u>

The interest rate risk relating to the revolving credit facility has been partially mitigated by entering into a three-year interest rate cap. This caps LIBOR at 1.0% of a notional principal which varies in line with the expected drawdown of the revolving credit facility.

22. Trade and other payables

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Trade payables	23.0	11.1	12.7
UK Corporation tax	8.5	6.3	0.2
Other taxes and social security costs	1.8	1.5	1.4
Accrued expenses	36.9	20.0	13.3
Other creditors and deferred income	13.6	23.1	21.5
	<u>83.8</u>	<u>62.0</u>	<u>49.1</u>

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases was 20 days during 2015 (2014: 18 days; 2013: 22 days). No material interest costs have been incurred in relation to such payables. The Group policy is to ensure that payables are paid within the pre-agreed credit terms and to avoid incurring penalties and/or interest on late payments. Other creditors include sales taxes, property taxes, social security and employment taxes due to local tax authorities. The Directors consider that the carrying amount of trade payables approximates their fair value.

No trade payables are purchased on extended payment terms.

23. Land payables

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Land payables	36.5	23.9	23.1
	<u>36.5</u>	<u>23.9</u>	<u>23.1</u>

Land payables relate to payment due in respect of land which has been purchased under an unconditional contract.

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24. Long term borrowings

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Loans	90.0	160.0	160.0
Unamortised issue costs	(2.1)	-	(1.9)
Land-related promissory notes	11.3	-	-
	<u>99.2</u>	<u>160.0</u>	<u>158.1</u>

	Rate	Maturity	Outstanding at 2015 £m	Outstanding at 2014 £m	Outstanding at 2013 £m
Loan facility	LIBOR + 7.25%	Aug 2018	-	160.0	160.0
Revolving Credit Facility	3 month LIBOR +2.5%	Dec 2019	90.0	-	-

As at 1 September 2012, the Group had £510.0m of bank loans in the form of term debt facilities. These facilities were repaid in August 2013. £160.0m of the debt was repaid using the proceeds of a new £160.0m term debt facility. The remaining £350m was repaid following a rights issue to the existing shareholders. £133.7m of the capital raised was paid in cash and was used to repay the debt, the remaining £216.3m being unpaid. All unpaid share capital receivables related to shareholders who also had interest in the debt of the Group. The resulting receivables were offset against amounts owed to debt holders who also participated in the rights issue in their role as existing shareholders. The £160.0m term loan was non-amortising, with a 5 year term, repayable in August 2018. Both loan facilities, pre and post refinancing, were secured by a floating charge over the Group's assets.

During December 2014, the £160.0m term debt facility was replaced by a new £200m revolving credit facility (RCF), with a 5 year term, maturing December 2019. The nominal interest rate of this facility is 1, 3 or 6 month Libor + 2.5% depending on the length of the drawdown. As at 31 August 2015, £90.0m was drawn. The RCF is secured by a fixed and floating charge over the assets of McCarthy & Stone Limited, McCarthy & Stone Retirement Lifestyles Limited, McCarthy & Stone (Developments) Limited, McCarthy & Stone Extra Care Living Limited and McCarthy & Stone Total Care Management Limited.

Land-related promissory notes with terms of 15-18 months were used for land acquisitions in the year. The total finance cost of the land-related promissory notes is 4%. The land-related promissory notes in issue are structured as ancillary facilities of the RCF and are therefore linked to the security arrangements discussed above.

25. Net debt

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Long-term borrowings	99.2	160.0	158.1
Add back unamortised debt issue costs	2.1	-	1.9
Cash	(56.9)	(111.1)	(96.9)
Net debt including land-related promissory notes	44.4	48.9	63.1
Less land-related promissory notes	(11.3)	-	-
Net debt excluding land-related promissory notes	<u>33.1</u>	<u>48.9</u>	<u>63.1</u>

Net debt is a non GAAP measure and is calculated as total cash and cash equivalents, less the balance on the loan facility at the year end.

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26. Share capital

The Company has one class of ordinary shares which carry no right to fixed income. There is no limit to authorised share capital.

	31 August 2015 Number '000	31 August 2014 Number '000	31 August 2013 Number '000
Issued and fully paid:			
Ordinary shares of 20p each	1,905,550	1,905,550	1,905,550
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Issued and fully paid:			
Ordinary shares of 20p each	381,110	381,110	381,110

The Company has one class of ordinary shares which carry no right to fixed income. There is no limit to authorised share capital.

27. Share premium reserve

	Share premium £m
Balance at 31 August 2013, 2014 and 2015	56.4

The share premium reserve represents the consideration that has been received in excess of the nominal value of shares on issue of new ordinary share capital.

