McCarthy & Stone Retirement Lifestyles Limited

ANNUAL REPORT & FINANCIAL STATEMENTS

Year Ended
31 August 2011

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Company registration number: 06622231

CONTENTS

DIRECTORS AND ADVISORS

Directors

A J Bowkett (Non-Executive Chairman)
J M J M Jensen (Non-Executive Director)
H P S Phillips (Chief Executive Officer)
G N Day (Land and Planning Director)
T L Green (Company Secretary)
M J Jennings (Operations Director)
M D Ball (Chief Financial Officer) (resigned 2 September 2011)
N W Maddock (Chief Financial Officer) (appointed 19 September 2011)
A V Crossley-Mintern (New Business Director) (appointed 8 August 2011)

Secretary

T L Green

Registered Office

Homelife House
26-32 Oxford Road
Bournemouth
Dorset
BH8 8EZ

Independent Auditors

Deloitte LLP
Crawley

Bankers

The Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Solicitors

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London
EC4Y 1HS

DIRECTORS' REPORT

The Directors present their report and the Group financial statements for the year ended 31 August 2011

Principal Activities

The Company is engaged principally in the development, design, construction and sale of retirement apartments The subsidiary and associated undertakings principally affecting the loss or net assets of the Company in the year are listed in note 9 to the financial statements

Acquisitions

There were no business acquisitions during the year ended 31 August 2011

Business Overview

During the financial year ended 31 August 2011, general housing market conditions remained slow, but the business has nevertheless continued to show year-on-year growth in Unit Sales volumes, Total Revenue and Group earnings before interest, taxation, depreciation and amortisation (EBITDA), as well as repaying £14 5m of its gross cash-pay debt Following the suspension of construction activity for almost 12 months from mid-2008, the business has had to focus on increasing its finished goods stock over the past two years so as to ensure that it has sufficient apartments available for sale in future years

The gradual re-start of construction activity in 2009 meant that stock was available for sale on 24 new developments in the year to 31 August 2011 Overall, the Company sold 1,261 units (2010 1,131) generating turnover of £234 7m (2010 £205 8m) and EBITDA of £37 4m (2010 £22 9m) The Group's operating cash generation before land and build expenditure remaining strong, totalling £146 2m (2010 £147 0m) In the year to 31 August 2011, £141 9m (2010 £77 3m) was spent on land acquisition and site construction costs, in line with management expectations

Subject to market conditions, the Board has agreed a plan with the Group's shareholders to grow sales to in excess of 2,000 units per annum by 2015 In order to meet this target, land acquisition activity has continued to increase with 59 sites (2010 58) secured during the year, 88% being on a conditional basis Similarly, despite the afore-mentioned planning delays, construction activity continued during the year, with work starting on a further 25 sites (2010 25), all of which are expected to deliver new stock available for sale during the 2012 financial year This level of build activity reflects some continuing caution over immediate housing market prospects, but balances that against the need to deliver stock available for sale to meet demand when the housing market does improve A significant increase in the number of construction site starts are scheduled for the 2012 financial year, while land acquisition activity is expected to reduce slightly to enable the design and construction teams to move the large current portfolio of sites without a planning consent into the construction phase

There were no material signs during the course of the last financial year to suggest that the poor trading conditions seen since 2007 were improving, with ongoing concerns about the impact of mortgage availability and terms on housing market liquidity The McCarthy & Stone business is less exposed to the general housing market than other more mainstream house-builders, but the majority of potential customers do have a dependent property sale, and any meaningful reduction in liquidity in housing markets will make securing sales more difficult For the first three months of the 2012 financial year, whilst completions have fallen, due to a reduced level of reservations carried forward from the previous year, new reservations, visitor numbers and enquiries are ahead of prior year Whilst the resilience shown by the business to date in these circumstances has been encouraging, trading conditions are expected to remain difficult for the rest of the financial year, and the Board will continue to monitor the market very closely

