McCarthy & Stone (Equity Interests) Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 14 month period ended 31 October 2019

Company registration number: 05663330

CONTENTS

DIRECTORS AND ADVISERS

For the 14 month period ended 31 October 2019

Directors

J M Tonkiss
R C Baker
A D Batty (appointed 20 January 2020)
P D Hole (resigned 6 December 2019)

Registered Office

4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

Independent Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers

HSBC Bank plc
70 Pall Mall
London
SW1Y 5EZ

DIRECTORS' REPORT

For the 14 month period ended 31 October 2019

The Directors of McCarthy & Stone (Equity Interests) Limited (the Company) (registered number 05663330) present their Annual Report and audited financial statements for the 14 month period ended 31 October 2019. All comparatives are for the 12 month period ended 31 August 2018 (2018). This Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption. Accordingly, the Company is not required to include a Strategic Report.

Ownership

The Company is a wholly-owned subsidiary of McCarthy & Stone Retirement Lifestyles Limited. The ultimate parent company McCarthy & Stone plc produces consolidated financial statements and is listed on the London Stock Exchange. McCarthy & Stone plc and its subsidiaries are referred to as the Group.

There has been no change to the Company's issued share capital during the 14 month period.

Principal activity

The Company's business is holding shared equity interests in retirement apartments.

Results

The profit after taxation for the 14 month period ended 31 October 2019 amounted to £106,591 (12 months to 31 August 2018: loss of £1,162,820). The key reason for the movement in result year on year is due to the negative revaluation of the shared equity assets which occurred in the prior period. No dividends have been proposed or paid either in the current 14 month period or prior year.

Directors and Directors' interests

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

Name	Date of appointment	Date of resignation
Current Directors:		
J M Tonkiss	31 August 2018	-
R C Baker	6 January 2017	-
A D Batty	20 January 2010	-
P D Hole	1 September 2016	9 December 2019

No Director has any interest in the shares of the Company. There have been no changes in the Directors' interests in the share capital of the Company since 31 October 2019.

Directors' insurance

The Group to which this Company belongs maintains Directors' and Officers' liability insurance for the Directors and Officers of all Group companies.

Directors' conflicts of interest

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where they have, 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 14 month period under review and the Directors have concluded that there were no conflicts of interest during that time.

DIRECTORS' REPORT (CONTINUED)

For the 14 month period ended 31 October 2019

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.

Financial risk management

The Company's activities expose it primarily to macroeconomic risks such as deflation and the cyclical nature of UK property prices, as the amount repayable to the Company is dependent upon the market price of the property to which the asset is linked.

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

Employees

The Company had no employees during the current 14 month period or the prior year.

Dividends

No dividends were proposed or paid during the 14 month period to 31 October 2019 (12 month period to 31 August 2018: £nil).

Political donations

There were no political donations during the current 14 month period or previous year.

Post balance sheet events

As outlined in note 12, there were no events after the reporting period that required adjustment in the financial statements.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Through a combination of third party trading, transactions with other Group entities and intra-group financing where appropriate, the Directors believe that the Company has sufficient resources to continue as a going concern. They have accordingly continued to adopt the going concern basis in preparing the financial statements. See note 1 of the financial statements for more information.

Future developments

The Company will continue to hold shared equity interests in retirement apartments for the foreseeable future.

Change of auditor and financial year end

In June 2018 the Board completed the external audit tender process in line with the ten year statutory requirement and appointed Ernst & Young LLP as the Group's statutory auditor for the period ending 31 October 2019. As part of the business transformation strategy announced on 25 September 2018, the Directors decided to change the Group's financial year end from 31 August to 31 October. McCarthy & Stone (Equity Interests) Limited have also followed this change of financial year end. The comparative amounts presented in the financial statements are not directly comparable.

DIRECTORS' REPORT (CONTINUED)

For the 14 month period ended 31 October 2019

Statement of disclosure of information to the independent auditor
In the case of each of the persons who are Directors of the Company at the date when this report is approved:

- so far as each of the Directors are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware.
- each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves 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.

Approval of reduced disclosures
The Company, as a qualifying entity, has taken advantage, in respect of its separate financial statements, of the disclosure exemption in FRS 102 paragraph 1.12, as described within note 1.