28. Operating lease arrangements

	Minimum lease payments		
	2015 £m	2014 £m	2013 £m
Minimum lease payments under operating leases recognised as an expense during the year	3.0	3.0	2.6

At year end the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Minimum lease payments		
	2015 £m	2014 £m	2013 £m
Within one year	3.2	2.4	2.9
In the second to fifth years inclusive	7.8	6.5	5.1
After five years	2.8	3.5	3.2
	<u>13.8</u>	<u>11.5</u>	<u>11.2</u>

Operating lease payments typically represent rentals payable by the Group for its office properties and cars. Rent reviews and break clauses apply to leased property agreements.

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Notes to the consolidated financial statements

29. Notes to the cash flow statement

	2015 £m	2014 £m	2013 £m
Profit for the financial year	64.3	44.4	4.4
Adjustments for:			
Income tax expense (note 11)	16.6	12.7	3.2
Amortisation of intangibles (note 14)	2.5	2.1	2.1
Share based payment charge	1.5	0.3	-
Depreciation of property, plant and equipment (note 15)	1.0	1.2	0.8
Finance expense (note 10)	8.1	14.4	25.6
Finance income (note 9)	(1.2)	(1.0)	(1.3)
Write off of unamortised issue costs	-	1.9	-
Other	-	0.4	0.8
Operating cash flows before movements in working capital	92.8	76.4	35.6
(Increase) /decrease in trade and other receivables	(5.5)	0.9	(4.2)
Increase in inventories (net of land creditors and land-related promissory notes)	(66.3)	(45.2)	(78.2)
Increase in trade and other payables(excluding land creditors and land-related promissory notes)	19.6	3.4	23.3
Operating cash flows before interest and tax paid	40.6	35.5	(23.5)
Interest received	0.3	0.2	0.5
Interest paid	(8.0)	(12.5)	(25.1)
Income taxes paid	(13.2)	(5.9)	(0.4)
Cash generated/(used) by operations	19.7	17.3	(48.5)
Net cash inflow/(outflow) from operating activities	19.7	17.3	(48.5)
Cash and cash equivalents			
	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Cash and bank balances	56.9	111.1	96.9
	56.9	111.1	96.9

Cash and cash equivalents comprise cash and bank balances and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of cash and cash equivalents approximates fair value.

30. Retirement benefit schemes

The Group operates a stakeholder retirement benefit scheme which is open to all employees.

Other than amounts that are deducted from employees' remuneration and accrued pending payment to the benefit scheme, no further obligations fall on the Group as the assets of these arrangements are held and managed by third parties entirely separate from the Group.

The benefit scheme charge for the period represents contributions payable to the benefit scheme and amounted to £1.7m for the year ended 31 August 2015 (2014: £1.7m; 2013: £1.4m). Unpaid contributions amounted to £0.2m as at 31 August 2015 (2014: £nil; 2013: £nil)

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Notes to the consolidated financial statements

31. Financial Risk Management

Capital risk management

The Group manages its capital (being debt, cash and cash equivalents and equity) to ensure entities within the Group have a strong capital base in order to continue as going concerns, to maintain investor and creditor confidence and to provide a basis for the future development of the business while maximising the return to stakeholders.

The Group is not subject to any externally imposed capital requirements. Equity includes all capital and reserves of the Group that are managed as capital.

The Group does not routinely make additional issues of capital, other than for the purpose of raising finance for the management of the cost of capital of the Group or to fund significant developments designed to grow value in future.

Management Incentive Plans have been introduced to allow senior employees of the Group to participate in the ownership of one of the Group entities in order to ensure the senior employees are focused on growing the value of the Group to achieve the aims of all shareholders.

Categories of financial instruments

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Financial assets			
Cash and cash equivalents	56.9	111.1	96.9
Loans and receivables (note 19)	14.4	12.6	13.8
Shared equity receivables (note 19)	28.0	24.3	21.9
Interest rate cap (note 21)	0.3	-	-
	<u>99.6</u>	<u>148.0</u>	<u>132.6</u>
Financial liabilities			
Amortised cost			
Trade and other payables (note 22)	83.8	62.0	49.1
Land payables (note 23)	36.5	23.9	23.1
Loans (note 24)	87.9	160.0	158.1
Land-related promissory notes	11.3	-	-
	<u>219.5</u>	<u>245.9</u>	<u>230.3</u>

Financial risk management objectives

The Group's finance function is responsible for all aspects of corporate treasury. It co-ordinates access to financial markets and monitors and manages the financial risks relating to the operations of the Group through internal reports which analyse exposures by degree and magnitude. The risks reviewed include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group's bankers are party to a guarantee which provides for security over the whole of the Company's assets and undertakings.

The Board is responsible for managing these risks and the policies adopted are as set out below.

