McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Annual Report and Financial Statements

For the year ended 31st October 2020

Registered number 06622199

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McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Strategic Report for the year ended 31st October 2020

The Directors have pleasure in submitting the Strategic Report and the audited consolidated financial statements of McCarthy & Stone Ltd (the Company) and all its subsidiaries (together, the Group) for the year ended 31st October. All comparatives are for the 14 months financial year ended 31 October 2019 ('2019') unless otherwise stated.

McCarthy & Stone is the UK's leading developer and manager of retirement communities, with a significant market share. The Group buys land and then builds, sells and manages high-quality retirement developments. It has built and sold more than 58,000 properties across more than 1,300 retirement developments since 1977 and is renowned for its focus on the needs of those in later life.

The Group employees around 2,500 people across the UK and works with 5,934 suppliers, sub-contractors and local trades people to provide exceptional apartments for our customers to own outright, rent or rent to buy.

McCarthy & Stone has two main product ranges - Retirement Living and Retirement Living PLUS - which provide mainly one and two-bedroom apartments across the country with varying levels of support and care for older people. Retirement Living developments provide independence in private apartments designed specifically for the over 60s, as well as facilities such as communal lounges and guest suites that support companionship. Retirement Living PLUS developments, which are designed specifically for the over 70s, offer all of this plus more on-site facilities such as restaurants, well-being suites and function rooms. Importantly, they also provide on-site flexible care and support packages to assist those needing additional help.

All developments built since 2010 are managed by the company's in-house management services team, providing peace of mind that it will look after customers and their properties over the long term. This is a key part of how McCarthy & Stone seeks to enrich its customers' lives. This commitment to quality and customer service continues to be recognised by residents. In March, the Group received the full Five Star rating for customer satisfaction from the Home Builders Federation for the fifteenth consecutive year - making it the only UK developer, of any size or type, to achieve this accolade.

On the 23 October 2020, the Group announced a recommended cash offer for the acquisition of the entire issued and to be issued share capital of McCarthy & Stone by Bidco, a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI through a Scheme of Arrangement. Under the terms of the acquisition, each McCarthy & Stone shareholder were entitled to receive 120p in cash per share held. The acquisition valued the entire issued and to be issued share capital of McCarthy & Stone at approximately £647m.

McCarthy & Stone plc was acquired by Lone Star by way of Scheme of Arrangement which became effective on 1 February 2021 and ceased to be a listed company on 2 February 2021.

Business performance review

The COVID-19 pandemic caused significant disruption to the business during this financial year resulting in nationwide closures of construction sites and sales offices during the first lockdown.

During this period the health and wellbeing of the Group's customers and employees has been the first priority while the Group also took decisive measures to protect the financial health of the business.

Against this challenging backdrop, the Group delivered a total of 832[1] legal completions during the year (2019: 2,402) and generated full year revenue of c.£197m (2019: £725m).

The legal completions comprised of 666 sales completions (including 41 part-buy part-rent properties), plus 166 rental completions. In addition to the legal completions, an additional 58 rent to buy transactions were secured, which were not recorded as legal completions.

Although the multi-tenure strategy has been interrupted by COVID-19, the Group continues to make good progress on this strategy and its performance underlines that there is good long-term demand for the multi-tenure offering. In total, there were 267 units in the rental portfolio as at 31 October 2020 (2019: 101).

The Group's results for the year and financial position at the end of the year are set out in the Consolidated Statement of Comprehensive Income on page 44 and in the Consolidated Statement of Financial Position on page 45.

For the financial year, the Group reported a financial loss after tax of £124.6m (2019: £34.9m profit) and at 31 October 2020, the Group had consolidated net assets of £645.9m (2019 £769.0m).

Underlying operating loss for the year was £56.5m (2019: £68.1m profit).

The Group continues to have good liquidity and operates with strict cash controls in place to ensure it is positioned to manage the ongoing uncertainty, the slower sales rate and volatility in the current trading environment. Net debt was c.£63m[2] as at 30 October 2020(2019: net cash £25m).

Cash flow benefited from a drive to sell down on-balance sheet part exchange ('OBPX') properties and a measured approach to using the OBPX facility.

[1] Including a bulk sale of 135 units (2019: 113 units) to Waverstone LLP, where McCarthy & Stone is a non-controlling member.

[2] Calculated as cash and cash equivalents less total borrowings.

Strategic Report for the year ended 31st October 2020 (continued)

Net debt is expected to increase during the first half of financial year 2021 as the Group invests cautiously in build activities and expands its rental portfolio on the balance sheet, while sales continue to be affected by COVID-19.

A measured approach to cash flow management remains in place, balancing the need to preserve headroom in order to enable the Group to navigate the short-term risks presented by the uncertainty in the market with the need to continue to invest in land and development to support the sales and profitability of future financial periods.

Key performance indicators

Indicator	2020	2019[1]
Legal completions	666	2,301
Average selling price	£302k	£308k
Rental completions	166	101
First occupations	11	53
Developments under management	444	434
Customer satisfaction	92.7%	92.8%
Customers	c.21K	c.20K

[1] 2019 relates to a 14-month period of 1 September 2018 to 31 October 2019

Legal completions and first occupations have been directly impacted by the COVID-19 pandemic with sales offices and developments under construction closed during the national lockdown periods. Although, rental completions increased year on year primarily due to the rental proposition being available to prospective customers throughout the entire 2020, compared with only six months for 2019.

Average selling price reduced year on year as a direct result of increased incentives offered to customers during the difficult trading period.

Strategic Report for the year ended 31st October 2020 (continued)

Cash flow

For the year ended 31 October

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Net cash flow from operating activities	28	(39.7)	81.4
Investing activities			
Purchases of property, plant and equipment	15	(0.2)	(0.4)
Purchases of intangible assets	14	(1.0)	(1.4)
Proceeds from sale of property, plant and equipment		0.1	0.1
Outflows in relation to investment properties	17	(46.7)	(28.3)
Net cash used in investing activities		(47.8)	(30.0)
Financing activities			
Issue of long-term borrowings		195.0	214.0
Repayment of long-term borrowings		(7.0)	(255.0)
Dividends paid		–	(29.3)
Acquisition of non-controlling interest		–	(1.4)
Net cash from/(used in) financing activities		188.0	(71.7)
Net increase/(decrease) in cash and cash equivalents		100.5	(20.3)
Cash and cash equivalents at beginning of year		36.7	57.0
Cash and cash equivalents at end of year		137.2	36.7

The Group's ability to generate operating cash flows has been adversely impacted by the Covid-19 pandemic. During 2020 cash generated from operating activities resulted in an outflow of £39.7m (2019: cash inflow of £81.4m). This was primarily due to a £124.6m loss for the year (2019: £34.9m profit for the year), the cash impact of which was partially compensated by a non-cash nature of the impairment charge in relation to goodwill, brand and right of use assets which totalled £62.4m (2019: nil).

A £77.2m (2019: £99.2m) decrease in inventories has benefited from the Group's efforts in realising on balance sheet part-exchange properties which reduced by £72.0m to £21.8m (2019: £93.8m). The reduction in finished stock by £81.5m to £312.4m (2019: £393.9m) has been offset by a £46.7m increase in investment properties to £75.2m (2019: £28.5m) as the group continued to build the rental seed portfolio on its balance sheet and an increase in trade receivables of £15.5m (2019: £5.8m) mainly in relation to bulk sale receivable balances due from Waverstone LLP, an associate entity where the Group holds an non-controlling interest.

At the start of the pandemic in March, the Group fully drew its £200m revolving credit facility. Taking into account £39.7m cash used in operating activities (2019: £81.4m cash generated) and £47.8m used in investment activities (2019: £28.3m cash used), this resulted in a £100.5m increase (2019: £20.3m decrease) in cash equivalents during the year and £137.2m (2019: £36.6m) cash balance at the year end. Year-end net debt closed at £62.8m (2019: net cash £24.7m).

Non-financial information statement

Future developments

Following the acquisition of the Group by Lone Star, the Board of McCarthy & Stone Ltd and Lone Star will perform a detailed evaluation of the Group. This exercise will be completed during 2021, it will include a review of the short and long term objectives, strategy, capital requirements, performance and potential of each of the core elements of the McCarthy & Stone business model; considering how best to position the business to meet its strategic objectives.

Products and services

We create beautiful retirement communities and provide management, care and wellbeing services with our customers' long-term interests in mind.

Our strategy, to provide **affordable** and **flexible** products and services for our customer to **choose** from. Please refer to our corporate website for further detail:

https://www.mccarthyandstonegroup.co.uk/investors/our-strategy

Retirement Living:
Designed exclusively for people aged 60 and over, our Retirement Living homes feature either one, two or three bedrooms, an on-site House Manager, spacious lounges, fitted kitchens, level access and typically private outside space in the form of balconies, terraces or patios. From 24-hour security to slip-resistant flooring in the bathroom, every aspect is specifically designed with our customers' needs in mind.

Retirement Living PLUS:
Created with the very specific needs of people aged 70 and over, our Retirement Living PLUS developments offer retirement properties with management services, domestic assistance and personal care on site. They are an attractive alternative for people seeking additional support in their retirement while maintaining their independence.

Management, care and wellbeing services:
We are one of the largest housing with care providers in the UK. All management, care and wellbeing services are provided by our dedicated in-house teams.

Our services business is at the heart of delivering our customer-led ethos and the efficient and effective operational management of our retirement communities which enrich the quality of life for our customers.

Business model

Our business model is built on five important core components - each designed to provide the very best properties and services for our customers. By ensuring that our customers are at the very heart of what we do, we will continue to evolve the business model as their needs and values change over time.

Land buying:
We identify and secure high-quality sites (97% are brownfield) to create retirement communities that are located within towns and cities, close to amenities and which meet the needs of our customers and their families. This approach reduces the pressure for greenfield sites, assists with the need to rejuvenate land, buildings and high streets and mitigates the need for private transport.

Planning:
We operate an effective planning process and design high quality homes which meet our customers' evolving needs and improve their quality of life. Our plans and designs include communal areas for customers which provide for a closer community spirit, more social interaction and reduce loneliness.

Construction:
We consistently deliver exceptional energy efficient homes while maintaining robust health and safety standards and operating in a socially responsible, sustainable and ethical way. There are clear environmental benefits to using responsibly sourced and efficient materials and minimising the amount of waste sent to landfill.

Sales and marketing:
Our approach to sales and marketing is focused on ensuring our customers enjoy the best possible experience, from expressing an interest in a McCarthy & Stone home and our services, through to moving into their new home. We help our customers to make the right decisions, providing them with choice of tenure and in turn we create liquidity in the housing market.

Management, care and wellbeing services:
Our services business is focused on the creation of a flexible offering that enhances our customers' sense of community and help maintain their independence. We remove the burdens and worries of property maintenance and ensure that carefully tailored care and support is on hand 365 days a year.

Strategic Report for the year ended 31st October 2020 (continued)

Health and safety

Health and safety continues to be our top priority. We encourage a proactive approach to health and safety as well as reinforcing the individual responsibility that every employee and site worker has for their own and their colleagues' wellbeing. Employees and contractors are required to have adequate health and safety qualifications before starting work on our sites and all contractors are required to hold valid Construction Skills Certification Scheme cards.

The Board receives regular updates on health and safety including our Annual Injury Incidence Rate (AIIR), Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) reportable events and our performance against the NHBC All Advisor Average. As the majority of our site workers are sub-contractors and agency workers, continuous communication about, and induction on, health and safety matters are critical to ensure the safety of everyone.

NHBC carry out monthly independent health and safety inspections on all our live construction sites and report their findings. The data these reports provide allow us to compare our sites against other housebuilders through their system of All Advisor Average comparison.

Reducing injuries in the workplace – Annual Injury Incidence Rate:

	2020	2019
McCarthy & Stone	61	337
Homebuilder peer group	263	287
HSE construction industry average	366	366.

We have had no fatalities on any of our sites for at least 11 years.

McCarthy & Stone's AIIR was 61 for the 12 months to 31 March 2020, an 82% improvement on the year ending 31 March 2019 (2019: 337) and 1 RIDDOR's (2019: 8).

Social

McCarthy & Stone is committed to helping strengthen the communities where it operates by fundraising and donating time through its Charitable Foundation.

The Group has a sustainability strategy and is committed to act ethically, develop its employees and manage environmental and social impacts directly, and through business relationships. The strategy has four priorities, Creating Communities, Building Green and Clean, Developing People and Sustainable Living. Our sustainability strategy is integrated into business practices through corporate governance, strategic plans, performance management systems, product development, and reporting and assurance processes.

The Sustainability Committee has oversight of the Group's strategy and key policies, is chaired by the CEO and comprises executive members representing business and operational functions. The committee has a structured agenda which reviews processes and performance, highlighting risks and opportunities, and challenges businesses to constantly improve.

Anti-bribery and corruption

McCarthy & Stone has embedded a culture of dealing with integrity at all times. A number of policies have been developed, supported by mandatory training for all staff to complete which helps ensure ethical behaviours when dealing with all our stakeholders.

Human rights

The Group supports the United Nations' Universal Declaration of Human Rights and has policies and processes in place to ensure that the Group acts in accordance with principles in relation to areas such as anti-corruption, diversity, whistleblowing and the requirements of the Modern Slavery Act 2015. All suppliers are required to confirm compliance with the Group's Anti-Slavery and Human Trafficking Policy.

The Group's modern slavery and human trafficking statement required under the Modern Slavery Act 2015 is available to view on our website: www.mccarthyandstonegroup.co.uk

Equality, diversity and inclusion

The Group has established a strong reputation for treating people fairly and providing all its employees with equal opportunities to develop their careers. Our Equality, Diversity and Inclusion policy underlines our commitment to creating an environment that enables every individual employee to be themselves, feel valued and able to perform to their best.

The Company regards equality and fairness as a fundamental right of all of its employees regardless of marital status, pregnancy and maternity, gender, sexual orientation, age, colour, religion or belief, race or ethnic origin. The Company believes that employees should be treated with dignity and respect and everyone is given an equal opportunity to reach their potential. It is McCarthy & Stone's firm intention to create a climate free from bullying and harassment and in which all employees feel confident in raising concerns of this kind and have them dealt with quickly, sensitively and effectively.

Every employee is required to support the Company to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. The Company does not tolerate any acts of discrimination at any level.

Strategic Report for the year ended 31st October 2020 (continued)

The tables below show that we have a higher proportion of men in senior management positions than women. We launched a number of initiatives to address this including improvements to maternity pay, a women's leadership network group and leadership development training for women.

Employees in senior management positions:
(including Directors of related undertakings)

	2020	2019
Female	**19**	21
Male	**53**	61
	72	**82**

It can also be seen that female staff represent 76% of our workforce. Our Management, Care and Wellbeing business employee significantly more females than males.

Total employees of the Group:

	2020	2019
Female	**1,907**	1,904
Male	**596**	619
	2,503	**2,523**

Environmental consideration

McCarthy & Stone is committed to addressing concerns about climate change and the environment. Reducing emissions creates efficiencies, drives innovation, helps manage long term risk, improves our competitive advantage.

Overall emissions increased by 22% year on year to 14,458 tCO_2e. Scope 1 emissions reduced by 7% to 6,109 tCO_2e but Scope 2 emissions rose by nearly 60% to 8,349 tCO_2e. A meaningful comparison of energy activity year on year cannot be made as the increase was driven, in large part, by access to more robust and comprehensive energy data, especially in relation to our Managed Developments. Likewise, while our intensity measure shows an improvement, we believe that any comparison with previous years would not be sensible given the changes to our reporting approach.

While there were no specific emissions reductions activities to report, across the year, as part of a programme of work to support our sustainable business strategy, we established a new Environmental Management System. This is now embedded within our governance structure and reports periodically to the highest levels of the business. Greater resource and focus was placed on improving our data quality, both in terms of coverage and accuracy, enabling the establishment of a clear baseline, against which we will measure our future efforts to reduce greenhouse gas emissions.

Greenhouse gas emissions in tCO_2e (unless otherwise stated)

	01/11/18 - 31/10/19	01/11/19 - 31/10/20
Total emissions	11,821	14,458
Scope 1	6,557	6,109
Scope 2 - Location-Based	5,264	8,349
Intensity - emissions per number of Managed Developments	38	32
Total Energy Consumption (MWh)	N/A	69,777

Methodology

We have applied the UK Government's Conversion Factors for Company Reporting and GHG standards and the Streamlined Energy and Carbon Reporting guidance to quantify and report our greenhouse gas emissions. An operational control approach has been used to define the reporting process. This is the same approach as last year.

Emissions for all our significant sites have been disclosed. This includes our offices, construction sites and Managed Developments. Estimation techniques have been applied to calculate Scope 2 energy usage, accounting for around 8% of Scope 2 emissions. Gas usage for heating used in our offices could not be obtained. Emissions from this activity are not anticipated to be material.

The intensity measure for 2019/20 is calculated by reference to the number of our Managed Developments (458).

Scope 1 comprises direct emissions from McCarthy Stone owned and controlled plant and equipment released straight into the atmosphere. These include natural gas, gas oil, and fuel.

Scope 2 comprises indirect emissions from purchased electricity using a location-based calculation method. These are indirect emissions that are a consequence of McCarthy Stone's activities but which occur at sources we do not own or control.

Strategic Report for the year ended 31st October 2020 (continued)

Risk management

The Board sets the policy for managing risk in the business. It recognises the importance of having effective processes and procedures for identifying, actively monitoring, mitigating and managing the financial and non-financial risks facing the Group. By regularly reviewing the Group Principal Risks, which are derived from the detailed risks reported across the Group by businesses, and satisfying itself that these risks are managed within the Group's risk appetite, the Board ensures that the Group's risk exposure remains appropriate and that this links to the effective delivery of its strategic objectives.

The Board has ultimate accountability for the execution of risk management and internal control system and it has delegated responsibility for the monitoring and reviewing of the effectiveness of the Group's risk management and internal control systems to the Risk & Audit Committee. Assurance over the effectiveness of these systems is provided through regular management reporting to the Risk & Audit Committee.

The process for monitoring and controlling risk, emphasises ongoing evaluation and monitoring by the management teams at each appropriate level of the organisation.

The Group manages risk by operating a three lines of defence risk and control model:

1. The first line of defence consists of operational management implementing and maintaining effective risk identification, reporting, management and internal control systems.
2. The second line of defence consists of the Group functions who, in addition to supporting operational management in their own specialist areas, also maintain their own risk registers.
3. Internal Audit, which forms the third line of defence, is empowered to provide an independent assessment of the effectiveness of risk management and internal control systems, as well as identifying areas for improvement.

Principal risks and uncertainties

As part of the Group's Risk Management Framework, principal risks and uncertainties have been identified that could prevent the Group from achieving its strategic objectives and how these risks could be effectively mitigated to an acceptable level, its risk appetite. These risks are reviewed, updated and approved on a regular basis by the Group's Executive and Risk & Audit Committees.