The Company also intend to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the Company by McCarthy & Stone Retirement Lifestyles Limited, as the immediate parent of the entity. They should be served by no later than 31 October 2020.

Approved by the Board and signed on its behalf by:

R C Baker
Director

30 July 2020

McCarthy & Stone (Equity Interests) Limited
4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

DIRECTORS' RESPONSIBILITIES STATEMENT

For the 14 month period ended 31 October 2019

Directors' responsibilities statement in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of McCarthy & Stone (Equity Interests) Limited (the 'company') for the year ended 31 October 2019 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 October 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the provisions available for small entities, in the circumstances set out in note 1 to the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to Note 1 and Note 12 of the financial statements, which describes the economic and social disruption the company is facing as a result of COVID-19 which is impacting consumer demand, and the company's responses to the disruption. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MCCARTHY & STONE (EQUITY INTERESTS) LIMITED (CONTINUED)

For the 14 month period ended 31 October 2019

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst + Young

Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
31 July 2020

PROFIT AND LOSS ACCOUNT

For the 14 month period ended 31 October 2019

	Notes	14 month period ended 31 October 2019 £	12 month period ended 31 August 2018 £
Administrative expenses		**(1,200)**	(1,200)
Other gains and losses	3	**278,515**	156,628
Operating profit	3	**277,315**	155,428
Interest payable and similar expenses	4	**(163,244)**	(1,310,987)
Profit / (Loss) before taxation		**114,071**	(1,155,559)
Tax on loss	5	**(7,480)**	(7,261)
Profit / (Loss) for the financial year		**106,591**	(1,162,820)

All of the figures above relate to continuing operations.

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

The notes on pages 13 to 23 form part of these financial statements.

BALANCE SHEET

As at 31 October 2019

		Notes	As At 31 October 2019 £	As at 31 August 2018 £
Non-current assets				
Debtors:	shared equity receivables	6	**1,296,762**	1,527,148
Current assets				
Other debtors:	amounts due within one year	7	**928,573**	2,512,246
Total assets			**2,225,335**	4,039,394
Other creditors: amounts falling due within one year		8	**(109,195)**	(2,029,845)
Net current assets			**819,378**	482,401
Net assets			**2,116,140**	2,009,549
Capital and reserves				
Called up share capital		9	**1,900,001**	1,900,001
Profit and loss account			**216,139**	109,548
Shareholders' funds			**2,116,140**	2,009,549

The notes on pages 13 to 23 form part of these financial statements.

The financial statements were authorised for issue by the Board of Directors on 30 July 2020 and were signed on its behalf by:

R C Baker
Director

Company registration number: 05663330

STATEMENT OF CHANGES IN EQUITY

For the 14 month period ended 31 October 2019

	Notes	Share capital £	Profit and loss account £	Total £
Balance as at 1 September 2017	9	**1,900,001**	**1,272,368**	**3,172,369**
(Loss) for the year		-	(1,162,820)	(1,162,820)
Total comprehensive (loss) for the year		-	**(1,162,820)**	**(1,162,820)**
Balance as at 31 August 2018	9	**1,900,001**	**109,548**	**2,009,549**
Profit for the 14 month period		-	106,591	106,591
Total comprehensive profit for the period		-	**106,591**	**106,591**
Balance as at 31 October 2019	9	**1,900,001**	**216,139**	**2,116,140**

The notes on pages 13 to 23 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the 14 month period ended 31 October 2019

1. Accounting policies

The following accounting policies have been used in dealing with items that are considered material in relation to the Company financial statements. They have been applied consistently throughout the current 14 month period and prior year.

McCarthy & Stone (Equity Interests) Limited (the Company) is a private company limited by shares and registered in England and Wales under the Companies Act 2006. The address of the registered office is given on page 2.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 'the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' and the Companies Act 2006.

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

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The Company is consolidated in the financial statements of its parent, McCarthy & Stone plc, which may be obtained at www.mccarthyandstonegroup.co.uk. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

Going concern

The financial statements have been prepared on a going concern basis. In making the assessment as to the Company's ability to continue as a going concern, we have considered the Company's position within the Group, given the high level of intercompany transactions with the Company.