Housing market risk management

The Group's activities expose it primarily to macroeconomic risks such as deflation and the cyclical nature of UK property prices. A deterioration in the economic outlook could have a significant impact on the Group's financial performance and the Group has the following procedures which mitigate its market related operational risk:

- The Group closely monitors industry indicators and assesses the potential impact of different economic scenarios.
- Decisions to allocate new capital to land and build are managed centrally through the Group Investment Committee, membership of which includes the Group CEO, the Group CFO, the Operations Director and the Land and Planning Director.
- The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular location, development or product.
- The Group undertakes a weekly review of sales, reservations and incentives at regional and Group level.

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Notes to the consolidated financial statements

31. Financial Risk Management (continued)

Interest rate risk management

Interest rate risk reflects the Group's exposure to fluctuations to interest rates in the market. The risk arises because the Group's revolving credit facility is subject to floating interest rates based on LIBOR. In 2015 the interest rate risk was partially mitigated by the purchase of an interest rate cap.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a low exposure to credit risk due to the nature and legal framework of the UK housing industry. As stated in the Group's accounting policy for revenue recognition, a sale is only recognised upon legal completion and this is accompanied by full cash receipt in virtually all cases.

In certain circumstances the Group offers sales incentives resulting in a long term debt being recognised under which the Group will receive a proportion of the resale proceeds of an apartment. The Group's equity share is protected by a registered entry on the title and usually represents the first interest in the property. A reduction in property values leads to an increase in the credit risk of the Group in respect of such sales.

Trade receivables consist of a large number of customers, spread across different regions. Ongoing credit evaluation is performed on the financial condition of trade receivable.

The Group does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. There is no material concentration of credit risk in respect of one individual customer.

The carrying amount recorded for financial assets in the financial statements is net of impairment losses and represents the Group's maximum exposure to credit risk. No guarantees have been given in respect to third parties. In addition for contracted rental agreements deposits or advances may be held to mitigate risk. The Group also holds legal recourse and can exercise our right to recover rental equipment from non-performing customers.

Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's strategy in relation to managing liquidity risk is to ensure that the Group has sufficient liquid funds to meet all its potential liabilities as they fall due. The Group produces cash flow forecasts to monitor the expected cashflow requirements of the Group against the available facilities. The principal risks with these cashflows relate to achieving the level of sales volumes and prices in line with current forecast

Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of financial instruments carried at amortised cost

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Bank and other loans

Fair value is calculated based on discounted expected future principal and interest flows.

Interest rate swaps

At each period end, the Directors appoint a valuer to perform an external valuation of the fair value of each interest rate swap is obtained from the relevant swap provider. Fair values are based on broker quotes, which are reviewed by the Directors and reflect the actual transactions in similar instruments.

Valuation of level 1, 2 and 3 financial assets and liabilities

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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Notes to the consolidated financial statements

31. Financial Risk Management (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The Grouping into Levels 1 to 3 is based on the degree to which their fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial instruments held by the Group that are measured at fair value all relate to financial assets measured at fair value through profit and loss (FVTPL) using methods associated with Level 3. The sensitivities are not material on assets held at fair value.

2013				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Shared equity receivables	-	-	21.9	21.9
Investment properties	-	-	0.8	0.8
Total Financial assets designated at FVTPL	-	-	22.7	22.7
2014				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Shared equity receivables	-	-	24.3	24.3
Investment properties	-	-	0.6	0.6
Total Financial assets designated at FVTPL	-	-	24.9	24.9
2015				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Shared equity receivables	-	-	28.0	28.0
Investment properties	-	-	0.5	0.5
Interest rate cap	-	-	0.3	0.3
Total Financial assets designated at FVTPL	-	-	28.8	28.8

There were no transfers between levels 1, 2 or 3 in the year.

Financial assets comprise shared equity loans secured by way of a second charge on the property, investment properties and an interest rate cap. Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

For shared equity receivables the fair value of future anticipated cash receipts takes into account the Directors' views of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts. These assumptions cover a variety of different schemes and the range of assumptions used are stated below. The assumptions are reviewed at each period end.

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31. Financial Risk Management (continued)

Fair value measurements recognised in the statement of financial position (continued)

	31 August 2015	31 August 2014	31 August 2013
Assumptions			
Discount rate	4.7 to 5.2%	3.5 to 5.3%	3.5 to 4.9%
New build premium	5%	0 %	0 %
House price inflation	0 to 3.2%	0 to 5.0%	0 to 3.0%
Timing of receipt	6 to 12 yrs	7 to 13 yrs	6 to 13 yrs
	2015 Increase assumptions by 1% / 1year £m	2015 Decrease assumptions by 1%/1 year £m	
Sensitivity- effect on value of other financial assets(less)/more			
Discount rate	(2.3)	2.6	
House price inflation	2.7	(2.4)	
Timing of receipt	(0.7)	0.7	

The Directors review the anticipated future anticipated cash receipts from the assets at each reporting date and the difference between the anticipated future receipt and the initial fair value is credited to finance income.