All the Group's principal risks and uncertainties have been reviewed in light of the impact of Covid-19 and are being re-evaluated in light of the Lone Star acquisition of the Group and are detailed below:

Pandemic's (new):
An epidemic or pandemic of an infectious disease (either a second wave of Covid-19 or the emergence of a new disease) may lead to the imposition of Government controls, including social distancing, on the movement of people with the associated cessation of large parts of the economy for a significant period of time. The cessation of business will lead to reduced business activity and revenues until normal sales and construction activity can be safely recommenced.

Economic:
Investment in land, levels of committed expenditure and production programmes are all carefully targeted, monitored and continually assessed against market conditions. The business is equipped and has demonstrated in light of the current pandemic that it maintains flexibility to react swiftly, when necessary to changes in market conditions.

Government legislation:
MHCLG published has reversed its previously announced exemption for the retirement housing industry from the zero rating of ground rents. The Group has carried out an impact assessment of lower and no ground rents and reviewed its land appraisal process accordingly

Delivery of strategic objectives:
Clear and concise objectives have been developed to deliver the targets as defined in the Group strategy. The Transformation Committee which is chaired by the CEO closely monitor progress against the objectives, holding Executive management to account and takes remedial action in order to ensure delivery against agreed timelines and objectives.

Land and planning:
Divisional land buying teams are in place providing local knowledge and expertise. These teams are targeted on land exchange and completion as part of their reward structure. Land is acquired with a high degree of conditionality, so as to not commit to purchase without having appropriate planning agreements in place. Divisional planning teams have the support and oversight of Group Investment Committee.

Strategic Report for the year ended 31st October 2020 (continued)

Workflow:
The Group is re-aligning workflow towards a steady state production through the following actions:
- Targeting a stable monthly flow of land exchanges
- Ensuring stable monthly flow of build starts and first occupations
- Reducing the number of sites in development
- Introducing an incentive scheme designed to deliver smoothened workflow

Workflow is closely monitored by divisional management, the Executive Committee and the Board.

Build programmes and cost:
Build progress and costs are reviewed regularly by dedicated divisional commercial teams, as well as being reported to divisional management at formal Division Board meetings and the Executive Committee. The Group Investment Committee has oversight over all construction budgets and independent assurance is provided by the internal audit team who perform commercial internal audits of developments under construction to assess whether risks are being effectively managed. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply.

Sales performance:
Detailed, regular and efficient reporting enables the Group to monitor sales volumes, revenue and pricing at a development, site and unit level. Performance against expectation is reviewed by the COO for Services and Customers and the Commercial Director with Divisional Sales Directors at monthly Divisional Revenue Board meetings and at the Executive Committee meetings to ensure performance is being effectively managed and action taken in order to address any potential performance issue. A strict approval process exists for pricing adjustments and the awarding of discounts and incentives in excess of certain thresholds.

Employees:
The Group has put in place attractive reward mechanisms and provides extensive opportunities for professional 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 talent attraction and retention to deliver the Group's strategic objectives. Investment in learning and development across the Group will also help to reduce the risk associated with employee retention.

Liquidity and funding:
Capital, funding and liquidity are all subject to extensive stress testing with the results informing the levels of capital and liquidity that are required to be held in the event of adverse conditions.

Health and safety:
The Group strives for excellence in health and safety and considers it to be a top priority. This is supported by a rigorous, independent site inspection process which routinely assesses and reports on standards. Regular reporting on key metrics and emerging issues are reviewed monthly by the COO-Build and submitted to the Executive Committee for further review. Care Quality Commission inspections are performed across all Retirement Living PLUS developments and actions are tracked to address any potential weaknesses in process.

Carry value of inventory and investment property:
Whenever possible, contracts to purchase land are via option agreement or are conditional on the Group obtaining detailed planning consent and/or a commercial viability clause. The Group performs impairment reviews in line with International Financial Reporting Standards ('IFRS') requirements, on a half yearly basis to ensure the value of inventory and investment property is correctly reported. Regular independent valuations of investment property are also performed to ensure carrying values are accurate.

Operational and technology:
There is additional focus on business continuity and potential fraud monitoring within our technology function. A significant amount of work has been undertaken to enable and improve home working conditions and network capacity. Incident and issue management and escalation governance structures and processes are in place with oversight from the Executive and Risk & Audit Committees. Potential customers are now able to visit our developments on a pre-booked and pre-qualified basis - with strict guidelines in place to maximise safety, customers are also now able to purchase apartments over the telephone with the use of virtual tools and detailed plans.

The Group maintains central IT systems and has a robust cyber security programme in place. Dedicated resources and regular reviews seek to reduce the risk of successful cyber-attacks and a disaster recovery programme is in place and regularly tested. Compliance with the GDPR legislation forms a core part of our policies and procedures.

Reputation and customer satisfaction:
The Group enforces strict procedures over the handover of developments for occupation and the handover of specific apartments to individual customers. Ongoing management, care and wellbeing services are provided within a robust framework of controls which are closely monitored. The Care Quality Commission (CQC) inspects our Retirement Living PLUS developments and provides constructive feedback which is also used to ensure that we are meeting applicable care standards. The business has a dedicated customer services team and tracks customer satisfaction through NHBC, HBF and internal surveys. An in-house estate agency supports the resales process for customers in our managed developments on the general housing market, with the aim of speeding up the sales process and maximising value on resale.

Sustainability and climate change:
The Group has appointed a Group Non-Executive Director as Chair of the Sustainability Committee and restructured the agenda and members to ensure appropriate focus and attention is given to the sustainability strategy and initiatives across the Group.

Revised sustainability objectives and targets have been developed in line with the United Nations Sustainability goals and these will be set over the short, medium and long term.

The Group Sustainability Committee identifies strategic climate change risks and opportunities facing the business through regular review of issues and trends, working in active collaboration with external experts.

Strategic Report for the year ended 31st October 2020 (continued)

Section 172 Statement

The Directors of the Company have acted in a way that they considered, in good faith, to be the most likely to promote the success of the Company for the benefit of the members as a whole, and in doing so had regard , amongst other things to:

- the likely consequence of any decision in the long term;
- the interests of the Company's employees;
- the need to foster business relationships with suppliers, customers and others;
- the impact of the Company's operations on environment and community;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between the members of the Company.

The Board has responsibility to oversee meaningful engagement with stakeholders, and to conduct constructive relationships in pursuit of the Company's purpose. The Strategic Report summarises the Company's efforts in; health, safety and environmental matters and anti-bribery and anti-corruption matters. The Board receives regular updates on financial performance, risk, compliance with laws and regulations, customer and supplier engagement, staff engagement and corporate social responsibility, including progress against the Group's Sustainability Strategic objectives. Where appropriate, papers presented to the Board draw out Directors duties under the Companies Act.

The key decisions of the year under review stemmed from the unsolicited approach by Lone Star which ultimately led to the Board recommending the acquisition to its shareholders. The Board, having received briefings on their responsibilities and duties under Section 172 of the Companies Act (2006) and other relevant rules from its advisors, took into account the views and interests of a wide range so stakeholders. The Chairman and CEO met with significant shareholders and relayed their views to the Board as a whole. Given the nature of the transaction, all shareholders had the opportunity to express their views and vote on the transaction at a specially convened Court and General meeting, with shareholders voting overwhelmingly in favour of the acquisition. Staff, suppliers and key stakeholders have been kept informed of progress of the transaction.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Directors' Report for the year ended 31st October 2020

The Directors have pleasure in submitting their report, together with the Strategic Report and the audited consolidated financial statements of McCarthy & Stone Ltd (the Company) and all its subsidiaries (together, the Group) for the year ended 31st October . The Company is a private company limited by shares and is incorporated, registered and domiciled in the England, number 066221999. The address of the registered office of the Company is Floor 4, 100 Holdenhurst Road, Bournemouth BH8 8AQ.

The Company was previously registered as McCarthy & Stone plc, a public company, and re-registered as a private company on 24 February 2021.

Results and dividends

The Groups consolidated results for the year are as outlined in the Strategic Report on pages 2 to 16, together with a review of the Groups business during the year and future developments. Information about the Group's risk management and events since the balance sheet date are also provided in the Strategic Report.

No dividends were paid during the year ending 31 October 2020.

Directors

The following Directors held office during the year and up to the date of signing these financial statements:

J Tonkiss – appointed 5th November 2015
M Lloyd – appointed 1st January 2019
M Abell – appointed 1st August 2020
N Turner – resigned 15th July 2020
R Baker – resigned 31st July 2020

Paul Lester* – appointed 3rd January 2018
Frank Nelson* – resigned 30th January 2021
Geeta Nanda* – resigned 30th January 2021
Arun Nagwaney* – resigned 30th January 2021
Gill Barr* – resigned 30th January 2021

* Independent Directors

Directors' indemnities and insurance

The Directors have the benefit of a Directors' and Officers' liability insurance policy and the Company has entered into qualifying third-party indemnity arrangements with them as permitted by the Companies Act 2006. The policy was in force through , at the year end and continues in force at the date of this report. The Directors are permitted to take independent legal advice at the Company's expense within set limits in furtherance of their duties.

Directors' Report for the year ended 31st October 2020 (continued)

Statement of Directors responsibilities

Financial statements and accounting records:
The Directors as listed on page 17 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. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRS as adopted by the European Union and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, and applicable law.

The financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation. 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 the Group and of the profit or loss of the Company and the Group for that period.

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

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the relevant entity's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

Directors are also required to:

- 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 IFRS 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
- Make an assessment of the Company's and the Group's (as the case may be) 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 and the Group's transactions on an individual and consolidated basis and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Share capital and control

At 31 October 2020 there were 537,766,920 ordinary shares of 8p nominal value in issue. No shares have been issued or bought back and cancelled during the financial period. Since the end of the financial period the Company has issued 268,332 shares under the Annual and Deferred Bonus Plan and 814,369 shares satisfy early exercises under its SAYE scheme pursuant to the change of control provisions as part of the Lone Star takeover. The share capital as at 24 February 2021 is 538,849,621 shares.

The Company has one class of share: ordinary shares of 8p nominal value, each of which carries the right to one vote at general meetings of the Company and to an equal proportion of any dividends declared and paid. The rights and obligations attached to the ordinary shares are governed by UK law and the Company's Articles of Association.

Ordinary shareholders are entitled to receive notice of, and to attend and speak at, general meetings. On a show of hands, every shareholder present in person or by proxy (or a duly authorised corporate representative) shall have one vote and, on a poll, every member who is present in person or by proxy (or a duly authorised corporate representative) shall have one vote for every share held by that member.

There are no restrictions on the transfer of the Company's ordinary shares and there are no shares carrying special rights with regards to control of the Company. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

There are no specific restrictions on the size of a holding or on the exercise of voting rights which are governed by the Articles of Association and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Details of the Company's share capital are set out on page 74 in note 27 to the financial statements.

The Group does not intend to renew the Directors' powers to issue and buy back shares at each AGM following the Lone Star takeover. At the Group's AGM on 25 March 2020 the Directors were authorised to issue shares up to a maximum nominal amount of £14,330,230 and empowered to issue shares on a non-pre-emptive basis up to a maximum nominal amount of £2,149,534 for general use and a further £2,149,534 for use in connection with an acquisition or other capital investment.

Employee Share Schemes

As at 31 October 2020 the Company had in place for all employees, a Sharesave plan ('SAYE') and a Share Incentive Plan ('SIP'). Under these plans all employees had the opportunity to purchase shares in the Company subject to certain restrictions. Neither scheme was subject to performance conditions.

Financial Risk Management

Details of the Groups financial instruments and its exposure to price risk, credit risk, liquidity risk and cash flow risk are set out in the note 30 to the financial statements on pages 76 to 80.

Going Concern

The COVID-19 pandemic caused significant disruption to the business during 2020 resulting in nationwide closures of construction sites and sales offices during the first lockdown. Against this challenging backdrop, the Group delivered a total of 832 legal completions during the year (2019: 2,402) and generated full year revenue of £197.3m (2019: £725.0m). Underlying operating loss for the year was £56.5m (2019: £68.1m profit).

At the start of the pandemic in March 2020 the Group fully drew its £200m revolving credit facility. To preserve the liquidity of the business and maintain a strong cash position, several cash optimisation measures have been put in place. Taking into account £39.7m cash used in operating activities (2019: £81.4m cash generated) and £47.8m used in investment activities (2019: £28.3m cash used), this resulted in a £100.5m increase (2019: £20.3m decrease) in cash equivalents during the year and £137.2m (2019: £36.6m) cash balance at the year end. Year-end net debt closed at £62.8m (2019: net cash £24.7m).

Post year end the Group continued to have good liquidity and operated with strict cash controls in place to ensure it is positioned to manage the ongoing uncertainty, the slower sales rates and volatility in the current trading environment. At the end of January 2021, the Group's cash balance resulted in £112.4m (2020: £16m) and net debt of £87.5m (2020: £46.9m).

The Directors have assessed the Group's business activities and the factors likely to affect future performance in light of current and anticipated economic conditions. In making their assessment the Directors have reviewed the Group's latest budget, forecasts, available loan facility and considered reasonably possible downside sensitivities in performance and mitigating actions. The Directors are confident that the Group has adequate resources in place to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements being to February 2022. In making their assessment the Directors have considered the key factors listed below:

Directors' Report for the year ended 31st October 2020 (continued)

Acquisition by Lone Star

On 23 October 2020, the Board announced that it had reached agreement with Mastiff Bidco Limited (Bidco), a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI, on the terms of a recommended cash offer by Bidco for the entire share issued and to be issued capital of the Company (the Transaction). The Transaction was to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. The Scheme was duly approved by the Company's shareholders at meetings held on 7 December 2020. Court sanction of the Scheme was received on 28 January 2021 and the Scheme became effective on 1 February 2021.

Loan facilities

Following the acquisition by Loan Star, the Group's revolving credit facility of £200m has been cancelled and existing debt and accrued interest under this facility have been repaid in line with change of control provisions. On acquisition a new 5-year senior loan facility for £275m was put in place at a nominal interest rate of 7% per annum, with the Group's immediate parent company (Mastiff Bidco Limited) as borrower. A covenant testing holiday has been agreed until October 2023. The facility is intended to be secured, including by way of floating charge, over the assets of certain Group subsidiaries.

Scenario modelling

As a result of the economic uncertainty created by COVID-19, the Group has carefully considered its future liquidity position. In stress testing the forecast cash flows of the business, management has modelled a base case, a combined downside scenario and a set of mitigated actions to the downside scenario. The base case was modelled using the latest forecast for sales and build programmes, assumed the sale of the first rental tranche in spring 2021 and no new sales of Freehold Reversionary Interest ('FRI'). Positive cash headroom is maintained under the base case scenario.

The combined downside scenario demonstrated a prolonged impact of COVID-19 with a c.22% volume reduction across 2021 together with an 8% house price deflation and normal sales conditions not returning until August 2021. This scenario also reflects the impact of an increased build cost inflation in 2021 and a delay of the sale of the first rental tranche to March 2022. Principal mitigation actions have been modelled as curtailing land purchasing, delaying build starts, reducing bonuses and marketing costs. 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.

As a result of the above considerations, the Directors consider that the Group has adequate resources in place for at least 12 months from the date of the approval of these financial statements and have therefore adopted the going concern basis of accounting in preparing the financial statements.

In making the Going Concern Statement, the Directors have taken into account the 'guidance on Risk Management, Internal Controls and Related financial and business Reporting' issued by the Financial Reporting Council in September 2014.

Post Balance Sheet Events

On 23 October 2020, the Board announced that it had reached agreement with Mastiff Bidco Limited (Bidco), a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI, on the terms of a recommended cash offer by Bidco for the entire share issued and to be issued capital of the Company (the Transaction). The Transaction was to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. The Scheme was duly approved by the Company's shareholders at meetings held on 7 December 2020. Court sanction of the Scheme was received on 28 January 2021 and the Scheme became effective on 1 February 2021.

Under the terms of the acquisition, each McCarthy & Stone shareholder received 120p per share held, resulting in a transaction value of approximately £646.6m.

At the balance sheet date, the Group had incurred £0.9m of sell side advisory costs which were not contingent upon completion of the Transaction. These costs were treated as non-underlying in 2020 and are described in note 7.

After the balance sheet date, additional Transaction costs were incurred and certain commitments crystallised upon completion totalling £15.7m. These predominantly related to sell side advisory fees.

On completion of the Transaction, the Group has a new ultimate controlling party being Lone Star Real Estate Fund VI, LP. The Company's immediate parent company is Mastiff Bidco Limited, a company registered in Jersey. A number of the Group's contractual arrangements include change of control clauses which apply as a result of the Transaction, none of which had a material impact on the financial position as at 31 October 2020.

Following the Court sanction on 28 January 2021, all existing options under the Group's LTIP have been cancelled and all SAYE and SIP shareholders have been settled.

In addition, the Group's revolving credit facility of £200m has been cancelled and existing debt and accrued interest under this facility have been repaid in line with change of control provisions. On acquisition a new 5-year senior loan facility for £275m was put in place at a nominal interest rate of 7% per annum, with the Group's immediate parent company (Mastiff Bidco Limited) as borrower. The facility is intended to be secured, including by way of floating charge, over the assets of certain Group subsidiaries.

Directors' Report for the year ended 31st October 2020 (continued)

Statement of corporate governance arrangements

The Board followed the spirit of the principles of the UK Corporate Governance Code (the Code), and the main areas not complied with during the year are as follows:

- Provision 21: The Code recommends that there should be a formal and rigorous annual evaluation of the performance of the Board, its committees, the chair and individual Directors. In light of the expected transaction timetable the Board decided to defer such evaluation considering that it was highly likely that it would have limited time to benefit from any findings. In addition an evaluation would have diverted resources at precisely the time that the Board would have needed to focus its attention on the demands of the recommended acquisition.
- Provisions 23, and 26 in light of the fact that the Company is now a wholly owned subsidiary this Annual Report does not seek to detail the work of the remuneration, nomination and audit committees during the course of the year.
- Provision 31: In light of the fact that the Company is no longer listed this Annual Report does not include a viability statement. As set out in the going concern statement above, the Directors have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future.

The Board is evaluating the Wates Principles following the acquisition by Lone Star for its governance arrangements as a Large Private Company.

Stakeholder engagement

Promoting the Company's success is the driving factor behind all decisions made by the Board. Decision making processes are structured to enable directors to evaluate the merit of proposed business activities and the likely consequences of its decisions over the short, medium and long term. The Board carefully considers the impact of the business on the communities and environments in which the Group operates. Due consideration is paid to the Group's stakeholders, including but not limited to our customers, suppliers, business partners, employees, shareholders and also the wider environmental and societal impacts. In all its activities, and those of the Group, the Board requires that our employees and partners conduct business with the highest ethical and professional standards.

Employees:
The Company held a number of Group wide business updates during the year, led by the Chief Executive, Chief Financial Officer and Chief Operating Officer, where employees were provided the opportunity to feedback to the Executive Directors. These updates were filmed and made available on the Group's intranet for those employees who were unable to attend for any reason.