The longer-term prospects for the business are excellent With its high quality products and industry-leading customer satisfaction ratings, the Group is well positioned to benefit from demographic trends that will generate a rapidly increasing population of potential customers in a market that currently is not well supplied, as well as from opportunities to use the McCarthy & Stone brand in other related areas The Group has already started to benefit from those opportunities, having set up McCarthy & Stone Management Services to manage on a day-to-day basis all of its developments released for sale since September 2010 Additionally, in partnership with the Somerset Care Group, the Group has set up YourLife Management Services to manage the Assisted Living Developments

The Group has also recently appointed a New Business Director in order to further develop a number of opportunities in the market

Capital Structure and Going Concern

At 31 August 2011, the Company had cash at bank and in hand of £137 5m (2010 £143 7m) and £431 0m (2010 £431 8m) of gross term debt facilities, which are non-amortising, repayable in April 2014 Of this amount, £92 9m is 'PIK' debt (2010 £80 9m) where there is no cash interest payment until maturity The balance of £338 1m (2010 £350 9m) has an annual cash interest cost of approximately £17m, with at least 90% of the Group's interest cost being hedged for the full term of the debt During the year ended 31 August 2011, the Company made debt repayments totalling £12 8m (2010 £28 5m)

One of the ongoing debt facility requirements is for the Group to monitor compliance with a number of financial covenants, Cashflow Cover, Loan to Value, Land Expenditure, Absolute EBITDA (expired in Q3 FY11) and Interest Cover (commenced in Q4 FY11) At all four quarter test points during the year ending 31 August 2011 the Group complied with all of these covenants, with a healthy headroom at each test point

As part of the budgeting process for the year ending 31 August 2012 (completed in September 2011) the Group prepared projections and forecasts to 31 August 2015 Such projections show that the Group has adequate cash resources to service its debt facilities and to reinvest in the business, and that the financial covenants attached to the loan facilities will not be breached

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Thus, they continue to adopt the going concern basis in preparing the financial statements

Results for the period to 31 August 2011

The results for the year to 31 August 2011 show a profit on ordinary activities after taxation of £6 5m (2010 loss of £4 9m) No dividend has been proposed or paid

DIRECTORS' REPORT

Employees

McCarthy & Stone employees are central to the delivery of the Company's objectives At 31 August 2011 the Company employed 617 people (2010 543) The Company recognises that attracting and retaining employees is only possible if the right working environment is created and attractive reward mechanisms and opportunities for personal development are provided The Company has a wide range of policies relating to employees to support this The Company is committed to promoting policies to ensure that those who are employed by the Company's businesses are treated equally regardless of status, sex, age, colour, race or ethnic origin

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

There is an ongoing commitment to the training and development of the Company's employees, and there is a positive approach to all matters concerning Health & Safety at work The Company regards compliance with statutory requirements as a minimum standard, and a copy of the Company's formal Health & Safety Policy Statement is available at all of the Company's sites The Company's ability to achieve its commercial objectives and to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the Company

Employees are encouraged to develop their contribution to the business wherever they work In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for all employees to be involved in making improvements In addition, the Company communicates with its employees about its objectives, progress and activities through a variety of channels including the Company's intranet

Directors

A list of the present Directors of the Company is reported on page 3 All Directors listed served throughout the year ended 31 August 2011 with the exception of A V Crossley-Mintern, who was appointed on 8 August 2011 and N W Maddock, who was appointed on 19 September 2011 M D Ball, who served throughout the year, resigned on 2 September 2011.

The Company carries appropriate insurance cover in respect of possible legal action being taken by third parties against its Directors and senior employees

Donations

The Company made charitable donations in the year to 31 August 2011 of £4,430 (2010 £2,410) There were no political contributions during the period

DIRECTORS' REPORT

Supplier Payment Policy

The Company recognises the major contribution that its suppliers and sub-contractors make to the success of its construction operations The Company believes that the adherence to fair payment terms is important to the maintenance of good relations with suppliers and to the ultimate benefit of the Company It is, therefore, Company policy to agree terms of payment in advance, to ensure suppliers are made aware of those terms and to abide with such terms Unless other terms have been agreed the Company will usually ensure that all creditors, where the goods or work have been of a satisfactory quantity and quality, are paid by the month end following the month in which the invoice is received