At initial recognition, the fair values of the assets are calculated using a discount rate appropriate to the class of assets that reflects market conditions at the date of entering into the transaction. The Directors consider at the end of each reporting period whether the initial market discount rate still reflects up to date market conditions. If a revision is required, the fair values of the assets are re-measured at the present value of the revised future cash flows using this revised discount rate. The difference between these values and the carrying values of the assets is recorded against the carrying value of the assets and recognised directly in the statement of comprehensive income.

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31. Financial Risk Management (continued)

The following tables present the changes in level 3 instruments for the years ended 31 August 2013, 2014 and 2015:

	2013			
	Shared equity receivable £m	Investment properties £m	Interest rate cap £m	Total £m
Opening balance	17.3	0.8	-	18.1
Additions	6.2	-	-	6.2
Disposals	(2.1)	-	-	(2.1)
Revaluation gains/(losses) recognised in profit and loss	0.5	-	-	0.5
Closing balance	21.9	0.8	-	22.7

	2014			
	Shared equity receivable £m	Investment properties £m	Interest rate cap £m	Total £m
Opening balance	21.9	0.8	-	22.7
Additions	3.6	-	-	3.6
Disposals	(1.9)	(0.2)	-	(2.1)
Revaluation gains/(losses) recognised in profit and loss	0.7	-	-	0.7
Closing balance	24.3	0.6	-	24.9

	2015			
	Shared equity receivable £m	Investment properties £m	Interest rate cap £m	Total £m
Opening balance	24.3	0.6	-	24.9
Additions	4.8	-	0.4	5.2
Disposals	(2.0)	(0.1)	-	(2.1)
Revaluation gains/(losses) recognised in profit and loss	0.9	-	(0.1)	0.8
Closing balance	28.0	0.5	0.3	28.8

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32. Share based payments

Cash-settled and equity-settled share based payment scheme

The Group has an established Scheme that has been granted to certain employees. The Scheme is a partly equity-settled and partly cash-settled share based payment arrangement whereby the employees are entitled to a cash bonus and shares if certain future conditions are met.

The split of equity and cash is 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 but below the hurdle. The shares will entitle the participants to a percentage of the total value created above the hurdle. The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was 5 (2014:5, 2013:nil).

Equity-settled share-based payment

The cost of the equity-settled transactions with the participants is measured by reference to their 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 the participants and the fair value of the shares at the grant date was measured at £1.3 million based on management's most recent valuation. Therefore the Group recognised a cost of £0.9m in the year ended 31 August 2015 (2014: £0.1m, 2013: £nil) in the statement of comprehensive income in relation to the equity-settled share-based payment.

Cash-settled share-based payment

The fair value of the cash payment under the Scheme has been valued at £0.9m at 31 August 2015 (2014: £2.9m, 2013: £nil) based on the Directors' best estimate of possible expected outcomes. Therefore the Group recognised a total cost of £0.6m (2014: £0.2m, 2013: £nil) in relation to the cash-settled share-based payment during the year ended 31 August 2015.

	Year ended 2015 £000	Year ended 2014 £000	Year ended 2013 £000
Expense arising from share-based payment transactions	1.5	0.3	-

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33. Subsidiaries

The Group's subsidiary undertakings for the period are listed below, including the name, country of incorporation, and proportion of ownership interest:

Name	Country of incorporation	Principal activity	Class of shares	2015 %	2014 %	2013 %
McCarthy & Stone (Developments) Limited	England	Holding Company	Ordinary	90	90	100
McCarthy & Stone Retirement Lifestyles Limited	England	Developer	Ordinary	100	100	100
McCarthy & Stone (Equity Interests) Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone (Home Equity Interests) Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone Investment Properties No. 23 Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone (Total Care Living) Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone (Alnwick) Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone (Extra Care Living) Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone Total Care Management Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone Rental Interests No. 1 Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone Management Services Limited	England	Development management	Ordinary	100	100	100
McCarthy & Stone Lifestyle Services Limited	England	Holding Company	Ordinary	100	100	100
McCarthy & Stone Financial Services Limited	England	Financial Services	Ordinary	100	100	100
Keyworker Properties Limited	England	Property Investment	Ordinary	100	100	100
McCarthy & Stone Estates Limited	England	Property Resale	Ordinary	100	100	100
YourLife Management Services Limited	England	Development Management	Ordinary	50	50	50
Behappy (McCarthy & Stone) Limited	England	Dormant	Ordinary	100	100	100
City Living Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone (FRI Interests No.1) Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Assisted Living Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Care Services Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Independent Living Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Properties Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Scottish Properties No. 1 Limited	England	Dormant	Ordinary	100	100	100
McCarthy & Stone Tailored Care Living	England	Dormant	Ordinary	100	100	100
The Planning Bureau Limited	England	Dormant	Ordinary	100	100	100
Ortus Buildings Limited	England	Dormant	Ordinary	100	100	100
Ortus Construction Limited	England	Dormant	Ordinary	100	100	100
Ortus Developments Limited	England	Dormant	Ordinary	100	100	100
Ortus Homes Limited	England	Dormant	Ordinary	100	100	100
Ortus Housing Limited	England	Dormant	Ordinary	100	100	100
Ortus Properties Limited	England	Dormant	Ordinary	100	100	100

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33. Subsidiaries (continued)

Each of the above shareholdings gives the immediate Parent Company 100% voting rights, with the exception of YourLife Management Services Limited where the parent has 50% voting rights, but the power to appoint the majority of the Directors. Accordingly this gives the Group power over the relevant activities of this entity.