As a result of future economic uncertainty created by Covid-19, the Group has carefully considered its liquidity position. To preserve the liquidity of the business and maintain a strong cash position, several cash optimisation measures have been put in place.

On 18 March 2020, the Board announced the withdrawal of the final dividend payment of 3.5p per ordinary share, resulting in a cash saving of c.£19m. In addition, the Group has taken action to fully draw down its £200m Revolving Credit Facility (RCF).

As announced on 25 March 2020, from mid-March the Group paused all build activity across its entire development programme. We also paused our land spend and contractually committed land spend has been reviewed and minimised where possible. All marketing activity was paused and on-site sales offices were closed.

Employees impacted by these actions were either redeployed to support our homeowners as the additional demand for our services significantly increased or placed on furlough as they qualified for support under the Government's Coronavirus Job Retention Scheme. c.640 staff across sales, construction and head office functions were furloughed since April 2020 (a proportion of which have now returned), while all members of the Board and wider leadership team have taken a voluntary 20% salary reduction.

1. Accounting policies (continued)

Going concern (continued)
On 30 April 2020, the Group completed a portfolio sale of 135 apartments to Waverstone LLP, generating c.£13m cash.

On 2 June 2020, the Group secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF') and has put in place a £300m commercial paper programme under this scheme. This facility, which is a 12 month instrument from the point of draw down, can be drawn at any time until 23 March 2021.

The Group holds a £200m Revolving Credit Facility provided by Barclays, HSBC and RBS, which expires in March 2023. This facility includes financial covenants which test the Group's interest cover, gearing, tangible net asset value and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet.

On 7 July 2020, the Group secured a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021.

On 2 June 2020, we announced a phased return to construction and sales activity from 8 June 2020. As part of this remobilisation planning, management have undertaken a detailed review of the previous business plan to allow for a gradual re-opening of sales offices and construction sites together with a phased reintroduction of marketing activity and land purchasing ensuring that the Group is able to maintain sufficient cash headroom in order to navigate through a prolonged impact from a possible second wave of Covid-19.

In stress testing the cash flows of the business, management has modelled a single combined downside scenario demonstrating a prolonged impact of Covid-19 with a further 16% volume reduction together with a further 7% house price deflation and normal sales conditions not returning until June 2021. As part of the systematic remobilisation of the Group's sales, we are seeing this activity gradually increasing in line with a phased ramp up plan reflecting vulnerability of our customer base.

The single combined downside scenario also reflects the impact of an increased build cost inflation and its continuation into FY22. In addition, management have modelled a delay of the sale of the first rental tranche to June 2021 and lower FRI multiples. Principal mitigation actions have been modelled such as curtailing land purchasing, delaying build starts and a reduction in bonuses, marketing costs and staff levels. As already demonstrated in March 2020 such mitigating actions are within management's control and the business closely monitors appropriate lead indicators to implement these actions in sufficient time to achieve the required cash preservation impact.

Despite the combined impact of the above downside assumptions, the stress testing model demonstrates that the business is able to maintain a positive cash headroom and that the Group does not envisage taking advantage of the CCFF facility throughout the going concern assessment period. The facility could be used to provide standby liquidity should it be required, however to date it remains undrawn and management do not currently envisage the need to drawdown.

The remobilisation plan and the stress testing models also support sufficient headroom for compliance with the RCF covenants throughout the going concern assessment period, except for the interest cover covenant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 14 month period ended 31 October 2019

1. Accounting policies (continued)

Going concern (continued)

To ensure no breach of the interest cover covenant the Group has secured an interest cover waiver until April 2021 and a relaxation of the interest cover covenant as at October 2021.

Through a combination of transactions with other Group entities and access to intra-group financing where appropriate, the Directors have reasonable expectation that the Company has adequate resources to continue in operation for at least 12 months from the date of signing of these financial statements and have therefore adopted the going concern basis of accounting in preparing the financial statements for this entity.