Employees were also invited to complete an engagement survey about their experience working at McCarthy & Stone.

Directors' Report for the year ended 31st October 2020 (continued)

All employees have access to the Group intranet site, where they can find news, policies and procedures and a range of other materials of interest. All Group sites use a combination of notice boards and / or digital displays to communicate employee information, with many sites giving employees the opportunity to make suggestions for improvement using feedback boxes.
During the year, the Group's corporate communications department compiled and distributed various materials to employees including a quarterly employee magazine, online news items and senior management communique. Dovetailing with this, certain group functions undertook more specialist engagement relevant to specific functions such as finance and procurement.

We give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities and we arrange appropriate training, career development and promotion for disabled persons and those that have become disabled during the period when they were employed by the company.

We operated two share schemes during 2020, which were open to all employees - a Sharesave plan ('SAYE') and a Share Incentive Plan ('SIP') designed to provide employees with the opportunity to participate in the performance and success of the Group. Neither scheme is subject to performance conditions.

Customers
In light of the Covid 19 pandemic, engagement with our customers has increased significantly. In addition to our normal communication through house / estate managers, newsletters and customer opinion surveys, we provided our customers with additional tailored on-site assistance and support from our c.1,600 strong Services team, and a further c.500 volunteers joining our Buddy scheme to ensure that homeowners were never without medication or food supplies.

Suppliers
Building strong relationships with suppliers enables the Company to obtain the best value, service and quality. The Company works with suppliers who understand our business and adhere to our ways of working. Our procurement and operations teams work hard to understand our supply chain and develop deeper and more strategic relationships with key suppliers.

Investors
The Board and the Directors are committed to open and transparent dialogue with shareholders. Although most direct shareholder contact is facilitated by the Executive Directors, feedback was communicated to the other Directors primarily through reports to the Board, feedback from brokers and external advisors and copies of analysts' presentations. During the year, a number of meetings and presentations were held with the Company's largest investors as part of discussions surrounding the acquisition by Lone Star. The AGM provided an opportunity for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions raised by shareholders.

Directors' Report for the year ended 31st October 2020 (continued)

Government

The Group is disappointed to see that as part of these reforms MHCLG has reversed its previously announced exemption for the retirement housing industry from the zero rating of ground rents.

Since December 2017, McCarthy Stone and other retirement operators have engaged extensively with Government on this issue. The Group has made every effort to highlight the way the sector uses capitalised ground rent income fairly and for a dedicated purpose: to help fund the construction costs of its highly valued shared areas.

The Covid-19 pandemic demonstrated once again the many benefits of retirement communities and the Government continues to recognise the important role that this type of housing plays in keeping older people safe and well.

Throughout the pandemic we experienced excellent engagement with Government. Ministers and officials who supported the retirement industry's drive to obtain PPE for employees and also ensured our site teams were allocated as key workers. As it became clear that the sector was thankfully experiencing very low rates of infection, Care Minister wrote to us and other providers in May to congratulate our teams on helping and supporting homeowners during the crisis.

We also had a similar level of positive engagement with the Housing Minister, and we were pleased with the positive role the Government played in helping the industry through the pandemic. This included the introduction of a stamp duty holiday between 8 July and 31 March 2021, helping to keep the market moving, and new measures introduced after the first lockdown to allow construction and house sales to continue while other parts of the economy remained restricted.

We continue to work with Government around its plans for leasehold reform, including their proposed option arrangement to allow future customers a choice between paying a ground rent or the full purchase price for their property. The Government also published a Planning White Paper that contains several positive proposals to increase development opportunities, and MHCLG is consulting on a range of other technical changes to the planning system, including exempting developments of up to either 40 or 50 units from paying affordable housing contributions. This would assist significantly with development viability. We expect to participate in all of these debates which are set to continue in 2021.

Disclosure of information to the auditor

Each Director confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board:

Adam Batty
Company Secretary and Group General Counsel
26 February 2021

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Directors' Remuneration Report for the year ended 31 October 2020

Remuneration Committee Chair's Annual Statement

As discussed elsewhere in this Annual Report, McCarthy & Stone plc was acquired by Lone Star by way of Scheme of Arrangement which became effective on 1 February 2021 and ceased to be a listed company on 2 February 2021.

Review of performance for 2020 and Incentive plan payments

In relation to the annual bonus plan the Remuneration Committee ('Committee') determined that there should be no bonus payable to the Chief Executive, the former Chief Financial Officer, the Chief Operating Officer Services and Customers, or the Chief Operating Officer Build, who left the business during the year. The current Chief Financial Officer was paid a pro rata bonus in respect of the time served during the year based on the achievement of individual objectives set at the time of his recruitment. This bonus was payable in cash and no amount was deferred into shares.

The 2018 LTIP award, which was based on performance over the three years to 31 October 2020, failed to achieve the performance conditions and so the award lapsed.

The Committee applied discretion during the year to reduce payments under the annual bonus to zero, in light of financial performance and to determine that the annual bonus for Martin Abell should be payable in cash, rather than part in deferred shares, due to the proximity of the bonus payment date to the completion date of the acquisition by Lone Star.

Impact of the acquisition by Lone Star on remuneration payable for the 2021 financial year

There were no changes to base salary effective from 1 November 2020.

The introduction of the 2021 annual bonus plan was delayed in view of the close proximity of the closing date of the transaction.

No LTIP awards were granted and in relation to outstanding LTIP awards the Committee determined that they were not on track to achieve the performance conditions and so the awards lapsed on completion of the transaction.

Further to the acquisition by Lone Star, there will be no requirement for a Directors Remuneration Report to be provided in the future and the Remuneration Committee has been disbanded.

Adam Batty
Group General Counsel and Company Secretary
26 February 2021

Directors' Remuneration Report for the year ended 31 October 2020 (continued)

Remuneration policy

The remuneration policy applicable during the year and approved by shareholders at the AGM on 25 March 2020 can be found in the Annual Report for FY19.

Annual Report on Remuneration

Total remuneration payable for 2020 (audited)

The table below sets out the total remuneration for each Executive Director in respect of 2020 and 2019. Further explanation of each of the elements are set out below and in the following sections of this report:

Name	Period	Base salary	Taxable Benefits	Annual Bonus	LTIP	Pension[6]	Total fixed	Total variable	Total
John Tonkiss	**FY20**	**£446,325**	**£24,661**	**£0**	**£0**	**£53,482**	**£524,468**	**£0**	**£524,468**
	FY19[1]	£544,872	£41,011	£0	£0	£72,749	£658,632	£0	£658,632
Martin Abell[2]	**FY20**	**£132,641**	**£7,112**	**£114,349**	**£0**	**£6,917**	**£146,670**	**£114,349**	**£261,019**
	FY19[1]	-	-	-	-	-	-	-	-
Rowan Baker[3]	**FY20**	**£250,114**	**£13,753**	**£0**	**£0**	**£29,680**	**£293,547**	**£0**	**£293,547**
	FY19[1]	£372,500	£29,499	£0	£0	£58,250	£460,249	£0	£460,249
Nigel Turner[4]	**FY20**	**£390,304**	**£22,363**	**£0**	**£0**	**£42,224**	**£454,892**	**£0**	**£454,892**
	FY19[1]	£312,500	£16,352	£187,500	£0	£41,191	£370,223	£187,500	£557,723
Mike Lloyd[5]	**FY20**	**£352,367**	**£19,012**	**£0**	**£0**	**£42,223**	**£413,602**	**£0**	**£413,602**
	FY19[1]	£312,500	£16,308	£199,218	£0	£41,191	£369,999	£199,218	£569,217

1. FY19 relates to a 14-month period of 1 September 2018 to 31 October 2019.
2. Martin Abell was appointed to the Board on 1 August 2020. He was appointed as CFO designate on 26 May 2020. The salary shown relates to the period from 1 August 2020 whereas the annual bonus relates to his bonus pro rata from 26 May 2020
3. Rowan Baker left the Board on 31 July 2020.
4. Nigel Turner was appointed to the Board with effect from 1 January 2019. He left the Company on 15 July 2020 and continued to receive payments of salary and benefits in lieu of notice as per his contract.
5. Mike Lloyd was appointed to the Board on 1 January 2019.
6. Comprises the value of Group Personal Pension scheme contributions and salary supplements of lieu of pension

The table below sets out the total remuneration for each Non-Executive Director in respect of 2020 and 2019:

Non-Executive Directors	Period	Fees	Role
Paul Lester	**FY20**	£210,833	Non-Executive Chairman
	FY19[1]	£268,333	
Frank Nelson	**FY20**	£82,133	Senior Independent Non-Executive Director
	FY19[1]	£87,033	
Gill Barr	**FY20**	£72,967	Independent Non-Executive Director
	FY19[1]	£36,338	
John Carter	**FY20**	£61,508	Independent Non-Executive Director
	FY19[1]	£65,918	
Arun Nagwaney	**FY20**	**£Nil**	Non-Executive Director
	FY19[1]	£Nil	
Geeta Nanda	**FY20**	£56,925	Independent Non-Executive Director
	FY19[1]	£63,700	

[1] FY19 relates to a 14-month period of 1 September 2018 to 31 October 2019

Directors' Remuneration Report for the year ended 31 October 2020 (continued)

Benefits (audited)

The Executive Directors receive private medical insurance, life insurance, company car or cash in lieu of the company car, although the Committee retained the flexibility to provide other benefits. The amounts shown in the table above are the gross (before tax) amounts.

Annual bonus (audited)

For 2020, the performance conditions, achievement against them and the annual bonus outturn is summarised in the table below:

Performance conditions	Weighting of each condition[1]	Performance Targets	Performance targets required	Maximum weighting per target	Actual Performance	Percentage of maximum performance achieved	Annual bonus value achieved[1]: John Tonkiss	Rowan Baker	Martin Abell	Nigel Turner	Mike Lloyd
Operating profit	40%	Threshold	£55m	0%							
		Target	£65m	50%	(£148.3m)	0%	£0	£0	£0	£0	£0
		Maximum	£72m	100%							
Group operating cashflow	40%	Threshold	£70m	0%							
		Target	100m	50%	(£69.4m)	0%	£0	£0	£0	£0	£0
		Maximum	125m	100%							
Strategic Objectives	20%	See note below							£114,349		

The CFO bonus for the first year was based 50% on Operating Profit and cashflow, and 50% based on individual objectives in line with the contract made with Martin when he initially joined the business in May 2020. There was a full pro rata payout, based on the proportion of the year served, of the 50% personal objectives element based on his achievement of specific key targets based on:

- Strengthening the finance function
- Strong cashflow management to the year-end
- Funding solutions to support the rental model
- Effect a smooth handover of the business and finance team

The Committee used its discretion to determine that the annual bonus should be payable wholly in cash, in view of the proximity of the bonus pay-out to the date of the completion of the transaction.

The Committee used discretion to determine that there should be no pay out by reference to performance against the strategic objectives for the other Executive Directors, in light of the financial performance of the business (materially impacted by the COVID 19 pandemic).

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Directors' Remuneration Report for the year ended 31 October 2020 (continued)

LTIP awards with performance periods ending 2020

The performance and vesting outcomes for the FY18 LTIP granted on 17 November 2017 are summarised below:

Measure	Weighting	Threshold performance	Maximum performance	Actual performance	Vesting
FY20 EPS	37.5%	21.8p	27.8p	(23.6p)	0%
FY20 ROCE	37.5%	20%	25%	(8%)	0%
Relative TSR (split equally between a housebuilder index and the FTSE 250)	25.0%	Equal to Housebuilder Index / median of FTSE 250	Housebuilder Index + 7.5% p.a. / Upper quartile of FTSE 250	Below Housebuilder Index / below median of FTSE 250	0%

LTIP awards granted during the year (audited)

During 2020 LTIP awards were granted to the CEO, CFO, COO Customer & Services and COO Build as set out in the table below:

Executive Director	Date	Number of shares awarded	Basis of award granted (% of basic salary)	Face value of award [1]	% of award vesting at threshold	Maximum percentage of the face value that could vest	Performance Period
John Tonkiss	05.02.20	495,892	150%	£730,350	25%	100%	3 years
Rowan Baker	05.02.20	339,353	150%	£499,800	25%	100%	3 years
Nigel Turner	05.02.20	391,499	150%	£576,600	25%	100%	3 years
Mike Lloyd	05.02.20	391,499	150%	£576,600	25%	100%	3 years

Vesting of these awards was subject to the achievement of a sliding scale of Earnings per Share ('EPS') and Return on Capital Employed ('ROCE') as set out below. The awards will lapse with no value on completion of the transaction.

Measure	Weighting	Threshold performance	Maximum performance
FY22 EPS	50%	12.0p	17.5p
FY22 ROCE	50%	14%	20%

Directors' Remuneration Report for the year ended 31 October 2020 (continued)

Directors' shareholdings and share interests (audited)

Directors' beneficially owned shares and their outstanding interests in share awards as at 31 October 2020 are shown in the table below:

Director/ Plan	Date of grant	Number of share awards	Vested during the year	Lapsed during the year	Exercise Price (£)	Vesting date	Expiry date
John Tonkiss							
LTIP	17.11.17	302,752	-	-	nil	17.11.20	17.11.27
LTIP	13.12.18	435,780	-	-	nil	13.12.21	13.12.28
LTIP	05.02.20	495,892			nil	05.02.23	05.02.30
ABP	20.11.17	17,796	-	-	nil	20.11.20	20.11.27
ABP	19.11.18	89,933	-	-	nil	19.11.21	19.11.28
Rowan Baker							
LTIP	27.01.17	105,520	-	-	nil	27.01.20	27.01.27
LTIP	17.11.17	261,468	-	-	nil	17.11.20	17.11.27
LTIP	13.12.18	298,165	-	-	nil	13.12.21	13.12.28
LTIP	05.02.20	339,353			nil	05.02.23	05.02.30
ABP	19.11.18	77,670	-	-	nil	19.11.21	19.11.28
Nigel Turner							
LTIP	11.04.19	344,037	-	-	nil	11.04.22	11.04.29
LTIP	05.02.20	391,499			nil	05.02.23	05.02.30
Mike Lloyd							
LTIP	11.04.19	344,037	-	-	nil	11.04.22	11.04.29
LTIP	05.02.20	391,499			nil	05.02.23	05.02.30

The table below shows the interests in shares in the Company, including unvested awards for each of the Directors as at 31 October 2020. No options were exercised during the year.

Directors	Shares Beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Options Vested but unexercised	Options unvested (LTIPs)	Options Unvested (Share save)	Options Unvested (ABP)	Shares beneficially owned as % of salary [1]	Shareholding Requirement met?
Executive Directors									
John Tonkiss	578,763	-	-	-	1,234,422	16,831	107,729	152%	No
Martin Abell	399				0	0	0	1%	No
Mike Lloyd	143,166	-	-	-	735,536	0	44,530	48%	No
Non-Executive Directors									
Paul Lester	66,500	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
John Carter	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Arun Nagwaney	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Geeta Nanda	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Frank Nelson	173,270	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gill Barr	7,366	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

[1] Based on a closing share price of £1.174 and the base salaries paid as per the Total Remuneration payable for 2020 table on page 28.

Unvested LTIP awards lapsed on completion of the acquisition by Lone Star. The outstanding ABP award held by the CEO and COO vested on completion of the transaction.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

<u>Directors' Remuneration Report for the year ended 31 October 2020 (continued)</u>

Payments to past Directors [and payments for loss of office] (audited)

The following payments were made to executive directors who left the business during the year:
Rowan Baker
There were no payments to Rowan Baker after she ceased employment on 31 July 2020.
Nigel Turner
There were no additional payments to Nigel Turner during 2020 other than payment in lieu of notice which is included within the Total Remuneration Table set out on page 28. No discretion was exercised by the Remuneration Committee.

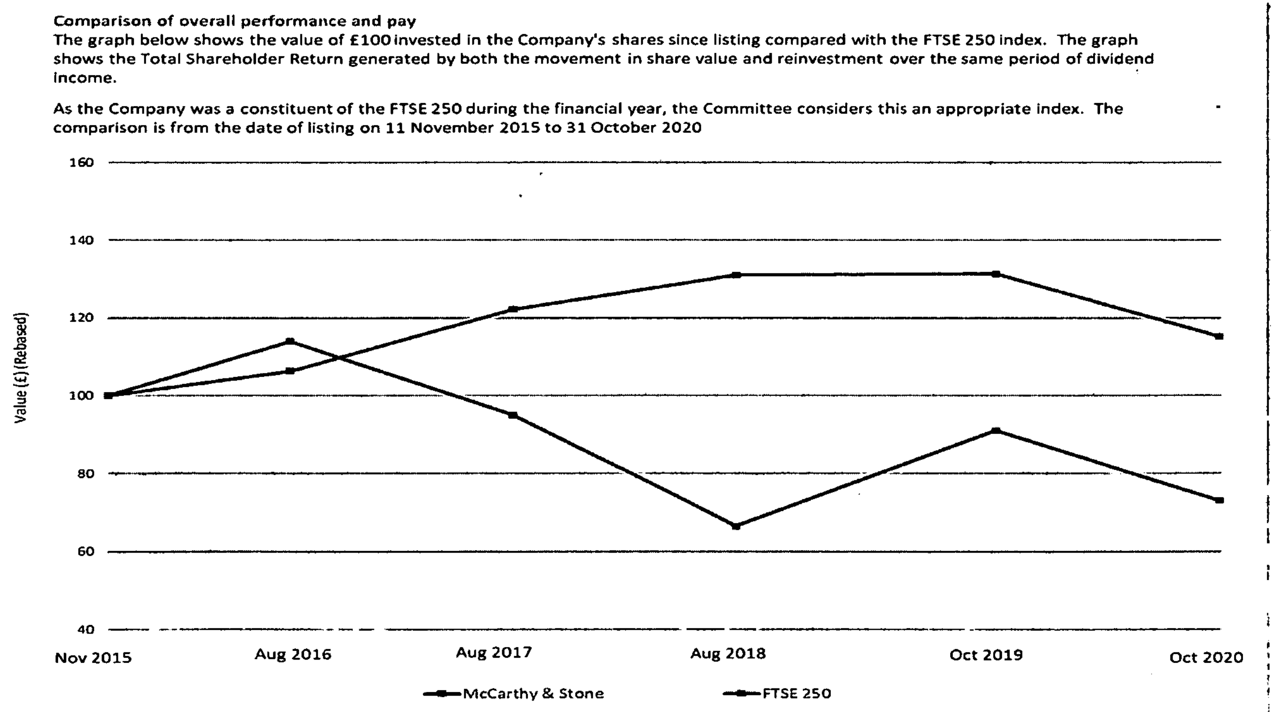
External directorships

Executive Directors may hold positions in other companies as Non-Executive Directors and retain their fees. Currently, the Executive Directors hold no external Non-Executive Director roles.

Historic performance graph and CEO pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index. The graph shows the Total Shareholder Return generated by both the movement in share value and reinvestment over the same period of dividend income.