The registered address of all of the above subsidiaries is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

34. Related party transactions

Balances and transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

Remuneration of key management personnel

The key management personnel are the Executive Board and Directors. The remuneration that they have received during the year is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	Year ended 2015 £m	Year ended 2014 £m	Year ended 2013 £m
Short-term employee benefits	3.2	3.6	4.6
Share based payments	1.1	0.3	-
Pension contributions	0.2	0.2	0.3
	<u>4.5</u>	<u>4.1</u>	<u>4.9</u>
Aggregate emoluments of the highest paid director	<u>0.7</u>	<u>0.5</u>	<u>0.7</u>

Transactions involving Directors and key management personnel

At 31st August 2015 there was a total of £0.1m (2014: nil, 2013: nil) due from Directors and key management personnel included within trade and other receivables in connection with the equity settled share based payment scheme described in note 32.

Andy Feculak, the Regional Development Director of the Southern Region, is a Director and controlling shareholder of Brand F Architecture Limited. The Group paid consultancy fees of £14,342 to Brand F Architecture Limited during the year and there were no amounts owing to the company at the year end.

No other advances, credits or guarantees have been entered into with any of the Directors of the Company or key management personnel.

35. Events after the balance sheet date

There were no events after the reporting period that required adjustment or disclosure in the financial statements.

36. Explanation of transition to Adopted IFRSs

For all periods up to and including the year ended 31 August 2014, the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, as stated in note 1, are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in notes 1 to 3 have been applied in preparing the financial statements for the year ended 31 August 2015, the comparative information presented in these financial statements for the year ended 31 August 2014 and 31 August 2013 and in the preparation of an opening IFRS balance sheet at 1 September 2012 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

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Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity

		31 August 2015			31 August 2014		
		Effect of transition to Adopted IFRSs			Effect of transition to Adopted IFRSs		
		UK GAAP	Adopted IFRSs	Adopted IFRSs	UK GAAP	Adopted IFRSs	Adopted IFRSs
		£m	£m	£m	£m	£m	£m
Note							
Non-current assets							
Goodwill	a	34.4	7.3	41.7	36.8	4.9	41.7
Intangible assets	b	28.2	3.5	31.7	30.4	2.8	33.2
Property, plant and equipment	b	6.1	(3.5)	2.6	5.7	(2.8)	2.9
Investments in joint ventures		0.4	-	0.4	0.3	-	0.3
Investment properties		0.5	-	0.5	0.6	-	0.6
Trade and other receivables		31.5	-	31.5	28.0	-	28.0
Derivative financial asset		0.3	-	0.3	-	-	-
Deferred tax asset	c	-	-	-	1.6	(1.0)	0.6
		101.4	7.3	108.7	103.4	3.9	107.3
Current assets							
Inventories	d	916.7	(330.9)	585.8	694.8	(199.0)	495.8
Trade and other receivables		10.9	-	10.9	8.9	-	8.9
Cash and cash equivalents		56.9	-	56.9	111.1	-	111.1
Total current assets		984.5	(330.9)	653.6	814.8	(199.0)	615.8
Total assets		1,085.9	(323.6)	762.3	918.2	(195.1)	723.1
Equity and liabilities							
Capital and reserves							
Share capital		381.1	-	381.1	381.1	-	381.1
Share premium		56.4	-	56.4	56.4	-	56.4
Retained earnings		99.3	5.0	104.3	36.5	2.8	39.3
Equity attributable to owners of the Company		536.8	5.0	541.8	474.0	2.8	476.8
Non controlling interest		0.7	-	0.7	0.4	-	0.4
Total equity		537.5	5.0	542.5	474.4	2.8	477.2
Current liabilities							
Trade and other payables	e	83.8	-	83.8	61.3	0.7	62.0
Land payables	d	367.4	(330.9)	36.5	222.9	(199.0)	23.9
Current tax liabilities		-	-	-	-	-	-
Total current liabilities		451.2	(330.9)	120.3	283.8	(197.9)	85.9
Non-current liabilities							
Long-term borrowings		99.2	-	99.2	160.0	-	160.0
Deferred tax liability		(2.0)	2.3	0.3	-	-	-
Total liabilities		548.4	(328.6)	219.8	443.8	(197.9)	245.9
Total equity and liabilities		1,085.9	(323.6)	762.3	918.2	(195.1)	723.1