Shared equity receivables

Shared equity interests arise from sales incentive schemes under which the Company 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 plus transaction costs that are directly attributable to the receivable. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements, historic profit/losses on redemptions and the expected timing of receipts. The Directors revisit the future anticipated cash receipts from the assets at each reporting date as these assets are also subsequently recognised at fair value.
The difference between the anticipated future receipt and the initial fair value is credited/charged to interest payable and similar expenses or other gains and losses.

Related party transactions

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

Other operating income

The Company attracts a risk of ownership premium payable by other McCarthy & Stone Group companies, in recognition of the scheme assets which the Company holds. This is reported as other operating income to reflect the nature of the intra group transaction.

Profit or loss on realisation of the shared equity assets is also recognised within other operating income.

Corporation tax

Corporation tax comprises current tax. Current tax is based on taxable profits for the 14 month period. Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise, tax is recognised in the profit and loss account.

1. Accounting policies (continued)

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets and shared equity receivables are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

2. Critical accounting judgements and estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

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 Company's accounting policies

No critical judgments have been made in the process of applying the Company's accounting policies that have a material effect on the amounts recognised in the financial statements.

Critical assumptions and major sources of estimation uncertainty

The Company does not have any key assumptions concerning the future, or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other assumptions and sources of estimation uncertainty

The following assumption and sources of estimation uncertainty carry risk of resulting in a material adjustment to the carrying amounts of assets and liabilities over the longer term.

Fair value of shared equity receivables

Shared equity receivables are recognised at the fair value of future anticipated cash receipts that takes into account the Directors' view of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts. Shared equity receivables are reviewed at each reporting date using a variety of estimates that anticipate future cash flows from the assets. The revaluation is mainly driven by changes in discount rates and the timing of

Fair value of shared equity receivables (continued)

receipts. Should both of these assumptions be impacted by a reasonably possible change of a 1% increase or decrease, the effect has been illustrated below:

	Increase assumptions by 1% £m	Decrease assumptions by 1% £m
Discount rate	(0.1)	0.1
Timing of receipts	(0.1)	0.1

As at 31 October 2019, the shared equity receivables were valued at £1,296,762 (as at 31 August 2018: £1,527,148

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Operating profit

a. Employees

The Company had no employees during the current or prior year.

b. Auditor's remuneration

Remuneration of the auditor is settled by McCarthy & Stone (Developments) Limited on behalf of all companies within the McCarthy & Stone plc Group, and was not recharged in the prior year. The total Group audit fee for the 14 months ended 31 October 2019 for auditing of the financial statements was £0.2m (12 months to 31 August 2018: £0.2m). There have been no other fees payable to the Company's auditor relating to the Company.

c. Directors' remuneration

The Directors received no remuneration from the Company in the current 14 month period or prior year. The Directors are paid by other Group companies and the allocation for the 14 month period ended 31 October 2019 is £nil (12 month period ended 31 August 2018: £nil).

d. *Other gains and losses*

	14 month period ended 31 October 2019 £	12 month period ended 31 August 2018 £
Risk of ownership premium	202,837	197,070
Gain/(loss) from realisation of shared equity receivables	75,678	(40,442)
Other gains and losses	**278,515**	156,628

Other operating income is attributable to two income streams. The Company attracts a risk of ownership premium payable by other Group companies, in recognition of the scheme assets which the company holds. This is reported as other operating income to reflect the nature of the intra-group transaction. The second stream relates to profits arising from the realisation of shared equity receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 14 month period ended 31 October 2019

4. Interest payable and similar expenses

	14 month period ended 31 October 2019 £	12 month period ended 31 August 2018 £
Interest payable to fellow Group undertakings	(162,270)	(157,656)
Change in future value of long-term receivable	(974)	(1,153,331)
Interest payable and similar expenses	**(163,244)**	**(1,310,987)**

Interest is payable on an initial loan balance, equivalent to the outstanding shared equity receivables provided by the parent company, at a rate of 8% per annum (2018: 8%). Other balances owed to Group undertakings are interest free and repayable on demand.