The amounts owed by the Company to its trade suppliers and subcontractors at 31 August 2011 represented 29 days (2010 36) of the amounts invoiced during the period Trade creditors include retentions held against subcontract work which are not contractually due for payment until up to 12 months after the work was completed

Financial Risk Management Objectives and Policies

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

Interest rate risk
The Company's activities expose it primarily to the financial risks of changes in interest rates The Company uses interest rate swap contracts to hedge these exposures at fixed rates Details of the Company's swap contracts are reported in note 15 of the financial statements

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

Liquidity risk
The Company aims to mitigate liquidity risk by forecasting requirements and managing cash generated by its operations, and ensuring that the Company is able to service debt as it falls due Details of the debt repayment profile are provided in note 14 of the financial statements

The Company aims to maintain a balance between continuity of funding and flexibility through the use of overdrafts and bank loans All capital expenditure requires Directors' approval before it is committed

Price risk
The Company is exposed to commodity price risk The Company manages commodity price risk through supplier negotiations The regional and centrally-based Commercial Departments meet with the Company's national agreement suppliers at least once a year Such agreements tend to be of a high volume and are considered to be of strategic importance to the business

DIRECTORS' REPORT

Independent Auditors

In the case of each of the persons who are Directors of the Company at the date when this report is approved

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and

- each of the Directors has taken all the steps that he/ she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

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

Approved by the Board of Directors and signed on behalf of the Board by

T L Green
Secretary

McCarthy & Stone Retirement Lifestyles Limited
Homelife House
26-32 Oxford Road
Bournemouth BH8 8EZ
United Kingdom

16 December 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF McCARTHY & STONE RETIREMENT LIFESTYLES LIMITED

We have audited the financial statements of McCarthy & Stone Retirement Lifestyles Limited for the year to 31 August 2011 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 24 These financial statements have been prepared under the accounting policies set out therein The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 August 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF McCARTHY & STONE RETIREMENT LIFESTYLES LIMITED

Matters on which we are required to report by exception

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

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

NL Harris

Neil Harris (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Crawley, United Kingdom

16 December 2011

PROFIT AND LOSS ACCOUNT

For the year ended 31 August 2011

	Notes	2011 £m	2010 £m
Turnover	2	234.7	205 8
Cost of sales		(144.7)	(129.9)
Gross Profit		90.0	75.9
Administrative expenses		(54.7)	(56.3)
Other operating income	2	0.9	2.1
Operating Profit	2	36.2	21.7
Net interest payable and similar charges	5	(25.5)	(25.9)
Profit/(loss) on Ordinary Activities Before Tax		10.7	(4.2)
Tax charge	6	(4.2)	(0.7)
Profit/(loss) for the Financial Year		6.5	(4.9)

Operating profit	36.2	21.7
Depreciation	0.8	0.9
Goodwill amortisation	0.4	0 3
Earnings before interest, tax, depreciation and amortisation	37.4	22.9

The Company has no material gains or losses other than those included in the Profit and Loss Account above, therefore no separate Statement of Total Recognised Gains and Losses has been presented

There is no material difference between the result as disclosed in the Profit and Loss Account and the result on an unmodified historical cost basis

All of the figures above relate to continuing operations

The notes on pages 14 to 30 form part of these financial statements

BALANCE SHEET

As at 31 August 2011

		Notes	2011 £m	2010 £m
Fixed Assets				
Intangible assets	goodwill	7	7 1	7.5
Tangible assets	investment properties	8	1.1	1.4
	other	8	4 4	5.4
Investments		9	4 0	4.0
			16 6	18.3
Current Assets				
Stocks		10	455.7	410.1
Debtors	amounts due within one year	11	41 0	23.0
	amounts due after one year	12	8 4	9.2
Cash		16	137.5	143.7
			642.6	586.0
Creditors: amounts falling due within one year		13	(169 4)	(125.1)
Net Current Assets			473.2	460.9
Total Assets less Current Liabilities			489.8	479.2
Creditors. amounts falling due after more than one year		14	(431.0)	(437.6)
Net Assets			58 8	41.6
Capital and Reserves				
Called up share capital		18	13 3	8.3
Share premium account		19	33 1	33 1
Profit and loss account		19	12 4	0.2
Shareholders' Funds			58.8	41.6