As the Company was a constituent of the FTSE 250 Index during the financial year, the Committee considers this is an appropriate index. The comparison is from the date of listing on 11 November 2015 to 31 October 2020.



Directors' Remuneration Report for the year ended 31 October 2020 (continued)

Chief Executive Officer's historic remuneration

The following table shows the total single figure for the role of Chief Executive Officer as well as the annual bonus and LTIP vesting level achieved for each of the periods covered by the graph above:

	2020	2019	2018	2017	2016
CEO total single figure	**£524,468**	£658,632	£804,275	£753,169	£628,024
Annual bonus payment level achieved (% of maximum opportunity)	**0%**	0%	19.8%	19.7%	10.0%
LTIP vesting level achieved (% of maximum opportunity)	**0%**	0%	0%	-	-

Change in Directors remuneration compared with employees

The following table illustrates the change in salary or fees, benefits and bonus between 2019 and 2020 for the Directors compared with other employees in the Group taken as a whole:

	% change 2019[1] to 2020		
	Base salary/Fees	Benefits	Annual bonus
Chief Executive Officer	(4.4%)	(29.8%)	0%
Chief Financial Officer[2,3]	4.4%	27.5%	-
Chief Operating Officer – Services and Customers	(6.0%)	(2.8%)	(100%)
Paul Lester (Non-Executive Chairman)	(8.3%)	-	-
Gill Barr	12.2%	-	-
John Carter	8.9%	-	-
Arun Nagwaney	-	-	-
Geeta Nanda	4.3%	-	-
Frank Nelson	10.1%	-	-
Other Group employees	2.5%	1.5%	102%

[1] FY19 relates to a 14-month period of 1 September 2018 to 31 October 2019

[2] Rowan Baker resigned as Chief Financial Officer and from the Board on 31 July 2020, Martin Abell was appointed as CFO designate on 26 May 2020.

[3] Chief Financial Officer's Annual Bonus payment was contractual and was determined by performance against agreed objectives for Martin Abell.

CEO pay ratio

	2018/19	2019/20
Method	B	B
CEO Single figure	£658,632	£524,468
Upper quartile	8:1	11:1
Median	12:1	26:1
Lower quartile	28:1	24:1

2019/20 CEO pay ratio	*Salary*	*Total Pay*
Upper quartile	£35,966	£45,861
Median	£19,398	£20,477
Lower quartile	£20,549	£22,155

The pay ratios have been calculated in accordance with Option B, using our gender pay gap data as at April 2020 to identify the best equivalent employees for the purposes of the ratio. This is in line with the methodology used for the 2019 pay ratio and is considered to be a reasonable and practical method to use. The full-time equivalent remuneration for 2020 was calculated for the employees at and surrounding the percentiles in order to check the pay of the best equivalent employee was representative of the pay at the percentile. Total pay for employees includes salary/wages, taxable benefits, pension and bonus for 2020.

The pay ratio this year includes Your Life Management Services ('YLMS') employees. YLMS was fully acquired by McCarthy & Stone in July 2019 and was therefore not included in the 2019 pay ratio as YLMS employees were not Group employees for the majority of the financial year. YLMS provides management services, domestic assistance, personal care and additional support to homeowners in the Group's Retirement Living PLUS developments. The pay of YLMS employees is structured differently to the pay of McCarthy & Stone Group employees, as employees have varied hours and can have multiple jobs. Full time equivalent remuneration for the year was calculated for these employees based on the number of hours worked for each job, if applicable, grossed up to the full-time equivalent hours for YLMS roles on a proportionate basis.

As a result of the inclusion of YLMS employees this year, the majority of which are positioned in the lower quartile of the gender pay gap data, the employees positioned at the percentiles have lower levels of total pay compared to last year. In addition, the CEO total pay has also decreased as a result of the 20% voluntary reduction taken during the year in light of Covid. As a result, the median and upper quartile pay ratios have decreased. Primarily as a result of using Option B, which identifies employees using hourly rates of pay, and because of the structure of YLMS employee pay, the total pay at the lower quartile is higher than the median and as result the 25th percentile ratio is higher than median this year.

The reward policies and practices for our employees, which the Remuneration Committee has oversight of, is aligned to those used to set Executive Director pay and therefore the Remuneration Committee is satisfied the median pay ratio is consistent with the Company's pay, reward and progression policies for all employees.

Relative importance of spend on pay

The table below shows the relative importance of spend on pay in comparison to profit distributed by way of dividends:

	2020	2019	% change
Overall spend on pay including Executive Directors	**£81.3m**	£74.9m	8.5%
Profit distributed by way of dividends	**£nil**	£29.0m	(100%)

How the remuneration policy will be applied in 2021

There have been no changes to base salary or any other changes to fixed elements of pay for 2021. As noted in the Chair's Statement, the introduction of the annual bonus plan has been deferred and no PSP awards will be granted. There have been no changes to NED fees.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Committee during 2020 and up to the date of this Report were:

Gill Barr (Chair of the Committee)
Frank Nelson
Geeta Nanda, OBE
Paul Lester, CBE
John Carter

The terms of reference for the Committee are available from the Group General Counsel and Company Secretary at the registered office.

The Committee received assistance from the Group HR Director and the Group General Counsel and Company Secretary, who attended meetings by invitation, except when issues relating to their own remuneration are being discussed. The Chief Executive Officer and Chief Financial Officer also attend by invitation.

Advisers to the Remuneration Committee

During the year the Committee engaged Korn Ferry as its independent remuneration adviser.

Korn Ferry also provided assistance with several search assignments during 2020, the committee determined that this did not compromise the integrity of the advice it received. The Committee is satisfied that no conflict of interest exists or existed in the provision of these services and that the advice received from Korn Ferry was and is objective and independent. Korn Ferry is a member of the Remuneration Consultants Group and is a signatory to its voluntary code of conduct which is designed to ensure objective and independent advice is given to remuneration committees.

Fees of £88,207 (2019: £58,535) were paid to Korn Ferry during the year in respect of remuneration advice given to the Committee.

Directors' Remuneration Report for the year ended 31 October 2020 (continued)

Shareholder engagement and statement of voting at the AGM

The Directors' Remuneration Policy was put to a binding vote and approved at the Annual General Meeting on 25 March 2020, along with a resolution to approve the FY19 Annual Remuneration Report. The voting outcomes are set out below:

Votes For	Votes Against	Total Votes cast (excluding votes withheld)	Votes withheld
Approve the Directors' Remuneration policy			
442,670,811	6,504,844	449,175,655	2,435,249
98.54%	1.45%		
Approve the Directors' Remuneration Report			
444,734,327	6,839,329	451,573,656	24,928
98.48%	1.51%		

Adam Batty
Company Secretary and Group General Counsel
26 February 2021

Independent Auditor's Report to the members of McCarthy & Stone Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- McCarthy & Stone Limited's group financial statements and parent company financial statements (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 October 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements of McCarthy & Stone Limited which comprise:

Group	Parent company
Consolidated Statement of Financial Position as at 31 October 2020	Company Statement of Financial Position as at 31 October 2020
Consolidated Statement of Comprehensive Income for the year then ended 31 October 2020	Statement of Changes in Equity for the year then ended 31 October 2020
Consolidated Statement of Changes in Equity for the year then ended 31 October 2020	Related notes 1 to 10 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year then ended 31 October 2020	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent 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 as applied to listed public interest entities, 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.

Overview of our audit approach

Key audit matters	• Inventory valuation and profit recognition • Valuation of shared equity receivables • Revenue recognition • Valuation of investment properties
Audit scope	• We performed an audit of McCarthy & Stone Limited, as a single aggregated set of financial information. Our work therefore covered 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	• Overall group materiality of £2.6m which represents 0.4% of Equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inventory valuation and profit recognition *Refer to the Accounting policies (pages 48 to 57); and Note 18 of the Consolidated Financial Statements (page 69)* At 31 October 2020, the Inventory balance includes Land held for development of £0.9m (2019 - £0m), Land held for development of £103.6m (2019 - £57.6m), Sites in the course of construction of £217.9m (2019 - £179.6m), Finished stock of £312.4m (2019 - £393.9m) and Part-exchange properties of £21.8m (2019 – £93.8m) The Group's inventories are held at the lower of the cost and net realisable value. The cost of the inventory is calculated using actual land acquisition costs, construction and development related costs and management's assessment of the costs which relate directly to site developments. We considered the valuation of inventory a key audit matter given the relative size of the balance in the Consolidated Statement of Financial Position and the significant judgement involved in estimating future selling prices, costs to complete projects and selling costs. These judgments may have a material impact on the calculation of net realisable value and therefore in determining whether the value of a project should be written down (impaired). As a result, the carrying value of Inventory is determined by reference to a number of assumptions which are subject to levels of inherent estimation and therefore may be subject to management bias to over or understate inventory. The carrying value of Inventory is assessed by management for impairment by reference to current market inputs and assumptions. As part of the half year and year-end financial statement close process, management undertake valuations to determine the expected outcome of each development and hence identify if any impairment is required. The same estimates are also used to determine the margin on each development which is used to determine the profit to be recognised.	We performed the following procedures over this risk area: - We performed walkthroughs to understand the key processes and identify key controls; - We agreed on a sample basis certain costs incurred to date included within land and sites in the course of construction to source documentation; - For a sample of sites in the course of construction based on factors such as size and risk, we compared the estimated and the actual costs and margin across the development lifecycle. We validated the key drivers for changes in costs and margin and considered historical results in order to assess management's ability to forecast accurately; - We critically determined the appropriateness of key assumptions and the commercial viability of sites as selected by management through comparison against historic data and consideration of current market conditions; - We obtained and understood the provisions held by management for Land, Sites in the course of construction, and Finished stock. We tested the appropriateness of any provisions included within the calculations, comparing movements to prior periods, re-computing calculations and performing sensitivity analysis on sites where the margin was close to breakeven; - For the capitalisation of overheads, we held meetings with senior management to challenge and understand why percentages of costs capitalised in each department had moved year on year. This was supported by transaction testing to gain assurance that the related costs were consistent with the principles of IAS 2 'Inventories'. For the sample selected we validated whether capitalisation rates were appropriate; - We obtained and understood the workings for the costs capitalised in the period. We then performed sensitivity analysis over the	Based on our audit procedures we have concluded that the Inventory balance and profit recognised in the year are not materially misstated.

	capitalisation rates applied by management to understand at what point differing rates would result in a material error; - We checked the clerical accuracy of management calculations to identify any errors or anomalies; - We performed an independent recalculation of the general Part-exchange property inventory provisions by challenging the valuation of specific aged sites by reference and corroboration to local market conditions, historic sales patterns and other market evidence; - We performed a review of post year end activity to ensure that the recoverable amounts of Inventory held were greater than the amount they were recorded at as at the period end date. - We verified the existence and valuation of Part-exchange properties at the balance sheet date by sampling the stock held by the Group and obtaining proof of purchase and ownership by independently obtaining title deeds; and - We verified appropriate disclosure had been made in the - in the Financial Statements.	
Valuation of shared equity receivables *Refer to the Accounting policies (pages 48 to 57); and Note 19 of the Consolidated Financial Statements (page 69)* At 31 October 2020 the Group was carrying shared equity loan receivables on the Consolidated Statement of Financial Position of £23.2m (2019 - £24.6m). The carrying value of these shared equity loan receivables is based on a number of assumptions which contain inherent uncertainties, and which require management judgement.	We performed the following procedures over this risk area: - We performed walkthroughs to understand the key processes and identify key controls; - We critically assessed, based on historic data and consideration of current market conditions, the appropriateness of key assumptions such as: o Loss rate o Recoverability - We performed sensitivity analysis over those key assumptions as detailed above; - We tested a sample of recorded redemptions and agreed them to evidence of cash receipt, ensuring that the amounts had been appropriately derecognised; - We tested a sample of cash receipts received and compared them to the carrying value held to assess the accuracy of management's valuation assessments; - We tested the integrity and arithmetical accuracy of the	Based on our audit procedures we have concluded that the shared equity loan receivables are not materially misstated.

	calculations within management's valuation model; - We had our Corporate Finance Specialists examine management's model and its methodology and due to historic redemption losses, we challenged the approach taken by Management, in particular focusing on the appropriateness of key assumptions such as new build premium and house price inflation; and - We assessed the adequacy of the related disclosures in the Financial Statements.	
Revenue recognition *Refer to the Accounting policies (pages 48 to 57); and Note 6 of the Consolidated Financial Statements (page 59)* The Group has reported revenues for the period of £197.3m (2019 - £725.0m). We identified the recognition of revenue from sales of properties and associated freehold reversionary interests as a key audit matter as it is quantitatively significant to the consolidated financial statements as a whole. There is potential for material misstatement within revenue, particularly in relation to revenue being recorded in the wrong period, due to cut off errors or management bias	We performed the following procedures over this risk area: - We performed walkthroughs to understand the key processes and identify key controls; - We performed procedures using EY bespoke data analytics tools to test the appropriateness of journal entries recorded in the general ledger by correlating sales postings with cash receipts throughout the period; - For each significant revenue stream, we tested whether it was recognised in the correct period by testing a sample of sales transactions either side of the year end to legal completion; - We validated any material manual journals to assess for any evidence of management bias by corroborating to supporting documentation; and We assessed the appropriateness of the related disclosures in the consolidated financial statements.	Based on our audit procedures we have concluded that revenue is appropriately recognised, and that there was no evidence of management bias.
Valuation of investment properties *Refer to the Accounting policies (pages 48 to 57); and Note 17 of the Consolidated Financial Statements (page 69)* At 31 October 2020 the Group held an investment property portfolio of £74.3m (2019 - £27.6m). We identified the valuation of investment properties as a key audit matter in the current year as a result of an increase in the size of the portfolio and given the judgement in determining the valuation of the assets. We therefore elevated this matter to be a significant risk in the audit. The valuation of the investment properties portfolio is based on a number of assumptions which contain inherent uncertainties, and which require management judgement.	We performed the following procedures over this risk area: - We performed walkthroughs to understand the key processes and identify key controls; - We verified the classification was in accordance with IAS 40, inspected rental agreements and confirmed that valuation models were consistent with the principles of IAS 40; - Together with our Corporate Finance Specialists, we challenged management and management's specialists to understand and review the methodology and underlying assumptions used to determine the fair value of the Investment properties held at the period end date;	Based on our audit procedures we have concluded that the valuation of the investment properties are not materially misstated.

	- We selected a sample of rental agreements to gain assurance over their existence and to ensure there were no terms or conditions that would undermine the classification of these units as investment properties. For the same sample we performed work to validate the integrity of the workings used to support the model deriving the fair value of investment properties; - We also reviewed post year end activity for indications in relation to the fair value carried at the period end date; and - We assessed the adequacy of the related disclosures in the Financial Statements.	

In the prior year, our auditor's report included key audit matters in relation to Inventory valuation and profit recognition, Valuation of shared equity receivables and Revenue recognition. In the current year, we have included the valuation of investment properties due to the significant increase in size of the portfolio in the year.

An overview of the scope of our audit

Tailoring the scope
We performed an audit of McCarthy & Stone Limited, as a single aggregated set of financial information. Our work therefore covered 100% of Profit before tax, 100% of Revenue and 100% of Total assets.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £2.6 million (2019: £3million), which is 0.4% of Equity (2019: 5% of profit before tax adjusted for exceptional items). Due to the impact of the COVID-19 pandemic the Group has seen a decline in financial performance with significant reductions in both revenue and profitability for the year. As a result of this the users of the financial statements primary focus has shifted from the overall profitability of the Group as seen in the prior year to a focus on cash and liquidity in FY20. Therefore, the Equity figure of the Group is seen as the most appropriate metric to use when setting materiality for FY20 given the users focus on capital.

We determined materiality for the Parent Company to be £9 million (2019: £9 million), which is 2% of equity (2019: 2% of equity) given that the Company is non-trading and contains only the investment in all of the trading components in the Group.

During the course of our audit, we reassessed initial materiality and made no changes in our final materiality from our original assessment at planning.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £1.3m.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. This is consistent to the reporting threshold adopted in the prior year audit.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report, including the Strategic 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, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 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 and the part of the Directors' Remuneration Report to be audited 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.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 18, 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 group and parent 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 group or the parent 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are frameworks which are directly relevant to specific assertions in the financial statements and are those that relate to the reporting framework being IFRS, the Companies Act 2006 and the relevant tax compliance regulations in the UK.
- We understood how McCarthy & Stone Limited is complying with those frameworks by understanding how McCarthy & Stone Limited's own oversight mitigates risk through driving a culture of honesty and ethical behaviour (by placing a strong emphasis on fraud prevention). We also made enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to

fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on journals meeting our defined risk criteria based on our understanding of the business; enquiries of legal counsel, group management and internal audit. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards and UK legislation.

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.

Other matters we are required to address

- We were appointed by the company on 23 January 2019 to audit the financial statements for the period ending 31 October 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 October 2019 to 31 October 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee

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
26 February 2021

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Consolidated Statement of Comprehensive Income

For the year ended 31 October 2020

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Continuing operations			
Revenue	6	**197.3**	725.0
Cost of sales		**(212.4)**	(620.1)
Gross (loss)/profit		**(15.1)**	104.9
Other operating income	9	**178.5**	238.1
Administrative expenses		**(137.8)**	(64.1)
Other operating expenses	9	**(173.9)**	(230.5)
Operating (loss)/profit		**(148.3)**	48.4
Amortisation of brand	7	**(1.0)**	(2.4)
Non-underlying items	7	**(90.8)**	(17.3)
Underlying operating (loss)/profit		**(56.5)**	68.1
Finance income	10	**1.8**	1.0
Finance expense	11	**(6.1)**	(6.0)
(Loss)/profit before tax	7	**(152.6)**	43.4
Income tax credit/(expense)	12	**28.0**	(8.5)
(Loss)/profit for the year from continuing operations and total comprehensive income		**(124.6)**	34.9
(Loss)/profit attributable to			
Owners of the Company		**(124.6)**	35.1
Non-controlling interest		**-**	(0.2)
		(124.6)	34.9

Notes 1 to 34 form part of the financial statements shown above. All trading derives from continuing operations.