5. Corporation Tax

a. Analysis of tax charge for the period

	14 month period ended 31 October 2019 £	12 month period ended 31 August 2018 £
Current tax:		
UK corporation tax on loss for the period	7,480	7,261
Tax charge on profit/(loss)	**7,480**	**7,261**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 14 month period ended 31 October 2019

5. Corporation Tax

b. Factors affecting tax charge for the period

	14 month period ended 31 October 2019 £	12 month period ended 31 August 2018 £
Profit/(loss) before taxation	114,071	(1,155,559)
Anticipated tax credit based on loss before tax at 19.00% (2018: 19.00%)	21,674	(219,556)
Effects of:		
(Income)/expenses not (taxable)/deductible for tax purposes	(14,194)	226,817
Tax charge for the period	**7,480**	**7,261**

As at the balance sheet date, a reduction in the rate of corporation tax to 17% from 1 April 2020 was substantively enacted and this rate has been applied to the calculation of deferred tax balances. On 17 March 2020 a resolution was passed to reverse this rate reduction and maintain a corporation tax rate of 19%. The impact of this change in rate will be accounted for in future periods.

6. Other debtors: shared equity receivables

	As at 31 October 2019 £	As at 31 August 2018 £
Shared equity receivables	1,296,762	1,527,148
	1,296,762	**1,527,148**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the 14 month period ended 31 October 2019

7. Other debtors: amounts falling within one year

	As at 31 October 2019 £	As at 31 August 2018 £
Amounts owed by Group undertakings	928,573	2,512,246
	928,573	**2,512,246**

Balances owed by Group undertakings are interest free, unsecured and repayable on demand. There are no guarantees on balances and no provisions against outstanding balances have been made.

8. Other creditors: amounts falling due within one year

	As at 31 October 2019 £	As at 31 August 2018 £
Amounts owed to Group undertakings	109,195	2,029,845
	109,195	**2,029,845**

Balances owed to Group undertakings incur an 8% interest charge per annum and are repayable on demand. There are no guarantees on balances.

9. Share capital

	Authorised No.	Authorised £	Allotted, called up & fully paid No.	Allotted, called up & fully paid £
Equity share capital Ordinary shares of £1 each				
As at 31 August 2018 and 31 October 2019	**2,000,000**	**2,000,000**	**1,900,001**	**1,900,001**

Each ordinary share carries equal voting, dividend and capital repayment rights.
The profit and loss account represents cumulative profits or losses net of other adjustments.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

10. Related Parties

The Company has taken advantage of the exemption available under FRS 102, section 33.1A, not to disclose transactions with wholly-owned members of the Group headed by McCarthy & Stone plc.

11. Ultimate parent undertaking and controlling party

The immediate parent undertaking is McCarthy & Stone Retirement Lifestyles Limited.

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

The financial statements of McCarthy & Stone plc can be obtained from their registered office:
4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

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

12. Post balance sheet events

Coronavirus

The outbreak of the COVID-19 pandemic in March 2020 has had a large impact on the McCarthy & Stone Group. Closure of sales offices and sites under construction from mid-March, typically one of our busiest sales and construction seasons, resulted in a significant decrease in our sales volumes and caused disruption to build activities in the first half of FY20.

The Covid-19 pandemic continues to impact on our people, business model, business performance and the economic environment in which we operate and has led the Group to invoke a number of business continuity procedures to manage the immediate impact of the pandemic and maximize liquidity. The Group has also undertaken a detailed review of the future plans for the business with detailed scenario modelling to ensure the business can adapt to government guidelines and continue to operate through a period of economic downturn and uncertainty.

Borrowings

On 2 June 2020, the Group secured access to the HM Treasury and Bank of England Covid Corporate Financing Facility ('CCFF') and has put in place a £300m commercial paper programme under this scheme. The facility will be used to provide additional liquidity should it be required, however it remains currently undrawn.

On 7 July the Group secured a waiver of the interest cover banking covenant until April 2021 and a relaxation in this covenant test for October 2021.

This has ensured that the Group is well positioned to navigate through a period of downturn and continue investment in land and build to work towards future growth targets.

12. Post balance sheet events (continued)

Borrowings (continued)

Whilst the pandemic has had a significant impact on the business there are no adjustments required to the FY19 financial statements of this entity. The detailed modelling carried out by the Group shows that the business can continue to operate for the foreseeable future and therefore the accounts of this entity have been prepared on a Going Concern basis. Management will continue to assess the impact of the pandemic and manage risks to the business as they arise.