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Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity (continued)

		31 August 2013			31 August 2012		
	Note	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
		£m	£m	£m	£m	£m	£m
Non-current assets							
Goodwill	a	39.3	2.4	41.7	41.7	-	41.7
Intangible assets	b	32.4	0.7	33.1	34.5	-	34.5
Property, plant and equipment	b	3.4	(0.7)	2.7	4.6	-	4.6
Investments in joint ventures		0.5	-	0.5	0.4	-	0.4
Investment properties		0.8	-	0.8	0.8	-	0.8
Trade and other receivables		26.3	-	26.3	21.8	-	21.8
Deferred tax asset	c	2.0	(0.5)	1.5	0.8	3.9	4.7
		<u>104.7</u>	<u>1.9</u>	<u>106.6</u>	<u>104.6</u>	<u>3.9</u>	<u>108.5</u>
Current assets							
Inventories	d	584.3	(134.5)	449.8	514.1	-	514.1
Trade and other receivables		9.4	-	9.4	9.3	-	9.3
Cash and cash equivalents		96.9	-	96.9	135.9	-	135.9
		<u>690.6</u>	<u>(134.5)</u>	<u>556.1</u>	<u>659.3</u>	<u>-</u>	<u>659.3</u>
Total current assets							
		<u>690.6</u>	<u>(134.5)</u>	<u>556.1</u>	<u>659.3</u>	<u>-</u>	<u>659.3</u>
Total assets		<u>795.3</u>	<u>(132.6)</u>	<u>662.7</u>	<u>763.9</u>	<u>3.9</u>	<u>767.8</u>
Equity and liabilities							
Capital and reserves							
Share capital		381.1	-	381.1	14.1	-	14.1
Share premium		56.4	-	56.4	56.4	-	56.4
Retained earnings		(6.1)	1.0	(5.1)	3.9	(13.9)	(10.0)
		<u>431.4</u>	<u>1.0</u>	<u>432.4</u>	<u>74.4</u>	<u>(13.9)</u>	<u>60.5</u>
Equity attributable to owners of the Company							
		<u>431.4</u>	<u>1.0</u>	<u>432.4</u>	<u>74.4</u>	<u>(13.9)</u>	<u>60.5</u>
Non-controlling interest							
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity		<u>431.4</u>	<u>1.0</u>	<u>432.4</u>	<u>74.4</u>	<u>(13.9)</u>	<u>60.5</u>
Current liabilities							
Trade and other payables	e	48.2	0.7	49.1	28.6	0.8	29.4
Land payables	d	157.6	(134.5)	23.1	165.5	-	165.5
Derivative liability		-	-	-	-	17.0	17.0
		<u>205.8</u>	<u>(133.6)</u>	<u>72.2</u>	<u>194.1</u>	<u>17.8</u>	<u>211.9</u>
Total current liabilities							
		<u>205.8</u>	<u>(133.6)</u>	<u>72.2</u>	<u>194.1</u>	<u>17.8</u>	<u>211.9</u>
Non-current liabilities							
Long-term borrowings	c	158.1	-	158.1	496.4	-	495.4
		<u>363.9</u>	<u>(133.6)</u>	<u>230.3</u>	<u>690.5</u>	<u>17.8</u>	<u>707.3</u>
Total liabilities							
		<u>363.9</u>	<u>(133.6)</u>	<u>230.3</u>	<u>690.5</u>	<u>17.8</u>	<u>707.3</u>
Total equity and liabilities		<u>795.3</u>	<u>(132.6)</u>	<u>662.7</u>	<u>763.9</u>	<u>3.9</u>	<u>767.8</u>

McCarthy & Stone Limited

Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Notes to the reconciliation of equity

a) *Goodwill*

Amortisation is charged on goodwill under UK GAAP. This has been reversed to arrive at the balance shown under IFRS.

b) *Intangible assets - other*

Development costs expensed under UK GAAP for which relevant IFRS criteria are met, are capitalised in arriving at the IFRS balance sheet figures. Software development had previously been capitalised but classified as Property, plant and equipment. The development costs continued to meet the criteria for capitalisation, however the software was reclassified from Property, plant and equipment to intangible assets in line with IAS 38.

c) *Deferred taxation*

Under UK GAAP, certain deferred tax was provided on timing differences that had originated but not reversed at the balance sheet date. Under IAS 12, deferred tax is provided on temporary differences based upon future recovery or settlement of assets and liabilities recognised in the balance sheet. In addition IAS 12 requires that within a group deferred tax assets and liabilities arising in separate entities are not offset unless the entities intend to settle current tax net. Consequently under IFRS deferred tax assets and liabilities are shown separately on the balance sheet.

In addition adjustments to deferred tax in relation to IFRS adjustments made elsewhere in the financial statements have been made.