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
(Loss)/earnings per share			
Basic (p per share)	13	**(23.2)**	6.5
Diluted (p per share)	13	**(23.2)**	6.5
Adjusted measures			
Underlying operating (loss)/profit	7	**(56.5)**	68.1
Underlying (loss)/profit before tax	7	**(60.8)**	63.1

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Consolidated Statement of Financial Position

As at 31 October 2020	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	14	–	41.7
Intangible assets	14	3.4	24.2
Property, plant and equipment	15	0.8	1.3
Right of use assets	16	4.7	–
Investments in associates and joint ventures		–	0.4
Investment properties	17	75.2	28.5
Deferred tax asset	20	18.9	–
Other receivables	19	49.1	43.0
Total non-current assets		**152.1**	139.1
Current assets			
Inventories	18	656.6	724.9
Trade and other receivables	19	22.3	12.9
UK corporation tax		6.4	–
Restricted cash		0.6	–
Cash and cash equivalents	30	137.2	36.7
Total current assets		**823.1**	774.5
Total assets		**975.2**	913.6
Equity and liabilities			
Capital and reserves			
Share capital	27	43.0	43.0
Share premium		101.6	101.6
Retained earnings		501.3	624.4
Total equity		**645.9**	769.0
Current liabilities			
Trade and other payables	21	74.8	94.6
UK corporation tax		–	3.7
Land payables	23	34.7	34.1
Lease liabilities	24	1.4	–
Provisions	22	5.8	–
Total current liabilities		**116.7**	132.4
Non-current liabilities			
Long-term borrowings	25	198.6	9.6
Trade and other payables	21	0.7	–
Land payables	23	2.2	–
Lease liabilities	24	4.8	–
Deferred tax liability	20	–	2.6
Provisions	22	6.3	–
Total liabilities		**329.3**	144.6
Total equity and liabilities		**975.2**	913.6

Notes 1 to 34 form part of the financial statements shown above.
These financial statements were approved by the Board on 23 February 2021 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Martin Abell
Chief Financial Officer

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Consolidated Statement of Changes in Equity

For the year ended 31 October 2020

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Balance at 1 September 2018		**43.0**	**101.6**	**617.5**	**762.1**	**1.3**	**763.4**
Profit for the year		–	–	35.1	**35.1**	(0.2)	**34.9**
Total comprehensive income for the year		–	–	**35.1**	**35.1**	**(0.2)**	**34.9**
Transactions with owners of the Company:							
Share-based payments	31	–	–	1.4	**1.4**	–	**1.4**
Dividends	27	–	–	(29.3)	**(29.3)**	–	**(29.3)**
Acquisition of NCI without a change in control		–	–	(0.3)	**(0.3)**	(1.1)	**(1.4)**
Balance at 31 October 2019		**43.0**	**101.6**	**624.4**	**769.0**	–	**769.0**
Loss for the year		–	–	(124.6)	**(124.6)**	–	**(124.6)**
Total comprehensive loss for the year		–	–	**(124.6)**	**(124.6)**	–	**(124.6)**
Transactions with owners of the Company:							
Share-based payments	31	–	–	1.5	**1.5**	–	**1.5**
Balance at 31 October 2020		**43.0**	**101.6**	**501.3**	**645.9**	–	**645.9**

Notes 1 to 34 form part of the financial statements shown above.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Consolidated Cash Flow Statement

For the year ended 31 October 2020

	Notes	**12 months to 31 October 2020 £m**	14 months to 31 October 2019 £m
Net cash flow from operating activities	28	**(39.7)**	81.4
Investing activities			
Purchases of property, plant and equipment	15	**(0.2)**	(0.4)
Purchases of intangible assets	14	**(1.0)**	(1.4)
Proceeds from sale of property, plant and equipment		**0.1**	0.1
Outflows in relation to investment properties	17	**(46.7)**	(28.3)
Net cash used in investing activities		**(47.8)**	(30.0)
Financing activities			
Issue of long-term borrowings		**195.0**	214.0
Repayment of long-term borrowings		**(7.0)**	(255.0)
Dividends paid		**–**	(29.3)
Acquisition of non-controlling interest		**–**	(1.4)
Net cash from/(used in) financing activities		**188.0**	(71.7)
Net increase/(decrease) in cash and cash equivalents		**100.5**	(20.3)
Cash and cash equivalents at beginning of year		**36.7**	57.0
Cash and cash equivalents at end of year		**137.2**	36.7

Notes 1 to 34 form part of the financial statements shown above.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Notes to the Consolidated Financial Statements

1. Basis of preparation

McCarthy & Stone Limited (formerly McCarthy & Stone plc) is a Company limited by shares incorporated and domiciled in England and Wales under the Companies Act 2006. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The Company financial statements present information about the Company as a separate entity and not about the Group.

The current year financial statements have been prepared using a 12 month accounting period to 31 October 2020 ('FY20' or '2020')). The comparative period is a 14 month accounting period to 31 October 2019 ('FY19' or '2019'), due to a change in the year end date from 31 August to 31 October in the prior year. It should be noted that the amounts presented in the financial statements for the current period are therefore not entirely comparable with the prior period.

The Group financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and have been prepared under the historical cost convention, except for investment properties, shared ownership receivables and shared equity receivables that have been measured at fair value.

The registered office is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

Going concern

The COVID-19 pandemic caused significant disruption to the business during FY20 resulting in nationwide closures of construction sites and sales offices during the first lockdown. Against this challenging backdrop, the Group delivered a total of 832 legal completions during the year (2019: 2,402) and generated full year revenue of £197.3m (2019: £725.0m). Underlying operating loss for the year was £56.5m (2019: £68.1m profit).

At the start of the pandemic in March 2020 the Group fully drew its £200m revolving credit facility. To preserve the liquidity of the business and maintain a strong cash position, several cash optimisation measures have been put in place. Taking into account £39.7m cash used in operating activities (2019: £81.4m cash generated) and £47.8m used in investment activities (2019: £28.3m cash used), this resulted in a £100.5m increase (2019: £20.3m decrease) in cash equivalents during the year and £137.2m (2019: £36.6m) cash balance at the year end. Year-end net debt closed at £62.8m (2019: net cash £24.7m).

Post year end the Group continued to have good liquidity and operated with strict cash controls in place to ensure it is positioned to manage the ongoing uncertainty, the slower sales rates and volatility in the current trading environment. At the end of January 2021 the Group's cash balance resulted in £112.4m (2020: £16m) and net debt of £87.5m (2020: £46.9m).

The Directors have assessed the Group's business activities and the factors likely to affect future performance in light of current and anticipated economic conditions. In making their assessment the Directors have reviewed the Group's latest budget, forecasts, available loan facility and considered reasonably possible downside sensitivities in performance and mitigating actions. The Directors are confident that the Group has adequate resources in place to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements being to February 2022. In making their assessment the Directors have considered the key factors listed below:

Acquisition by Lone Star

On 23 October 2020, the Board announced that it had reached agreement with Mastiff Bidco Limited (Bidco), a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI, on the terms of a recommended cash offer by Bidco for the entire share issued and to be issued capital of the Company (the Transaction). The Transaction was to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. The Scheme was duly approved by the Company's shareholders at meetings held on 7 December 2020. Court sanction of the Scheme was received on 28 January 2021 and the Scheme became effective on 1 February 2021.

Loan facilities

Following the acquisition by Loan Star, the Group's revolving credit facility of £200m has been cancelled and existing debt and accrued interest under this facility have been repaid in line with change of control provisions. On acquisition a new 5-year senior loan facility for £275m was put in place at a nominal interest rate of 7% per annum, with the Group's immediate parent company (Mastiff Bidco Limited) as borrower. A covenant testing holiday has been agreed until October 2023. The facility is intended to be secured, including by way of floating charge, over the assets of certain Group subsidiaries.

Notes to the Consolidated Financial Statements (continued)

Scenario modelling

As a result of the economic uncertainty created by COVID-19, the Group has carefully considered its future liquidity position. In stress testing the forecast cash flows of the business, management has modelled a base case, a combined downside scenario and a set of mitigated actions to the downside scenario. The base case was modelled using the latest forecast for sales and build programmes, assumed the sale of the first rental tranche in spring 2021 and no new sales of Freehold Reversionary Interest ('FRI'). Positive cash headroom is maintained under the base case scenario.

The combined downside scenario demonstrated a prolonged impact of COVID-19 with a c.22% volume reduction across FY21 together with an 8% house price deflation and normal sales conditions not returning until August 2021. This scenario also reflects the impact of an increased build cost inflation in FY21 and a delay of the sale of the first rental tranche to March 2022. Principal mitigation actions have been modelled as curtailing land purchasing, delaying build starts, reducing bonuses and marketing costs. 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.

As a result of the above considerations, the Directors consider that the Group has adequate resources in place for at least 12 months from the date of the approval of these financial statements and have therefore adopted the going concern basis of accounting in preparing the financial statements.

2. Changes in accounting policies and disclosures

The accounting policies adopted, and methods of computation followed, are consistent with those of the previous financial year, with the exception of IFRS 16. The nature and effect of the changes, as a result of adoption of these new accounting standards, are described below. There were several other new and amendments to standards and interpretations which are applicable for the first time in FY20, but either do not cause any impact or have no relevance to the Group.

IFRS 16 *'Leases'*

IFRS 16 replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' and was effective for the Group from 1 November 2019. This standard brings significant changes to the accounting of leases by lessees. IFRS 16 requires the recognition of a 'right-of-use' asset and a corresponding lease liability on the Statement of Financial Position of the lessee. In the Statement of Comprehensive Income, the previous operating lease charges (the majority of which were recognised within operating profit) have been replaced by a depreciation charge against the 'right-of-use' asset. Additionally, there is now an interest cost in relation to the lease liability which is being recognised within finance expenses.

Right-of-use assets are classified as non-current assets on the face of the Statement of Financial Position and lease liabilities are separately classified on the Statement of Financial Position within current liabilities and non-current liabilities as a result of the remaining lease terms.

The Group have opted to apply IFRS 16 using the modified retrospective transition approach, whereby the Group have measured right-of-use assets at an amount equal to the lease liabilities on the date of transition, being 1 November 2019. The Group have classified its leases into two categories of assets - property leases and vehicle leases.

The Group have also taken advantage of several practical expedients available to lessees. These exemptions are:

- Exclusion of all leases with term dates that end within 12 months of the date of application
- Exclusion of low value leases (e.g. printers and laptops)
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics

A summary of the financial impact can be seen within notes 16 and 24. The prior period comparatives have not been restated.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Other standards issued

The Group have considered the impact of Annual Improvements 2015-2017, Amendment to IAS 28 'Investments in Associates and Joint Ventures', IFRIC 23 'Uncertainty over income tax treatments', and Amendments to IAS 19 'Employee benefits on plan amendment, curtailment or settlement' which are applicable to the Group for this financial year. These amendments to standards and interpretations had no significant impact on the financial statements.

Notes to the Consolidated Financial Statements (continued)

3. 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 periods presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporate the results of the Company and its subsidiaries. For the purposes of consolidation, subsidiaries are entities which are controlled by the Group. The Group controls an entity when it has:

- Power over the entity through existing rights that give the ability to direct the relevant activities of the entity
- Exposure, or rights, to variable returns from its involvement with the entity
- The ability to use its power over the entity to affect the amount of the investor's returns

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.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand, except when otherwise indicated.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders are measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. 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 from 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.

For the purpose of impairment testing, goodwill is allocated to McCarthy & Stone (Developments) Limited, which consolidates all cash-generating units ('CGUs') of the Group. This is the lowest level at which goodwill is monitored internally. Goodwill arose in 2009 on acquisition of the assets and liabilities of Monarch Realisations 1 plc and therefore management consider it appropriate to allocate goodwill across the business in aggregate. The CGU is tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the CGU.

During the year, the balance of goodwill and brand was fully impaired and is recognised within non-underlying items.

Revenue recognition

Revenue from contracts with customers is measured at fair value of the consideration received or receivable and represents amounts receivable for goods supplied stated net of discounts, cash incentives, rebates, VAT and other sales taxes. Revenue is recognised when control of the goods or services are transferred to the customer.

Revenue recognised in the Consolidated 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 Consolidated Statement of Comprehensive Income is held on the Consolidated Statement of Financial Position within 'Trade and other payables'.

Notes to the Consolidated Financial Statements (continued)

Revenue is classified as follows:

Unit sales

Revenue represents the consideration received from the sale of leasehold interests in apartments and freehold interests in houses and bungalows and is recognised on legal completion, being the point at which the transfer of control and risks and rewards of ownership has substantially occurred. 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. Where a completion involves an on balance sheet part-exchange, any initial provision or top-up applied to the value of the acquired property is deemed to be a reduction to the fair value of the acquired property and is also treated as a reduction to revenue. Where a completion involves shared ownership or shared equity, the Group records the full sale as control of the apartment in addition to the risks and rewards of ownership have transferred to the customer, less an adjustment to reflect the fair value of the transaction.

Freehold reversionary interests ('FRIs') revenue

FRIs 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 apartment has been sold.

Operating rental income

The Group earns revenue from acting as a lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the Consolidated Statement of Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are expensed upfront due to their insignificant value.

Segmental analysis

IFRS 8 *'Operating Segments'* establishes standards for reporting information about operating segments and related disclosures, products and services, geographical areas and major customers. The Group conducts its activities through a single operating segment, consequently, no detailed segment information has been presented.

During the year, as revenue was significantly impact as a result of Covid-19, revenue from an associate amounted to 11% of the Group's revenue (2019: 2%) – see note 6 for further detail.

Other operating income and expenses

Other operating income includes management services income, revaluation gains or losses from investment properties, customer extras, income from insurance claims, profits arising from the disposal of undeveloped land sites and profits arising from the realisation of shared equity receivables.

Other operating income also includes resale income on acquired part-exchange properties. These have been presented here rather than in core revenue due to their acquisition route being incidental to the sale of a McCarthy & Stone apartment, the properties acquired are a very different product to the specialised, age-restricted products sold by the Group and the resale route being via local agents rather than using the McCarthy & Stone sales function. As a result, this is not considered to be a core trading activity of the Group.

Management services income relates to the management of service charge trusts, estate management and the provision of care and domestic assistance to residents within our developments. Income is recognised as these services are provided.

Other operating expenses relate to the cost incurred in delivering this income, notably the purchase cost of part-exchange properties and their associated holding and selling fees. Management services other expenses relate to the costs of the provision of care and domestic assistance and management of our estates and service charges.

Finance income

Income 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 divisional marketing costs that are directly attributable to sales, including show flat running costs and estate agent referral fees. Cost of sales is recognised on a unit-by-unit basis, by reference to the forecast list prices and land and build costs. Build-related rebates are recorded as a reduction to cost of sales.

Notes to the Consolidated Financial Statements (continued)

Non-underlying items

Non-underlying items are defined as material 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 to enable full understanding of the Group's financial performance. Exclusion of these balances, in addition to exclusion of amortisation of brand, allows review of the underlying trading position of the Group through the Alternative Performance Measures. Further information on non-underlying items is provided in note 7.

Leases

The Group enters into a number of lease arrangements for properties and vehicles, none of which transfer substantially all the risks and rewards of ownership, nor control, to the lessee.

The Group recognises a right-of-use asset and a corresponding lease liability at the lease commencement date. The right-of-use asset is initially measured at the present value of the payments across the lease term, adjusted for any initial direct costs or incentives received. The discount rate applied is set by the Group's incremental borrowing rate at the date of the inception of the lease. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the same value as the right-of-use asset and is adjusted to reflect interest on the lease liability, whilst reducing it by the lease payments made.

The lease term applied is initially set by the non-cancellable period of the contract, however, is adjusted where the Group is reasonably certain that it will exercise its option to extend the lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for low value leases of office equipment or leases of build-related plant and machinery that have a lease term of less than 12 months. These lease payments are recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets are classified as non-current assets on the face of the Statement of Financial Position and lease liabilities are separately classified on the Statement of Financial Position within current liabilities and non-current liabilities as a result of the remaining lease terms.

In the comparative period, the Group classified its leases as operating leases, and no asset or liability was recognised in the Statement of Financial Position. Further detail on the change in accounting standards is provided in note

Government grants

Grants have been received for furlough payments under the Government's Coronavirus Job Retention Scheme. Commencing in April 2020, the Group have claimed under this scheme and recognised the income received as a deduction to the related expense in the period incurred. Where grant income is outstanding at the period end date, subsequent to a claim being made, the balance is shown on the Consolidated Statement of Financial Position within 'trade and other receivables'. The total grant income in the year amounted to £3.7m (2019: £nil).

Retirement benefit costs

The Group operates a defined contribution retirement scheme, which is open to all employees.

A retirement benefit scheme is a post-employment benefit plan under which the Group 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 in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

Taxation

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

Current tax

Tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income due to exclusion of items of income or expense that are taxable or deductible in other periods, additionally it 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, at the reporting date.

Notes to the Consolidated Financial Statements (continued)

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 recognise d 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 assets are reviewed at the end of each reporting period and maintained to the extent that there are sufficient probable future taxable profits available to allow the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability crystallises or the asset realised based on tax laws and rates that have been enacted by the period end. Deferred tax is charged or credited in the Consolidated 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 basis:

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.

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.

Intangible assets - software

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.

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 the criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives using the straight-line method, which do 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 and goodwill

At each reporting 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 CGU.

Notes to the Consolidated Financial Statements (continued)

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Consolidated Statement of Comprehensive Income.

During the year, the balance of goodwill and brand was fully impaired and is recognised within non-underlying items.

Investment properties

Investment properties comprise completed properties that are held to earn rentals or for capital appreciation as part of the Group's multi-tenure offerings, rather than for sale in the ordinary course of business.

Investment properties are stated at fair value using a market approach, which has been supported by a RICS qualified valuation. Transfers are made from inventories to investment properties only when there is evidence of a change in use (upon a signed rental agreement). The initial gain arising from the change in the fair value of investment property is included in the Consolidated Statement of Comprehensive Income within 'Other operating income' in note 9 in the period in which they arise. Subsequent fair value changes will also be recorded within 'Other operating income/expenses'.

Investment property cash flows are treated as investing cash flows.

An investment property is derecognised either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected following its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Consolidated Statement of Comprehensive Income within 'Other operating income/expenses' in the period of derecognition.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the operating and financial policy decisions of the Company, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those used to determine control over subsidiaries. The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

The aggregate of the Group's share of profit or loss of an associate or joint venture is shown on the face of the Consolidated Statement of Comprehensive Income.

Inventories

Inventories are stated at the lower of cost or 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.

Part-exchange properties are initially recognised at fair value on the acquisition date, as established by independent surveyors, less a provision for costs to sell.

Land inventories and the associated land payables are recognised in the Consolidated Statement of Financial Position from the date of unconditional exchange of contracts.

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

Notes to the Consolidated Financial Statements (continued)

Provisions are established to write down land where the forecast net sales proceeds, less costs to complete, exceed the carrying value of the land. These provisions are adjusted as selling prices and costs to complete change over time.

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 Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument, in accordance with IFRS 9.

Financial assets

All financial assets are normally recognised and derecognised on the trade date that an agreement has been entered into where the purchase or sale of a financial asset is under a contract. 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.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held shared equity receivables and shared ownership receivables (measured at 'fair value through profit or loss' ('FVTPL')), secured mortgages (measured at 'amortised cost') and 'trade and other receivables' (measured at 'amortised cost').

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.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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 Consolidated Statement of Comprehensive Income. Fair value is determined in the manner described in note 30.

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 on 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 due to them being held at fair value, as designated upon their initial recognition. The shared equity receivables are 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' views of an appropriate discount rate, a new build premium, future house price movements, historic gains and losses on redemptions 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.

Shared ownership receivables

Shared ownership interests arise from the sale of apartments where the Group retains a portion of ownership of the property and receives rental income in relation to the retained portion.