Company registration number 06622231

Approved by the Board and authorised for issue on 16 December 2011

Signed on its behalf by

H P S Phillips
Director

Nick Maddock
Director

The notes on pages 14 to 30 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

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

Basis of accounting
The financial statements have been prepared under the historical cost convention, modified by the revaluation of certain investment properties, and in accordance with applicable United Kingdom accounting standards

The Company has not prepared Group accounts as the trading results of McCarthy & Stone Retirement Lifestyles Limited and those of its subsidiaries are reported as consolidated within McCarthy & Stone Limited, its parent Company The accounts have been prepared on the going concern basis For further details please refer to the Directors Report

Purchased goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the separable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is twenty years Impairment tests on the carrying value of goodwill are undertaken in accordance with FRS11 "Impairment of fixed assets and goodwill" as follows

- At the end of the first full year following acquisition

- Annually, if events or changes in circumstances indicate that the carrying value may not be recoverable

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

Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its expected useful life as follows

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

Leases

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

Investment properties

Investment properties represent the long term interest held by the Company in certain properties arising from sales incentive scheme arrangements Gains or losses arising from changes in the fair value of investment properties are included in the revaluation reserve in the year in which they arise

Stocks

Stocks are stated at the lower of cost and estimated net realisable value The cost of work in progress and finished stock comprises the cost of land purchases, which are accounted for from the date of contract exchange, when the Company obtains effective control of the site, building costs and attributable production overheads Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal

Cash and cash equivalents

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

Income tax

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

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

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future, and

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

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

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity Otherwise income tax is recognised in the income statement

Pensions and other post-retirement benefits

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

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

Sale of leasehold interests
Revenue represents the consideration received for the sale of leasehold interests in retirement apartments and is recognised on legal completion Where these completions require the Company to "top-up" an offer given by a third party part exchange provider, this "top-up" is recognised as a deduction from revenue

Freehold Reversionary Interests (FRIs) and House Manager Flat Freehold Interests (HMFIs)
FRIs and HMFIs in respect of developed sites are periodically sold to third parties Revenue arising from these sales is recognized only to the extent that the underlying leasehold interests in the retirement apartments have been sold

Other income
Other income includes rents receivable, profits arising from the disposal of undeveloped land sites and profits arising from the realisation of incentive scheme assets.

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

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

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Profit and Loss Account using the effective interest method and are deducted from or added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

Agency fees incurred in respect of the raising and ongoing monitoring of loan facilities are also reported within finance charges

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

Derivative financial instruments

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

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa Interest differentials under these swaps are recognised by adjusting interest payable over the periods of the contracts

Share based payments

Certain directors and senior managers within the Company are party to a management incentive scheme The terms of this scheme stipulate that amounts will become payable to the participants on completion by the business of a defined exit event above a specified enterprise value In substance, this agreement amounts to a cash settled share based payment scheme

The valuation of any outflow will be reassessed each financial year end with a liability recorded at the point where it may reasonably be considered that the required minimum enterprise value of the business has been achieved and therefore a liability becomes due

Cash flow statement

No Cash Flow Statement has been prepared for the Company as it is itself a wholly owned subsidiary A Group consolidated Cash Flow Statement is included in the accounts of the ultimate parent undertaking, McCarthy & Stone Limited

NOTES TO THE FINANCIAL STATEMENTS

2. Operating profit

a. Turnover

Turnover is attributable to one continuing activity within the UK, being the development, design, construction and sale of retirement apartments

b. Operating profit is stated after charging

		2011 £m	2010 £m
Depreciation of owned assets		0.8	0.9
Amortisation of goodwill		0.4	0.3
Operating lease rentals -	land and buildings	0.5	0.7
	plant and motor vehicles	0 9	0.9
Auditors' remuneration -	audit services	-	-
	non-audit services	-	-