Under UK GAAP certain deferred tax assets are not recognised by the Group due to uncertainty as to when these assets will be realised. The same principles exist under IAS 12 so an element of the IFRS deferred tax asset has also not been recognised.

d) *Derecognition of conditional land creditors*

McCarthy & Stone enter into agreements for land parcels under which payment is not made until a later period. Land inventories and the associated land payables are recognised in the statement of financial position from the date of unconditional exchange of contracts. Previously recognition occurred on conditional exchange.

Where, through deferred purchase credit terms, cost differs from the nominal amount which will be paid in settling the deferred purchase terms liability, the initial cost of the land is discounted to fair value. Under IFRS, this extended payment arrangement is considered to include a financing element. The land payable is then increased to settlement value over the period of financing, with the financing element being charged to the statement of comprehensive income as a finance cost.

e) *Holiday pay accrual*

Under IFRS as adopted by the EU, companies are required to accrue for holiday pay owed to employees at the period end. The additional accrual has been booked across all periods.

McCarthy & Stone Limited

Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Reconciliation of profit for years ended 31 August 2013, 31 August 2014 and 31 August 2015

	Note	UK GAAP £m	2015 Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		485.7	-	485.7
Cost of sales		(362.6)	-	(362.6)
Gross profit		123.1	-	123.1
Other operating income		9.1	-	9.1
Administrative expenses	a	(42.3)	2.4	(39.9)
Other operating expenses		(4.5)	-	(4.5)
Operating profit		85.4	2.4	87.8
Amortisation of brand	a	(4.5)	2.4	(2.1)
Exceptional administrative expenses		(5.4)	-	(5.4)
Underlying operating profit		95.3	-	95.3
Share of results of joint ventures accounted for using the equity method		-	-	-
Financial income		1.2	-	1.2
Exceptional finance expenses		-	-	-
Financial expense, other		(8.1)	-	(8.1)
Profit before tax		78.5	2.4	80.9
Income tax expense		(16.1)	(0.5)	(16.6)
Profit for the year from continuing operations and total comprehensive income		62.4	1.9	64.3
Profit attributable to:				
Owners of the Company		62.2	1.9	64.1
Non controlling interest		0.2	-	0.2

McCarthy & Stone Limited

Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Reconciliation of profit for the years ended 31 August 2013, 31 August 2014 and 31 August 2015 (continued)

	Note	UK GAAP £m	2014 Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		387.8	-	387.8
Cost of sales		(283.8)	-	(283.8)
Gross profit		104.0	-	104.0
Other operating income		7.9	-	7.9
Administrative expenses	a	(40.4)	2.4	(38.0)
Other operating expenses		(3.4)	-	(3.4)
Operating profit		68.1	2.4	70.5
Amortisation of brand	a	(4.5)	2.4	(2.1)
Exceptional administrative expenses		(2.5)	-	(2.5)
Underlying operating profit		75.1	-	75.1
Share of results of joint ventures accounted for using the equity method		-	-	-
Financial income		1.0	-	1.0
Exceptional finance expenses		(1.5)	-	(1.5)
Financial expense, other		(12.9)	-	(12.9)
Profit before tax		54.7	2.4	57.1
Income tax expense		(12.1)	(0.6)	(12.7)
Profit for the year from continuing operations and total comprehensive income		42.6	1.8	44.4
Profit attributable to:				
Owners of the Company		42.5	1.8	44.3
Non controlling interest		0.1	-	0.1

McCarthy & Stone Limited

Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Reconciliation of profit for the years ended 31 August 2013, 31 August 2014 and 31 August 2015 (continued)

	Note	UK GAAP £m	2013 Effect of transition to Adopted IFRSs £m	Adopted IFRSs £m
Revenue		310.8	-	310.8
Cost of sales		(244.2)	-	(244.2)
Gross profit		66.6	-	66.6
Other operating income		5.5	-	5.5
Administrative expenses	a	(40.3)	2.4	(37.9)
Other operating expenses		(2.3)	-	(2.3)
Operating profit		29.5	2.4	31.9
Amortisation	a	(4.5)	2.4	(2.1)
Exceptional administrative expenses		(11.2)	-	(11.2)
Underlying operating profit		45.2	-	45.2
Share of results of joint ventures accounted for using the equity method				
Financial income	b	0.8	0.5	1.3
Exceptional finance expenses	b	(8.6)	8.6	-
Financial expense, other	b	(33.5)	7.9	(25.6)
Profit before tax		(11.8)	19.4	7.6
Income tax expense	b	1.3	(4.5)	(3.2)
Profit for the year from continuing operations and total comprehensive income		(10.5)	14.9	4.4
Profit attributable to:				
Owners of the Company		(10.5)	14.9	4.4
Non-controlling interest		-	-	-

McCarthy & Stone Limited

Notes to the consolidated financial statements

36. Explanation of transition to Adopted IFRSs (continued)

Notes to the reconciliation of profit

a) Administrative expenses – amortisation costs

Amortisation is charged on goodwill under UK GAAP. This has been reversed to arrive at the balance shown under IFRS.

b) Settlement of interest rate swap

IFRS requires derivative instruments to be initially recognised at fair value, with movements in fair value in subsequent periods recognised in profit and loss. At 1 September 2012, McCarthy & Stone held an interest rate swap with a fair value of (£17.0m) as at that date. Under UK GAAP, this derivative was not recognised on the balance sheet.