The shared ownership receivables are recognised at fair value, being the estimated future amount receivable by the Group on their percentage share, discounted to present value.

Where a customer staircases on their ownership share, the Group recognises the appropriate profit or loss on the holding value of the equity percentage sold within the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Financial assets at amortised costs

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade and other receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The Group does not hold trade receivables as part of its core trading activity as the Group's accounting policy is not to recognise revenue until legal completion. As such, there are no significant implications of the expected credit loss model being applied however will continue to be reviewed by the Group as multi-tenure offerings continue to grow. However, where the Group has sold properties to an associate, an expected credit loss has been applied given uncertainty over the timing of receipts.

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 as the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are classified as financial liabilities at amortised cost and include trade and other payables, land payables, loans and land-related promissory notes.

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

All 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 borrowings due to the substance of the contractual arrangements.

Share-based payment schemes

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.

Further details regarding the schemes are set out in note 31.

Alternative Performance Measures ('APMs')

Within the Annual Report, the Directors have adopted various APMs. These measures are not defined by International Financial Reporting Standards ('IFRS').

The Directors are of the opinion that the separate presentation of these items provides helpful information about the Group's underlying business performance.

Notes to the Consolidated Financial Statements (continued)

The key APMs that the Group has used are as follows:

- Underlying operating profit
- Underlying earnings per share
- Underlying operating profit margin
- Net debt/cash
- Underlying profit before tax
- Return On Capital Employed ('ROCE')

All 'underlying' items refer to the adjusted measure being reported before 'non-underlying' and 'adjusted cost' items. Specifically, the non-underlying items are one-off, and their inclusion does not present consistent and comparable results. The amortisation of brand is a non-trading factor and its inclusion is not useful in determining the trading profits of the Group. ROCE is used as a metric to ensure efficient and effective use of capital and is a key metric for determining Director remuneration (including LTIP targets). ROCE is also a comparable metric used by our peer housebuilder group.

A full reconciliation between the statutory results and the underlying measures and a ROCE calculation can be seen within note 7. Net debt/cash has been defined and calculated within note 26. Adjusted cost and non-underlying items have been defined within note 7.

4. Standards issued but not yet effective

At the date of approval of the financial statements, the following standards, interpretations and amendments to standards have been issued, but are not yet effective for the year ended 31 October 2020.

The Group has considered the impact of Amendments to IFRS 3 *'Definition of a Business'*, Amendments to IAS 1 and IAS 8 *'Definition of Material'*, IFRS 17 *'Insurance Contracts'*, Amendments to IAS 1 *'Classification of Liabilities as Current or Non-current'*, Amendments to IFRS 9, IAS 39 and IFRS 17 *'Interest Rate Benchmark Reform'*, and Various standards Amendments to References to the Conceptual Framework in IFRS Standards. These standards, interpretations and amendments are not expected to have a significant impact on the Group.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, 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

In applying the Group's accounting policies, one critical judgement has been made in relation to non-underlying items.

McCarthy & Stone defines underlying activities of the Group as those which are core to the business and comprise the construction and sale or rental of retirement apartments, after-sale management, care and wellbeing services, part-exchange purchases and resales, bulk sales to financial institutions and strategic business partnerships.

McCarthy & Stone have therefore removed any non-underlying items that do not fall in line with this definition in order to provide users with a reliable methodology to present the financial information in a way that enables users to better assess the quality of the Group's profitability. Additionally, this also allows for greater comparability of results across different reporting periods.

No other critical judgements are deemed to have been made that have a material effect on the amounts recognised in the financial statements.

Assumptions and other sources of estimation uncertainty

The following are assumptions the Group makes about the future, and other sources of estimation uncertainty at the end of the reporting period. This has been split between those that could result in a material adjustment within one year and those over the longer-term.

Critical assumptions and major sources of estimation uncertainty

The Group 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.

Notes to the Consolidated Financial Statements (continued)

Other assumptions and sources of estimation uncertainty

These assumptions 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.

Impairment of goodwill

Goodwill is tested to determine whether the estimation of the value in use of the CGU is greater than the carrying value of the asset. The value in use calculation includes an estimate of the future forecast cash flows and requires the determination of a suitable discount rate in order to calculate the present value of the cash flows. Following this impairment test at the half year, the carrying value of goodwill of £41.7m and the carrying value of brand of £18.7m were written off in full. Further detail is provided within note 14.

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, the expected timing of receipts and historic gains and losses on redemptions. Shared equity receivables are reviewed at each reporting date using a variety of estimates that anticipate future cash flow from assets. Further information regarding the assumptions and sensitivity effects of a reasonable possible change across all schemes can be seen within note 30. The significant risk is specifically pinpointed to the Group's substantially largest shared equity scheme which was offered between FY12 and FY17 of which the revaluation is driven by changes in discount rates and house price inflation. 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
Fair value	(0.2)	0.2

Cost capitalisation of overheads

Within inventory there are a number of areas of estimation uncertainty, including determination of site margin, of which cost capitalisation of overheads is the most significant. Inventory includes a proportion of design, procurement, construction, health and safety, interior design, commercial and planning costs. Costs associated with these functions are reviewed by management to attribute those costs relating directly to the cost of the developments to inventory and those that relate to general business overheads to expenses. The assumptions used are reviewed annually by the function heads.

Cost capitalisation involves estimates of the proportion of costs that are directly attributable to sites. The key source of estimation uncertainty in this area relates to the percentage of time spent by our divisions on directly attributable site activities. The percentage of their time which is capitalised ranges between 54-85% (2019: 50-78%) for the various functions. Overhead costs capitalised during the year amount to £8.4m (14 months to 31 October 2019: £19.6m). If the prior year cost capitalisation rates were to be used, the value of the overhead costs capitalised would have decreased by £0.3m.

Provisions

A provision has arisen during the year in relation to combustible materials, fire risk and protection and regulatory compliance on completed developments. The Group have calculated this using assumptions as to the costs to repair, replace and complete works identified. Additionally, an assumption around the timing of the forecast expenditure has been applied. Further detail on this provision is detailed within note 22.

Deferred tax

At the year end, the Group have recognised a deferred tax asset of £18.9m (2019: £2.6m deferred tax liability) mostly related to unrelieved tax losses. The recognition of deferred tax assets is based upon whether it is probable that sufficient taxable profits will be available in the future against which the unrelieved tax losses can be utilised.

Differences in forecasted taxable profits and actual profitability or a downgrade in future forecasted taxable profits could impact the deferred tax assets recognised in future periods and are reviewed at the end of each reporting period.

Notes to the Consolidated Financial Statements (continued)

6. Revenue

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Unit sales - external customers	**163.2**	677.6
Unit sales - revenue from an associate	**21.8**	16.7
FRI revenue	**7.2**	30.3
Rental revenue	**5.1**	0.4
	197.3	725.0

All unit sales revenue arose from the sale of properties. All revenue was generated within the UK. No individual customer is significant to the Group's revenue in any period, however unit sales - revenue from an associate includes the sale of 41 show flats and sales offices (2019: 113 show flats and sales offices) with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland to Waverstone LLP for which the Group has recognised its proportional share of the transaction resulting in revenue of £15.4m (2019: £16.7m) and a loss for the year of £1.7m (2019: profit for the year of £2.7m). Once the properties are sold from the associate to a customer, the Group recognises its remaining share that is held within deferred income, which amounted to £6.4m in the year (2019: £nil). Further detail can be seen within note 33.

7. (Loss)/profit before tax

(Loss)/profit before tax has been arrived at after charging:

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Amortisation of intangibles	14	**1.8**	3.2
Depreciation of property, plant and equipment	15	**0.6**	1.1
Depreciation of right-of-use assets	16	**1.7**	–
Cost of inventories recognised as an expense		**143.1**	524.0
Staff costs	8	**97.9**	91.7
Share-based payments charge	31	**1.5**	1.4
Movement in inventory provision (including part-exchange properties)		**0.6**	(0.6)

Notes to the Consolidated Financial Statements (continued)

Non-underlying items

Non-underlying 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 and allow for a greater understanding of the operating performance of the Group. Each item has been identified and explained below:

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
a) Costs in relation to strategic review	**6.1**	17.3
b) Goodwill and Brand impairment	**60.3**	–
c) Covid-19 costs	**11.4**	–
d) Sell side costs in relation to Lone Star acquisition	**0.9**	–
e) Fire safety provision	**12.1**	–
	90.8	17.3

a) Further costs were incurred in relation to the strategic review which included redundancy costs following the restructuring from nine Regions to four Divisions, costs incurred relating to new strategic initiatives and land aborts following a review of our build programmes.
b) Full impairment of goodwill and brand balances following impairment testing at the half year review.
c) Covid-19 related costs are deemed to be those which are directly attributable to the coronavirus outbreak and are incremental to costs incurred prior to the outbreak and not expected to recur once the crisis has subsided and operations return to normal, plus are clearly separable from normal operations. This includes the costs of demobilisation of our sites, their subsequent remobilisation, impairment of right of use leased assets and costs within our management services operations.
d) £0.9m sell side advisory costs have been incurred by the Group in relation to the acquisition by Lone Star. These costs were not contingent on a successful completion of the acquisition and were recognised in FY20.
e) The UK government have issued guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments. A review has been carried out for the property estate under management to estimate the likely level of compliance against current fire safety legislation. The review covered three key risk profiles: External Wall Systems, cladding and passive fire protection measures. The provision estimates the costs to repair, replace and complete works across several sites identified. The provision can be seen further within note 22.

In addition, amortisation of brand of £1.0m (2019: £2.4m) 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.

Notes to the Consolidated Financial Statements (continued)

Reconciliation to underlying operating profit and profit before tax

The following tables present a reconciliation between the statutory profit measures disclosed on the Consolidated Statement of Comprehensive Income and the underlying measures used by the Board to appraise performance.

12 months ended 31 October 2020	Notes	Statutory £m	Non-underlying Non-underlying items £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating (loss)/profit		**(148.3)**	**90.8**	**1.0**	**(56.5)**
Finance income	10	**1.8**	**–**	**–**	**1.8**
Finance expense	11	**(6.1)**	**–**	**–**	**(6.1)**
(Loss) before tax		**(152.6)**	**90.8**	**1.0**	**(60.8)**
Income tax credit		**28.0**	**(17.3)**	**(0.2)**	**10.5**
(Loss) for the year attributable to owners of the Company		**(124.6)**	**73.5**	**0.8**	**(50.3)**
Earnings per share					
Basic (p per share)		**(23.2)**	**16.9**	**0.2**	**(6.1)**
Diluted (p per share)		**(23.2)**	**16.9**	**0.2**	**(6.1)**

14 months ended 31 October 2019	Notes	Statutory £m	Non-underlying Non-underlying items £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating profit		48.4	17.3	2.4	68.1
Finance income	10	1.0	–	–	1.0
Finance expense	11	(6.0)	–	–	(6.0)
Profit before tax		43.4	17.3	2.4	63.1
Income tax expense		(8.5)	(3.3)	(0.5)	(12.3)
Profit for the year		34.9	14.0	1.9	50.8
Attributable to non-controlling interest		(0.2)	–	–	(0.2)
Attributable to owners of the Company		35.1	14.0	1.9	51.0
Earnings per share					
Basic (p per share)		6.5	2.6	0.4	9.5
Diluted (p per share)		6.5	2.6	0.4	9.5

Key profit related metrics, underlying operating (loss)/profit margin and return on capital employed ('ROCE'), have been reconciled below:

Underlying operating profit margin: calculated as underlying operating (loss)/profit (being operating (loss)/profit adding amortisation of brand and non-underlying items) divided by revenue.

Notes to the Consolidated Financial Statements (continued)

ROCE: calculated by dividing underlying operating (loss)/profit by the average of opening and closing Tangible Gross Asset Value ('TGAV' - calculated as tangible net asset value less net debt/cash) in the year.

	12 months to 31 October 2020 £m	14 months to 31 October 2020 £m
Revenue	**197.3**	725.0
Operating (loss)/profit	**(148.3)**	48.4
Operating (loss)/profit margin	**(75%)**	7%
Amortisation of brand	**1.0**	2.4
Non-underlying items	**90.8**	17.3
Underlying operating (loss)/profit	**(56.5)**	68.1
Underlying operating (loss)/profit margin	**(29%)**	9%
Opening net assets	**776.5**	763.4
Opening goodwill	**(41.7)**	(41.7)
Opening intangible assets	**(24.2)**	(26.1)
Opening net cash	**(24.7)**	(4.0)
Opening tangible gross asset value	**685.9**	691.6
Closing net assets	**645.9**	769.0
Closing goodwill	**–**	(41.7)
Closing intangible assets	**(3.4)**	(24.2)
Closing net debt/(cash)	**62.8**	(24.7)
Closing tangible gross asset value	**705.3**	678.4
Average tangible gross asset value	**695.6**	685.0
Underlying operating (loss)/profit	**(56.5)**	68.1
ROCE	**(8%)**	10%

Auditor's remuneration

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Fees payable to the Group's auditor		
Audit of the Company and Consolidated Financial Statements	**0.4**	0.2
Audit of the Company's subsidiaries	**–**	–
Audit related assurance services	**–**	–
Taxation compliance services	**–**	–
All taxation advisory services	**–**	–
Other services	**–**	–
	0.4	0.2

Audit of the Company's subsidiaries amounted to £30,000 (2019: £30,000). Audit related assurance services amounted to £50,000 (2019: £50,000) in respect of a review of the half year results. There were no other fees payable to the Group auditor in the period.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Notes to the Consolidated Financial Statements (continued)

8. Staff costs

Staff costs for the year include Directors' emoluments, which are detailed within this note:

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Wages and salaries	**81.3**	97.0
Social security costs	**8.3**	10.3
Other pension costs	**5.4**	5.7
Share-based payments	**1.5**	1.4
Termination payments	**1.4**	1.6
	97.9	116.0

Staff costs include £3.7m received for furlough payments under the Government's Coronavirus Job Retention Scheme. The 2019 disclosure has been restated for comparability to include the payroll costs of staff employed by YourLife Management Services Limited which was acquired during the prior year.

The monthly average number of persons, including Executive Directors, employed by the Group during the year was as follows:

	2020 Number	2019 Number
Office management and staff	**824**	844
House managers	**1,561**	1,401
Construction staff	**148**	188
	2,534	2,432

At 31 October 2020 the Group employed 2,528 people (31 October 2019: 2,523).

Directors' emoluments

Amounts recognised in respect of Board Directors' emoluments:

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Wages and salaries	**2.2**	2.5
Social security costs	**0.3**	0.3
Share-based payments	**0.5**	0.4
Other pension costs[1]	**0.2**	0.2
	3.1	3.4

[1] Includes salary supplements in lieu of pension

The emoluments of the highest paid director was £0.8m (2019: £0.9m), including pension contributions of £nil (2019: £nil). The number of Directors in the Company pension plan was two (2019: one).

Notes to the Consolidated Financial Statements (continued)

9. Other operating income/expenses

Other operating income	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Other income	**11.2**	16.2
Valuation gains from investment property	**8.9**	6.6
Part-exchange revenue	**158.4**	215.3
	178.5	238.1

Other income arises on the services provided by Group subsidiaries to manage certain developments and non-core income such as customer extras.

Other operating expenses	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Other expenses	**13.1**	13.6
Part-exchange expenditure	**160.8**	216.9
	173.9	230.5

10. Finance income

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Gain in fair value of shared equity receivables	**0.5**	0.9
Interest income received	**1.3**	0.1
	1.8	1.0

11. Finance expense

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Loans interest and overdraft fees	**4.4**	3.4
Promissory note interest and fees	**–**	0.3
Refinancing issue costs	**1.0**	1.0
Lease interest	**0.2**	–
Loss in fair value of shared equity receivables	**0.5**	1.3
	6.1	6.0

The total interest expense, determined using the effective interest method, for financial liabilities that are not classified as at fair value through profit or loss was £3.2m (2019: £3.1m).

Notes to the Consolidated Financial Statements (continued)

12. Income tax credit/expense

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Corporation tax (credit)/charges			
Current year		**(6.5)**	7.9
Adjustments in respect of prior periods		**–**	0.1
Deferred tax (credit)/charges			
Current year	20	**(21.5)**	0.6
Adjustments in respect of prior periods		**–**	(0.1)
		(28.0)	8.5

The tax charge for each period can be reconciled to the profit before tax per the Consolidated Statement of Comprehensive Income as follows:

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
(Loss)/profit before tax	**(152.6)**	43.4
Tax (credit)/charge at the UK corporation tax rate of 19.0% (2019: 19.0%)	**(29.0)**	8.2
Tax effect of		
Expenses that are not deductible in determining taxable profit	**0.3**	0.2
Income not taxable in determining taxable profit	**(0.2)**	–
Share options timing difference	**0.4**	0.1
Effects of tax rate changes	**0.5**	–
Tax charge for the year	**(28.0)**	8.5

The rate of corporation tax was 19.0% throughout the year (2019: 19.0%). The UK deferred tax assets/liabilities at 31 October 2020 have been calculated based on the expected rate at which the asset/liability will unwind.

Notes to the Consolidated Financial Statements (continued)

13. Earnings per share

Basic earnings per share is calculated as the profit for the financial period attributable to owners of the Company divided by the weighted average number of shares in issue during the period. The actual weighted average number of ordinary shares during the year ended 31 October 2020 was 537.6m for the basic calculations, giving a basic statutory earnings per share of (23.2)p.

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
(Loss)/profit attributable to owners of the Company (£m)	**(124.6)**	35.1
Weighted average no. of shares (m)	**537.6**	537.3
Basic earnings per share (p)	**(23.2)**	6.5

For diluted earnings per share, the weighted average number of shares in issue is adjusted to assume the conversion of all potentially dilutive ordinary shares, however only where their conversion would decrease earnings per share or increase loss per share, hence there is no difference for the current period. At 31 October 2020, the Company had two categories of potentially dilutive ordinary shares: 8.6m £nil cost share options under the LTIP and 1.5m share options under the SAYE.

A calculation is performed to determine the number of shares that could have been acquired at fair value based on the aggregate of the exercise price of each share option and the fair value of future services to be supplied to the Group, which is the unamortised share-based payments charge. The difference between the number of shares that could have been acquired at fair value and the total number of options is used in the diluted earnings per share calculation.