The interest rate swap was terminated and settled in the year to 31 August 2013, and all previous movements relating to the termination of the interest rate derivative were recognised in profit and loss. As the derivative liability fair value has been recognised on the opening balance sheet under IFRS, the settlement of the derivative leads to a credit to the profit and loss account in the year ended 31 August 2013.

The credit on the settlement of the derivative liability has been recognised as a fair value gain on the interest rate swap in 2013 of £0.5m; £8.6m offsetting the previously recognised 'exceptional finance costs'; and £7.9m against 'finance expense, other'.

A deferred tax asset was recognised at the same time as the recognition of the derivative liability. The release of the deferred tax asset has led to an increase in the tax charge for the year ended 31 August 2013.

Explanation of material adjustments to the cash flow statement

The transition from UK GAAP to IFRS has no effect upon the reported cash flows generated by the Group. The IFRS cash flow statement is presented in a different format from that required under UK GAAP with cash flows split into three categories of activities – operating activities, investing activities and financing activities. The reconciling items between the UK GAAP presentation and the IFRS presentation have no impact on the cash flows generated.

In preparing the cash flow statement under IFRS, cash and cash equivalents include cash at bank and in hand and bank overdraft

McCarthy & Stone Limited

Parent Company statement of financial position

	Note	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Assets				
Non-current assets				
Investments in subsidiaries	3	419.7	419.7	419.7
Total non-current assets		419.7	419.7	419.7
Current assets				
Trade and other receivables	4	17.5	15.3	-
Cash and cash equivalents		-	-	55.2
Total current assets		17.5	15.3	55.2
Total assets		437.2	435.0	474.9
Equity and liabilities				
Capital and reserves				
Share capital		381.1	381.1	381.1
Share premium		56.4	56.4	56.4
Retained earnings		(2.5)	(2.5)	(2.5)
Total equity	5	435.0	435.0	435.0
Current liabilities				
Trade and other payables	6	2.2	-	39.9
Total current liabilities		2.2	-	39.9
Total liabilities		2.2	-	39.9
Total equity and liabilities		437.2	435.0	474.9

Notes 1 to 7 form part of the financial statements shown above.

There were no recognised gains and losses for the year other than the profit for the year (2014: nil, 2013: nil).

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Parent Company profit and loss account. The Company recorded a profit for the year of £nil (2014: £nil, 2013: £0.3m loss).

These financial statements were approved by the Board on 2 October 2015 and signed on its behalf by

N W Maddock
Director

McCarthy & Stone Limited

Notes to the parent Company financial statements

1. Accounting policies

Basis of preparation

The Company financial statements have been prepared under the historical cost accounting rules and in accordance with applicable UK Accounting Standards.

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The Company recorded a profit for the year of £nil (2014: £nil, 2013: £0.3m loss).

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its consolidated financial statements, which include the Company, are publicly available.

The principal accounting policies adopted are set out below.

Investments

Investments in Group undertakings are included in the statement of financial position at cost less any provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

2. Staff costs

The Company has no employees during the period covered by these financial statements.

3. Investments in subsidiaries

Shares in unlisted subsidiary undertakings

	Year ended 31 August		
	2015 £m	2014 £m	2013 £m
Cost and net book value at 31 August 2015, 2014 and 2013: McCarthy & Stone (Developments) Limited	419.7	419.7	419.7
Net book value at 31 August 2015, 2014 and 2013	419.7	419.7	419.7

The Group's principal subsidiary undertakings for the period that are significant for the period and traded during the period are listed in note 31 to the consolidated financial statements.

4. Trade and other receivables

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Other debtors and prepayments	0.1	0.5	-
Amounts owed by subsidiary undertakings	17.4	14.8	-
	17.5	15.3	-

McCarthy & Stone Limited **Notes to the parent Company financial statements**

5. Shareholders' funds

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 31 August 2015, 2014 and 2013	381.1	56.4	(2.5)	435.0

6. Trade and other payables

	31 August 2015 £m	31 August 2014 £m	31 August 2013 £m
Amounts owed to subsidiary undertakings	2.2	-	-
Other creditors	-	-	39.9
	<u>2.2</u>	<u>-</u>	<u>39.9</u>

7. Related parties

The Company is exempt from disclosing transactions with wholly owned subsidiaries in the Group. Other related party transactions are included within those given in Note 34 of the consolidated financial statements.