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
(Loss)/profit used to determine diluted EPS (£m)	**(124.6)**	35.1
Weighted average number of shares (m)	**537.6**	537.3
Adjustments for		
Share options – LTIP (m)	**–**	4.4
Share options – SAYE (m)	**–**	2.1
Shares used to determine diluted EPS (m)	**537.6**	543.9
Diluted earnings per share (p)	**(23.2)**	6.5

Notes to the Consolidated Financial Statements (continued)

14. Goodwill and intangible assets

	Goodwill £m	Brand £m	Software £m	Total £m
Cost				
At 1 September 2018	41.7	41.4	5.8	88.9
Additions	–	–	1.4	1.4
Disposals	–	–	(0.2)	(0.2)
At 31 October 2019	**41.7**	**41.4**	**7.0**	**90.1**
Additions	–	–	1.0	1.0
Disposals	–	–	(1.7)	(1.7)
At 31 October 2020	**41.7**	**41.4**	**6.3**	**89.4**
Amortisation				
At 1 September 2018	–	(19.3)	(1.8)	(21.1)
Charge for the year	–	(2.4)	(0.8)	(3.2)
Eliminated on disposal	–	–	0.1	0.1
At 31 October 2019	–	**(21.7)**	**(2.5)**	**(24.2)**
Charge for the year	–	(1.0)	(0.8)	(1.8)
Impairment	(41.7)	(18.7)	–	(83.1)
Disposals	–	–	0.4	0.4
At 31 October 2020	**(41.7)**	**(41.4)**	**(2.9)**	**(86.0)**
Carrying amount				
At 31 October 2019	41.7	19.7	4.5	65.9
At 31 October 2020	–	–	**3.4**	**3.4**

Goodwill arose as a result of an acquisition in 2009 of the assets and liabilities of Monarch Realisations 1 plc. The Group tests goodwill and intangible assets for impairment annually or where there is an indication that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to McCarthy & Stone (Developments) Limited.

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

In light of the recent global impact of Covid-19 and its impact on McCarthy & Stone's operations, management have undertaken full impairment review of goodwill and other intangible assets.

The recoverable amount of the Group's net assets was determined by an impairment test of the fair value less the cost of disposal of the CGU, being higher than the CGU's value in use. The fair value measurement was based on the Group's share price adjusted for management's view of the achievable control premium.

Following this impairment test at the half year, the carrying value of goodwill of £41.7m and the carrying value of brand of £18.7m were written off in full. This gave rise to a charge of £60.4m for the year. The charge is presented within operating loss as a non-underlying item.

Notes to the Consolidated Financial Statements (continued)

15. Property, plant and equipment

	£m
Cost	
At 1 September 2018	6.2
Additions	0.4
Disposals	(2.0)
At 31 October 2019	**4.6**
Additions	0.2
Disposals	(0.5)
At 31 October 2020	**4.3**
Accumulated depreciation and impairment	
At 1 September 2019	(4.1)
Charge for the year	(1.1)
Eliminated on disposals	1.9
At 31 October 2019	**(3.3)**
Charge for the year	(0.6)
Eliminated on disposals	0.4
At 31 October 2020	**(3.5)**
Carrying amount	
At 31 October 2019	1.3
At 31 October 2020	**0.8**

16. Right of use assets
During the year, the Group has adopted IFRS 16 'Leases'. The Group's leased assets comprise of property leases and vehicle leases.

	Properties £m	Vehicles £m	Total £m
At 1 November 2019 – date of transition	6.9	0.7	7.6
Additions	–	0.8	0.8
Depreciation	(1.2)	(0.5)	(1.7)
Impairment	(2.0)	–	(2.0)
At 31 October 2020	**3.7**	**1.0**	**4.7**

Notes to the Consolidated Financial Statements (continued)

17. Investment properties

	Rental £m	Other £m	Total £m
Cost			
At 1 September 2018	–	0.2	0.2
Additions	21.7	–	21.7
Revaluation	5.9	0.7	6.6
At 31 October 2019	**27.6**	**0.9**	**28.5**
Additions	46.7	–	46.7
At 31 October 2020	**74.3**	**0.9**	**75.2**

The Group's investment properties consist of McCarthy & Stone properties that are held as rental apartments for capital appreciation and are held at fair value using a market based valuation. The fair value is based on an external valuation carried out by independent valuation consultants. The revaluation gain from inventories to investment properties within the year amounted to £8.9m (14 months to 31 October 2019: £6.6m).

18. Inventories

	31 October 2020 £m	31 October 2019 £m
Land held for sale	**0.9**	–
Land held for development	**103.6**	57.6
Sites in the course of construction	**217.9**	179.6
Finished stock	**312.4**	393.9
Part-exchange properties	**21.8**	93.8
	656.6	724.9

19. Trade and other receivables

	31 October 2020 £m	31 October 2019 £m
Trade and other receivables due in less than one year		
Trade receivables – external	**0.4**	3.2
Trade receivables from an associate	**12.5**	–
Other debtors and prepayments	**9.4**	9.7
	22.3	12.9

	31 October 2020 £m	31 October 2019 £m
Trade and other receivables due in greater than one year		
Trade receivables from an associate	**18.8**	14.9
Secured mortgages	**2.3**	2.5
Shared equity receivables	**20.9**	22.1
Shared ownership receivables	**7.1**	3.6
	49.1	43.0

Notes to the Consolidated Financial Statements (continued)

Secured mortgages disclosed above are measured at amortised cost. Shared equity receivables and shared ownership receivables are classified as financial assets measured at fair value through profit or loss.

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

Trade receivables from an associate represents balances due from Waverstone LLP and is subsequent to a fair value adjustments due to expected timing of the receipts of £4.9m and expected credit loss adjustments of £2.3m.

20. Deferred tax

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

	Other temporary differences £m	Accelerated tax depreciation £m	Unrelieved tax losses £m	Total £m
At 1 September 2018	(2.1)	–	–	(2.1)
Statement of Comprehensive Income charge	(0.5)	–	–	(0.5)
At 31 October 2019	(2.6)	–	–	(2.6)
Statement of Comprehensive Income charge	2.9	0.6	18.0	21.5
At 31 October 2020	**0.3**	**0.6**	**18.0**	**18.9**

Deferred tax assets of £0.1m (2019: £0.1m) in relation to capital losses carried forward of £0.3m (2019: £0.3m) were not recognised as, despite there being no expiry date for these losses, there is insufficient evidence that they will ever be utilised.

21. Trade and other payables

	31 October 2020 £m	31 October 2019 £m
Trade and other payables due in less than one year		
Trade payables	**13.5**	23.7
Other taxes and social security costs	**1.9**	2.3
Accrued expenses	**33.8**	38.9
Other creditors and deferred income	**25.6**	29.7
	74.8	94.6

Trade payables and accrued expenses principally comprise amounts outstanding for trade purchases and ongoing costs. 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 and customer deposits. The Directors consider that the carrying amount of trade payables approximates their fair value. No purchases are made on extended payment terms.

	31 October 2020 £m	31 October 2019 £m
Trade and other payables due in greater than one year		
Other creditors and deferred income	**0.7**	–
	0.7	–

Notes to the Consolidated Financial Statements (continued)

22. Provisions

	£m
At 1 November 2019	–
Provided in the year	12.1
Utilised in the year	–
At 31 October 2020	**12.1**
Of which:	
Current	5.8
Non-current	6.3
	12.1

Fire safety provision
The UK government have issued guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments. A review has been carried out for the property estate under management to estimate the likely level of compliance against current fire safety legislation. The review covered three key risk profiles: External Wall Systems, cladding and passive fire protection measures. The total review of the work has been estimated at a charge of £12.6m to the Group. This has been discounted over a forecast three year period resulting in a charge of £12.1m, which has been recorded as a non-underlying item within the year.

23. Land payables

	31 October 2020 £m	31 October 2019 £m
Land payables due in less than one year		
Other creditors and deferred income	**34.7**	34.1
	34.7	34.1

	31 October 2020 £m	31 October 2019 £m
Land payables due in greater than one year		
Other creditors and deferred income	**2.2**	–
	2.2	–

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

Notes to the Consolidated Financial Statements (continued)

24. Lease liabilities

During the year, the Group has adopted IFRS 16 'Leases'. The below table shows the movement in the Group's lease liabilities:

	Properties £m	Vehicles £m	Total £m
At 1 November 2019 – date of transition	6.9	0.7	7.6
Additions	–	0.8	0.8
Lease modifications	(0.5)	–	(0.5)
Lease payments	(1.4)	(0.5)	(1.9)
Finance charges	0.2	–	0.2
	5.2	**1.0**	**6.2**

This has been split accordingly as follows:

	Properties £m	Vehicles £m	Total £m
Current	1.0	0.4	1.4
Non-current	4.2	0.6	4.8
	5.2	**1.0**	**6.2**

The total cash outflow of IFRS 16 leases in the year was £1.9m. The weighted average incremental borrowing rate applied within calculating the lease liabilities on the date of transition of 1 November 2019 was 2.4%.

At prior period end year end the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases under IAS 17, which fell due as follows:

As a lessee:	31 October 2019 £m
Within one year	2.5
In the second to fifth years inclusive	5.0
After five years	1.3
Outstanding commitments for future minimum lease payments	8.8

Below is a reconciliation from the above IAS 17 lease disclosure to the opening IFRS 16 liability:

As a lessee:	£m
Outstanding lease commitments at 31 October 2019	8.8
Short-term and low value leases recognised on a straight-line basis as expenditure	0.7
Discounted effect using the incremental borrowing as at 1 November 2019	0.5
Outstanding commitments for future minimum lease payments	7.6

Notes to the Consolidated Financial Statements (continued)

25. Borrowings

Long-term borrowings	31 October 2020 £m	31 October 2019 £m
Loans (Revolving Credit Facility)	**200.0**	12.0
Unamortised issue costs	**(1.4)**	(2.4)
	198.6	9.6

	Maturity	Outstanding at 31 October 2020 £m	Outstanding at 31 October 2019 £m
Revolving Credit Facility	March 2023	**200.0**	**12.0**

The RCF imposes financial covenants which test the Group's interest cover, net tangible assets, gearing and restrictions on the value of rental, shared ownership and part-exchange properties held on the balance sheet; all of which the Group is compliant with or has obtained wavers during FY20. Following the acquisition by Lone Star, changes to the Group's borrow ing arrangements have occurred subsequent to the year end. See note 34 for further detail.

A reconciliation of liabilities arising from financing activities has been detailed below:

2020 £m

	At 1 November 2019	Cash flow: Net cash flow	Non-cash changes: Net (issue)/ amortisation of issue costs	Non-cash changes: Others	At 31 October 2020
Long-term borrowings					
Loans	12.0	188.0	–	–	200.0
Unamortised issue costs	(2.4)	–	1.0	–	(1.4)
Total liabilities from financing activities	**9.6**	**188.0**	**1.0**	–	**198.6**

2019 £m

	At 1 September 2018	Cash flow: Net cash flow	Non-cash changes: Net (issue)/ amortisation of issue costs	Non-cash changes: Issue of promissory notes	At 31 October 2019
Long-term borrowings					
Loans	43.0	(31.0)	–	–	12.0
Unamortised issue costs	(1.6)	–	(0.8)	–	(2.4)
Promissory notes	10.0	(10.0)	–	–	–
Total liabilities from financing activities	51.4	(41.0)	(0.8)	–	9.6

The existing Revolving Credit Facility was repaid on 2 February 2021 with a new 5-year senior loan facility for £275m was put in place at a nominal interest rate of 7% per annum. A covenant testing holiday has been agreed until October 2023.

Notes to the Consolidated Financial Statements (continued)

26. Net debt/(cash)

	31 October 2020 £m	31 October 2019 £m
Loans and borrowings	**198.6**	9.6
Add back unamortised issue costs	**1.4**	2.4
Cash and cash equivalents	**(137.2)**	(36.7)
Net debt/(cash)	**62.8**	(24.7)

Net cash is a non-GAAP measure and is calculated as cash and cash equivalents less long-term and short-term borrowings (excluding unamortised debt issue costs).

27. 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.

Allotted and issued ordinary shares	31 October 2020 £m	31 October 2019 £m
8p each fully paid: 537,766,920 ordinary shares (2019: 537,329,434)	**43.0**	43.0

Dividends on equity shares

No interim dividend was paid during the year (2019: 1.9p) and no final dividend has been proposed by the Board (2019: 3.5p) per share resulting in a total ordinary dividend for the year of £nil (2019: 5.4p).

The cost of the dividends on equity paid within the financial year amounted to £nil (2019: £29.0m). Dividends from subsidiaries paid externally from consolidated joint ventures totalled £nil (2019: £0.3m).

Notes to the Consolidated Financial Statements (continued)

28. Notes to the cash flow statement

	Notes	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
(Loss)/profit for the financial year		**(124.6)**	34.9
Adjustments for			
Income tax (credit)/expense	12	**(28.0)**	8.5
Amortisation of intangible assets	14	**1.8**	3.2
Impairment of goodwill	14	**41.7**	–
Impairment of brand	14	**18.7**	–
Impairment of right of use assets	16	**2.0**	–
Share-based payments charge	30	**1.5**	1.4
Depreciation of property, plant and equipment	15	**0.6**	1.1
Depreciation of right of use assets	16	**1.7**	–
Finance expense	11	**6.1**	6.0
Finance income	10	**(1.8)**	(1.1)
Revaluation of inventories to investment properties	9	**(8.9)**	(6.6)
Loss/(profit) from a transaction with related party	6	**1.7**	(2.7)
Operating cash flows before movements in working capital		**(87.5)**	44.8
(Increase) in trade and other receivables		**(15.5)**	(5.8)
Decrease in inventories		**77.2**	99.2
(Decrease) in trade and other payables		**(6.6)**	(42.4)
Cash generated by operations		**(32.4)**	95.8
Interest received		**0.1**	0.1
Interest paid		**(3.7)**	(3.7)
Income taxes paid		**(3.7)**	(10.8)
Net cash flow from operating activities		**(39.7)**	81.4

Cash and cash equivalents			
Cash and bank balances		**137.2**	36.7

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.

29. Retirement benefit schemes
The Group operates a defined contribution 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 £4.8m for the 12 month period ended 31 October 2020 (14 months period ended 31 October 2019: £5.2m). Unpaid contributions amounted to £0.4m as at 31 October 2020 (31 October 2019: £0.4m).

Notes to the Consolidated Financial Statements (continued)

30. Financial risk management
The Group's financial instruments comprise cash, bank loans and overdrafts, trade receivables, other financial assets and trade and other payables.

Categories of financial instruments	31 October 2020 £m	31 October 2019 £m
Financial assets		
Fair value through profit or loss		
Shared equity receivables	**20.9**	22.1
Shared ownership receivables	**7.1**	3.6
At amortised cost		
Cash and cash equivalents	**137.2**	36.7
Trade receivables – associate	**31.3**	14.8
Trade and other receivables	**3.0**	1.1
Secured mortgages	**2.3**	2.5
	201.8	80.8
Financial liabilities		
Other financial liabilities		
Trade and other payables	**52.6**	55.5
Land payables	**36.9**	34.1
Loans	**198.6**	9.6
	288.1	99.2

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 RCF imposes financial covenants, which is normal for such agreements, all of which the Group was compliant with or obtained waivers during FY20. The Group manages a robust internal forecasting and review process to ensure it operates within these capital requirements.

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.

Share-based payment schemes allow senior employees of the Group to participate in the ownership of the Group in order to ensure the senior employees are focused on growing the value of the Group to achieve the aims of all shareholders.

Financial risk management
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.

Notes to the Consolidated Financial Statements (continued)

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 Chief Executive Officer, the Chief Financial Officer, the National Finance 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 divisional and Group level

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.

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.

The credit risk relating to shared equity receivables is deemed immaterial as the value is recovered though subsequent disposal of the related asset. As a result, management consider the credit quality of these receivables to be good in respect of the amounts outstanding, resulting in low credit risk. Exposure to house price sensitivity is built into the fair value calculation.

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.

Where the Group infrequently offers deferred payment terms on bulk sales, an expected credit loss model is used to prudently apply a provision using a probability based scenario analysis. This also applies to trade receivables from an associate. The Group recognises any further impairment gain or loss at each reporting period where the credit risk on a financial instrument has changed significantly since initial recognition.

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 cash flow to meet all its potential liabilities as they fall due. The Group produces cash flow forecasts to monitor the expected requirements of the Group against the available facilities. The principal risks with these cash flows relate to achieving the level of sales volumes and prices in line with current forecasts.

Notes to the Consolidated Financial Statements (continued)

The maturity of the financial liabilities of the Group at 31 October 2020 and 31 October 2019 are as follows:

	2020			
	Carrying value £m	**Contractual cash flows £m**	**Within 1 year £m**	**1–5 years £m**
Loans (net of borrowing costs)	**198.6**	**207.9**	**4.0**	**203.9**
Financial liabilities carrying no interest	**101.6**	**101.6**	**98.7**	**2.9**
Total	**300.2**	**309.5**	**102.7**	**206.8**

	2019			
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1–5 years £m
Loans (net of borrowing costs)	9.6	15.3	1.7	13.6
Financial liabilities carrying no interest	103.2	103.2	103.2	–
Total	112.8	118.5	104.9	13.6

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 RCF is subject to floating interest rates based on LIBOR.

In the 12 month year ended 31 October 2020, if UK interest rates had been 0.5% higher or lower, as this is a reasonably possible change, and all other variances were held constant, the Group's pre-tax profit would decrease/increase by £1.3m (14 months ended 31 October 2019: £1.3m). Calculations have been based on borrowing values at each month end.

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.

Fair value measurements recognised in the Consolidated Statement of Financial Position
All financial instruments are grouped 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)
- 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 are the shared equity receivables and shared ownership receivables which are both measured at fair value through profit or loss using methods associated with Level 3.

Notes to the Consolidated Financial Statements (continued)

At 31 October 2019, the shared equity receivables were valued at £20.9m (31 October 2019: £22.1m) and the shared ownership receivables were valued at £7.1m (31 October 2019: £3.6m).

Financial assets are recorded at fair value, being the estimated amount receivable by the Group, discounted to present day values.

The fair value of future anticipated cash receipts takes into account the Directors' views of an appropriate discount rate, expected timing of receipts and historic gains and losses on redemptions. 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.

Shared equity receivables

Assumptions	**2020**	2019
Discount rate	**3.5%**	3.8 to 4.3%
Timing of receipt	**3 to 10 yrs**	5 to 11 yrs
Fair value	**16.2 to 30.0%**	n/a

Sensitivity-effect on value of other financial assets (less)/more	**2020 Increase assumptions by 1%/1 year £m**	**2020 Decrease assumptions by 1%/1 year £m**
Discount rate	**(0.3)**	**0.3**
Timing of receipt	**(0.2)**	**0.3**
Fair value	**(0.2)**	**0.2**

The fair value of the shared equity receivable is based on the external available data. The sensitivity-effect of a 1%/1year change is representative of our best estimate of a reasonably possible change based on management's expectations of changes in economic conditions.
The Directors review the anticipated future 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.

The following tables present the changes in Level 3 instruments for the 12 month year ended 31 October 2020 and the 14 month year ended 31 October 2019

	2019 Shared equity receivables £m
Opening balance	25.0
Additions	–
Disposals	(2.6)
Revaluation gains and (losses) recognised in the statement of comprehensive income	(0.3)
Closing balance	22.1

Notes to the Consolidated Financial Statements (continued)

	2020
	Shared equity receivables £m
Opening balance	**22.1**
Additions	**0.2**
Disposals	**(1.5)**
Revaluation gains and (losses) recognised in the statement of comprehensive income	**0.1**
Closing balance	**20.9**

Shared ownership receivables

Assumptions	**2020**	2019
Discount rate	**3.5%**	4.3%
New build premium	**5%**	5%
Timing of receipt	**7 yrs**	10 yrs

The following tables present the changes in Level 3 instruments for the 12 month year ended 31 October 2020 and the 14 month year ended 31 October 2019:

	2019
	Shared ownership receivables £m
Opening balance	–
Additions	3.6
Closing balance	3.6

	2020
	Shared ownership receivables £m
Opening balance	**3.6**
Additions	**4.5**
Disposals	**(1.0)**
Closing balance	**7.1**

Notes to the Consolidated Financial Statements (continued)

31. Share-based payments

Equity-settled share-based payment plans
The Group operates share-based payment schemes as set out below:

Long Term Incentive Plan ('LTIP')
The Group's LTIP is open to key management at the discretion of the Board. Awards under the scheme are granted in the form of £nil-priced share options. LTIP awards will normally vest, and LTIP options become exercisable, on the third anniversary of the date of the grant of the LTIP award to the extent that any applicable performance conditions have been satisfied. LTIP options will remain exercisable for ten years after the date of the grant. Awards are to be settled by the issue of new shares or acquisition of shares in the market. The performance conditions for the LTIP grants are Earnings Per Share ('EPS'), comparative Total Shareholder Return ('TSR') and Return On Capital Employed ('ROCE'). The EPS and ROCE performance conditions are priced using the Black-Scholes model. The TSR performance condition is a market based condition. In order to value the TSR performance conditions against the FTSE 250 and peer group, a Monte Carlo simulation model is required which can simulate correlation between companies. TSR is not a performance condition for the FY19 or FY20 LTIP.

LTIP	FY20 LTIP	FY19 LTIP	FY18 LTIP	FY17 LTIP	Total
Date of grant	**5 February 2020**	13 December 2018	17 November 2017	21 December 2016	
Options granted	**4,607,712**	3,907,455	1,916,777	1,933,352	
Fair value at measurement date* (£)	**1.50**	1.39	1.49	1.32	
Share price on date of grant (£)	**1.50**	1.39	1.65	1.56	
Exercise price (£)	**–**	–	–	–	
Vesting period	**3 years**	3 years	3 years	3 years	
Expected dividend yield	**n/a**	n/a	n/a	n/a	
Expected volatility	**n/a**	37.90%	40.00%	29.21%	
Risk free interest rate	**n/a**	0.77% p.a.	0.82% p.a.	0.23% p.a.	
Valuation model	**Black-Scholes only**	Black-Scholes only	Black-Scholes and Monte Carlo	Black-Scholes and Monte Carlo	
Movements in the year:					
Options at beginning of the year	–	3,646,510	1,873,545	1,722,760	7,242,815
Granted during the year	4,607,712	–	–	–	4,607,712
Exercised during the year	–	–	–	–	–
Lapsed during the year	(430,166)	(833,529)	(261,468)	–	(1,525,163)
Expired in the year	–	–	–	(1,722,760)	(1,722,760)
Options at the end of the year	**4,177,546**	**2,812,981**	**1,612,077**	**–**	**8,602,604**
Exercisable at end of the year	–	–	–	–	–

*314,982 options granted on 5 August 2020 under this scheme (share price on grant date £0.70)

For the FY17 LTIP, due to the fact that there was limited share price history for McCarthy & Stone, the Company's share price volatility was estimated as an average of the volatilities of the FTSE 250 over a historic period commensurate with the expected life of each award immediately prior to the date of grant.

For the FY18 LTIP, FY19 LTIP and FY20 LTIP, there is now sufficient share price history for McCarthy & Stone and therefore the expected volatility uses the Company's share price volatility between the date of listing (5 November 2015) and the date of grant.

Notes to the Consolidated Financial Statements (continued)

Sharesave Plan ('SAYE')

The SAYE Plan is an all-employee savings related share option plan. Employees are invited to make regular monthly contributions to a SAYE scheme operated by Link Asset Services. On completion of the contract period (three or five years) employees are able to purchase ordinary shares in the Company based on the average closing middle market price over the three days prior to the award, less 20% discount. There are no performance conditions.

SAYE				Total
Date of grant	13 December 2018	13 December 2018	10 December 2015	
Options granted	2,126,961	124,269	1,197,514	
Fair value at measurement date (£)	0.40	0.42	0.75	
Share price on date of grant (£)	1.39	1.39	2.34	
Exercise price (£)	1.112	1.112	1.674	
Vesting period	3 years	5 years	5 years	
Expected dividend yield	4.00%	4.00%	28.16%	
Expected volatility	37.90%	37.90%	26.07%	
Risk free interest rate	0.77% p.a.	0.90% p.a.	1.2% p.a.	
Valuation model	Black-Scholes	Black-Scholes	Black-Scholes	
Movements in the year				
Options at beginning of the year	1,769,312	117,256	250,346	2,136,914
Granted during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	(471,758)	(75,741)	(84,763)	(632,262)
Expired in the year	–	–	–	–
Options at the end of the year	**1,297,554**	**41,515**	**165,583**	**1,504,652**
Exercisable at end of the year	–	–	–	–

Expected volatility was determined by calculating the average historical volatility over a period commensurate with the expected life of the savings term for the SAYE options, based on the FTSE 250.

Share Incentive Plan ('SIP')

The SIP allows all employees to purchase partnership shares each month from pre-tax pay, which are then held in trust. These shares can be sold or taken from the SIP or be left within the trust for as long as the plan remains open. All plan shares and any other assets held by the trustees will be held upon trust for the participants; there is therefore no impact to the Group's financial statements in respect of this plan.

Annual and Deferred Bonus Plan ('ABP')

The ABP incorporates the Company's executive bonus scheme as well as a mechanism for the deferral of bonus into awards over ordinary shares. The Remuneration Committee can determine that part of the bonus under the ABP is provided as an award of deferred shares, which takes the form of a £nil cost option. All employees (including the Executive Directors) of the Group are eligible to participate in the ABP at the discretion of the Board. At 31 October 2020, three Executive Directors were participating in the scheme.

Total share-based payment schemes

Analysis of the income charge:	**12 months to 31 October 2020 £m**	14 months to 31 October 2019 £m
Equity-settled share-based payments		
SAYE	**0.4**	0.4
LTIP	**1.1**	1.0
	1.5	1.4

Notes to the Consolidated Financial Statements (continued)

32. Related undertakings

The entities listed below are subsidiaries, joint ventures or associates of the Company or Group in accordance with section 409 of the Companies Act 2006. All entities, unless noted below, are registered in England and Wales with a registered address of: 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ.

Name	Notes	Company number	Principal activity	2020 % of shares owned	2019 % of shares owned
McCarthy & Stone (Developments) Limited		06622183	Holding company	100	100
McCarthy & Stone Retirement Lifestyles Limited		06622231	Developer	100	100
McCarthy & Stone (Equity Interests) Limited		05663330	Property investment	100	100
McCarthy & Stone (Home Equity Interests) Limited		05984851	Property investment	100	100
McCarthy & Stone Investment Properties No. 23 Limited	1	06496130	Property investment	100	100
McCarthy & Stone (Total Care Living) Limited	1	06069509	Property investment	100	100
McCarthy & Stone (Extra Care Living) Limited		06897363	Property investment	100	100
McCarthy & Stone Total Care Management Limited		06897301	Property investment	100	100
McCarthy & Stone Management Services Limited		07166051	Development management	100	100
McCarthy & Stone Lifestyle Services Limited	1	07165986	Holding company	100	100
Keyworker Properties Limited	1	04213618	Holding company	100	100
YourLife Management Services Limited		07153519	Development management	100	100
The Planning Bureau Limited	1, 2	02207050	Dormant	100	100
McCarthy & Stone Resales Limited	1	10716544	Property resales	100	100
McCarthy & Stone Rental Properties Limited	1	11771289	Property investment	100	100
McCarthy & Stone Rental Properties No.2 Limited	1	11822847	Property investment	100	100
McCarthy & Stone Rental Properties No.3 Limited	1	12143464	Property investment	100	100
McCarthy & Stone Rental Properties No.4 Limited	1	12759676	Property investment	100	n/a
McCarthy & Stone (Shared Ownership) Limited	1	12330830	Property investment	100	n/a
Waverstone LLP		OC429156	Property investment	49	49
Kindle Housing (Christchurch) Limited	3, 5	04737739	Affordable housing rental	50	50
Kindle Housing (Exeter) Limited	3, 5	05692813	Affordable housing rental	50	50
Kindle Housing (Worthing) Limited	3, 5	04239574	Affordable housing rental	50	50
Kindle Housing Limited	3, 5	04088162	Affordable housing management	50	50
Advantage Apartments Limited	2, 3, 5	03697251	Dormant	50	50
Advantage Housing Limited	2, 3, 5	03697230	Dormant	50	50
Advantage Homes Limited	2, 3, 5	03697079	Dormant	50	50

1 These subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 October 2020
2 These subsidiaries are considered dormant for the year ended 31 October 2020 and have taken advantage of the section 394 A exemption from preparing individual financial statements.
3 These subsidiaries are registered at Cosmopolitan House, Old Fore Street, Sidmouth, Devon, EX10 8LS
4 This subsidiary has been dissolved during the financial year
5 These entities are joint ventures

McCarthy & Stone (Developments) Limited is directly owned by the Company. All other subsidiaries, joint ventures or associates are indirectly owned by McCarthy & Stone plc. Each of the shareholdings gives the immediate parent company 100% voting rights unless stated above. All shares are classified as 'ordinary'.

Notes to the Consolidated Financial Statements (continued)

33. Related party transactions

Balances and transactions between the 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. Transactions between the Group and associates of the Group are eliminated proportionally based upon the percentage of shares owned.

During the year, the Group completed the sale of a portfolio of 135 units to Waverstone LLP. This comprises the sale of 41 show flats and sales offices with a subsequent 12-month leaseback, and the sale of 94 finished apartments and apartments under construction in Scotland. Waverstone LLP is an entity between Waverley Investments Limited and McCarthy & Stone Extra Care Limited, where McCarthy & Stone Extra Care Living Limited holds a non-controlling 49% equity interest and therefore has been treated as an associate in the Group financial statements. Waverstone LLP was created to facilitate the purchase, management and disposal of various assets built by the Group. Waverstone LLP has appointed McCarthy & Stone Management Services Limited a property manager and a sales agent.

The transaction resulted in an additional cash flow for the Group of c.£13m with the remaining balance of c.£22m expected to be paid over 3 years. The underlying operating loss for the Group includes c.£1.7m loss from the transaction, after taking account of unrealised profit and fair value adjustments in relation to the outstanding receivable balance.

Remuneration of key management personnel

The key management personnel are the Board, key internal Directors and the Executive Committee including Non-Executive Directors. The average number of roles during the period was 16 (2019: 18). The remuneration that they have received during the period is set out below in aggregate for each of the categories specified in IAS 24 *'Related Party Disclosures'*.

	12 months to 31 October 2020 £m	14 months to 31 October 2019 £m
Short-term employee benefits	**3.8**	4.5
Social security costs	**0.5**	0.6
Share-based payments	**0.7**	0.7
Pension contributions	**0.4**	0.5
	5.4	6.3
Aggregate emoluments of the highest paid director	**0.8**	0.9

Notes to the Consolidated Financial Statements (continued)

34. Events after the balance sheet date

On 23 October 2020, the Board announced that it had reached agreement with Mastiff Bidco Limited (Bidco), a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI, on the terms of a recommended cash offer by Bidco for the entire share issued and to be issued capital of the Company (the Transaction). The Transaction was to be implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. The Scheme was duly approved by the Company's shareholders at meetings held on 7 December 2020. Court sanction of the Scheme was received on 28 January 2021 and the Scheme became effective on 1 February 2021.

Under the terms of the acquisition, each McCarthy & Stone shareholder received 120p per share held, resulting in a transaction value of approximately £646.6m.

At the balance sheet date, the Group had incurred £0.9m of sell side advisory costs which were not contingent upon completion of the Transaction. These costs were treated as non-underlying in FY20 and are described in note 7.

After the balance sheet date, additional Transaction costs were incurred and certain commitments crystallised upon completion totalling £15.7m. These predominantly related to sell side advisory fees.

On completion of the Transaction, the Group has a new ultimate controlling party being Lone Star Real Estate Fund VI, LP. The Company's immediate parent company is Mastiff Bidco Limited, a company registered in Jersey. A number of the Group's contractual arrangements include change of control clauses which apply as a result of the Transaction, none of which had a material impact on the financial position as at 31 October 2020.

Following the Court sanction on 28 January 2021, all existing options under the Group's LTIP have been cancelled and all SAYE and SIP shareholders have been settled.

In addition, the Group's revolving credit facility of £200m has been cancelled and existing debt and accrued interest under this facility have been repaid in line with change of control provisions. On acquisition a new 5-year senior loan facility for £275m was put in place at a nominal interest rate of 7% per annum, with the Group's immediate parent company (Mastiff Bidco Limited) as borrower. The facility is intended to be secured, including by way of floating charge, over the assets of certain Group subsidiaries.

McCarthy & Stone Ltd (formerly McCarthy & Stone plc)

Company Statement of Financial Position

As at 31 October 2020

	Notes	31 October 2020 £m	31 October 2019 £m
Assets			
Non-current assets			
Investments in subsidiaries	4	**439.4**	439.4
Total non-current assets		**439.4**	439.4
Current assets			
Trade and other receivables	5	**16.4**	21.0
Total current assets		**16.4**	21.0
Total assets		**455.8**	460.4
Equity and liabilities			
Capital and reserves			
Share capital	7	**43.0**	43.0
Share premium		**101.6**	101.6
Retained earnings		**308.9**	308.9
Total equity		**453.5**	453.5
Current liabilities			
Trade and other payables	6	**2.3**	6.9
Total current liabilities		**2.3**	6.9
Total liabilities		**2.3**	6.9
Total equity and liabilities		**455.8**	460.4

Notes 1 to 10 form part of the financial statements shown above.

The Company has elected to take exemption s408 of the Companies Act 2006 not to present the Company Statement of Comprehensive Income. The Company recorded a loss for the 12 month period of £1.5m (2019: loss for the 14 month period of £1.3m).

These financial statements of McCarthy & Stone Limited (formerly McCarthy & Stone plc) (06622199) were approved by the Board on 23 February 2021 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

Martin Abell
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 31 October 2020

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 September 2018	**43.0**	**101.6**	**337.8**	**482.4**
Loss for the year	–	–	(1.3)	(1.3)
Total comprehensive income for the year	–	–	(1.3)	(1.3)
Transactions with owners of the Company:				
Share-based payments	–	–	1.4	1.4
Dividends	–	–	(29.0)	(29.6)
Balance at 31 October 2019	**43.0**	**101.6**	**308.9**	**453.5**
Loss for the year	–	–	(1.5)	(1.5)
Total comprehensive loss for the year	–	–	(1.5)	(1.5)
Transactions with owners of the Company:				
Share-based payments	–	–	1.5	1.5
Balance at 31 October 2020	**43.0**	**101.6**	**308.9**	**453.5**

Notes 1 to 10 form part of the financial statements shown above.

Notes to the Company Financial Statements

1. Accounting policies

McCarthy & Stone Limited (formerly McCarthy & Stone plc) is a Company limited by shares incorporated in England and Wales. The Registered Office is 4th Floor, 100 Holdenhurst Road, Bournemouth, Dorset, BH8 8AQ. The following accounting policies have been applied consistently in dealing with the items that are considered material in relation to the financial statements, on an ongoing basis and in accordance with the Companies Act 2006.

Basis of preparation

The separate Company financial statements have been prepared under the historical cost accounting rules and in accordance with FRS 102, The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland. The Company is exempt from the requirement to present its own Statement of Comprehensive Income. The Company recorded a loss for the 12 month period of £1.5m (2019: loss for the 14 month period of £1.3m).

As permitted by FRS 102, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a Cash Flow Statement, standards not yet effective and related party transactions.

The principal accounting policies adopted are set out below:

Investments in subsidiaries

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.

Share-based payments

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

Further details regarding the schemes are set out in note 30 to the consolidated financial statements.

Dividend distribution

Dividend distributions to McCarthy & Stone's shareholders are recognised in the Company's financial statements in the periods in which the final dividends are approved at the Annual General Meeting, or when paid in the case of an interim dividend.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company 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. 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 as 'trade and other receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at amortised cost

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'trade and other 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.

Notes to the Company Financial Statements (continued)

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

Financial liabilities
Financial liabilities are classified as 'trade and other receivables'.

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.

Related parties
The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the financial statements.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no specific critical judgements or key assumptions the Company makes about the future, or other major sources of estimation uncertainty at the end of the reporting period, that are deemed to have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities at the year end and within the next financial period.

3. Staff costs
The Company had no employees during the period covered by these financial statements (2019: no employees). A management fee relating to time incurred by Directors for Group activities is recharged to McCarthy & Stone plc.

4. Investments in subsidiaries

	31 October 2020 £m	31 October 2019 £m
Opening	**439.4**	439.4
Additions	**–**	–
Closing	**439.4**	439.4
Net book value	**439.4**	439.4

Investments in subsidiary undertakings relate to a 100% ownership interest in McCarthy & Stone (Developments) Limited.

The Group's subsidiary undertakings are listed in note 32 to the consolidated financial statements.

Notes to the Company Financial Statements (continued)

5. Trade and other receivables

	31 October 2020 £m	31 October 2019 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**16.4**	21.0
	16.4	21.0

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% (2019: 2.2%) at the year end date.

6. Trade and other payables

	31 October 2020 £m	31 October 2019 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**1.5**	6.8
Other creditors and deferred income	**0.8**	0.1
	2.3	6.9

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% (2019: 2.2%) at the year end date.

7. 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.

Allotted and issued ordinary shares	31 October 2020 £m	31 October 2019 £m
8p each fully paid: 537,766,920 ordinary shares (2019: 537,329,434)	**43.0**	43.0

Dividends on equity shares

No interim dividend was paid during the year (2019: 1.9p) and no final dividend has been proposed by the Board (2019: 3.5p) per share resulting in a total ordinary dividend for the year of £nil (2019: 5.4p).

Notes to the Company Financial Statements (continued)

8. Financial instruments
The Company has the following financial instruments:

	31 October 2020 £m	31 October 2019 £m
Financial assets		
At amortised cost:		
Trade and other receivables	**16.4**	21.0
Cash and bank balances	**–**	–
	16.4	21.0
Financial liabilities		
At amortised cost:		
Trade and other payables	**2.3**	6.9
	2.3	6.9

The Company has no derivative financial instruments. The fair value of the financial instruments is equal to their carrying values.

9. Related party transactions
The Company is exempt from disclosing related party transactions with other companies that are wholly owned within the Group, under FRS 102 33.1A. See note 33 to the consolidated financial statements.

Remuneration to key management personnel has been disclosed within note 33 to the consolidated financial statements.

10. Events after the balance sheet date
Events after the balance sheet date have been disclosed within note 34 to the consolidated financial statements.