Remuneration of the auditors is settled by McCarthy & Stone (Developments) Limited on behalf of all companies within the McCarthy & Stone Limited Group The total Group audit fee was £0 1m The amount in respect of McCarthy & Stone Retirement Lifestyles Ltd was £75,000

c. Other operating income comprises

	2011 £m	2010 £m
Net rental income	0.4	0 5
Other income	0.5	1.6
	0.9	2.1

NOTES TO THE FINANCIAL STATEMENTS

3. Employees

The average monthly number of employees, including Directors, during the year ended 31 August 2011 was 580 (2010 519) The total number of persons employed by the Company at 31 August 2011 was 617 (2010 543)

	2011	2010
Average number of employees, including Directors, during the year		
Office and management	495	462
Construction	85	57
	580	**519**

	2011 £m	2010 £m
The aggregate payroll cost, including Directors, was as follows		
Wages and salaries	21.6	20.1
Social security costs	2.4	2.3
Other pension costs	1 1	1.0
	25.1	23.4

4 Directors' emoluments

	2011 £m	2010 £m
Emoluments (excluding pension contributions)	1.4	1.6
Company contributions to Group personal pension schemes	0.2	0.2
	1.6	1.8
Highest paid Director		
Emoluments (excluding pension contributions)	0.5	0 7
Company contributions to Group personal pension schemes	0 1	0.1
	0.6	0 8

	2011	2010
Number of Directors in Group personal pension schemes	3	3

Emoluments disclosed above relate to directors who are not directors of other Group undertakings Emoluments of Directors of McCarthy & Stone Retirement Lifestyles Ltd who are also Directors of other Group undertakings are disclosed in the relevant Company's accounts as it is not possible to allocate these emoluments between subsidiary entities Total emoluments of Directors disclosed in other Company's accounts was £1 5m (2010 £2 1m) including £0 2m (2010 £0 2m) of Company contributions to Group personal pension schemes

5. Net interest payable and similar charges

	Notes	2011 £m	2010 £m
Bank loans and overdrafts		7.8	7.9
PIK notes		11.9	10.4
Interest rate swap payments	*15*	9.7	10.3
Preference shares	*14*	0.4	0.6
Interest payable		29.8	29 2
Interest received from within the Group		(2.9)	(2 3)
Other interest receivable		(1 4)	(1 0)
Net interest payable		**25.5**	**25.9**

NOTES TO THE FINANCIAL STATEMENTS

6. Taxation on profit/(loss) on ordinary activities

a. Analysis of tax charge for the year

	2011 £m	2010 £m
Current tax UK corporation tax on profits of the year	4 7	0.6
Deferred tax arising from timing differences	(0.5)	0.1
Tax on profit/(loss) on ordinary activities	**4.2**	**0.7**

b. Factors affecting tax charge for the current year

	2011 £m	2010 £m
Profit/(Loss) on ordinary activities before tax	10.7	(4.2)
Anticipated tax charge/(credit) based on profit before tax at 27 16% (28%)	2.9	(1.2)
Effects of		
Expenses not deductible for tax purposes	0.1	1.3
Capital allowances lower than depreciation	0.1	0.3
Adjustments to tax charge in respect of previous periods	-	0.2
Interest not tax deductible	1.2	-
Movement in short term timing differences	0 4	-
Current tax charge for the year	**4.7**	**0.6**

The UK corporation tax rate decreased from 28% to 26% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 and are expected to be enacted separately each year For the year ended 31 August 2011, as the reduction in the statutory rate to 26% has been enacted, deferred tax has been recognised on the balance sheet at 26%.

c. Deferred tax movements

	2011 £m	2010 £m
At 1 September	0.3	0.2
Charge for the year	(0.5)	0.1
At 31 August	**(0.2)**	**0.3**

NOTES TO THE FINANCIAL STATEMENTS

6. Taxation on profit/(loss) on ordinary activities (continued)

d. Deferred tax reflected in the accounts

	Provided 2011 £m	Provided 2010 £m
Capital allowances in excess of depreciation	-	0 1
Short-term timing differences	(0 2)	0.2
Deferred tax (asset)/liability provided in the accounts	**(0.2)**	**0 3**

7. Intangible fixed assets

	Goodwill £m
Cost	
At 31 August 2010	8.0
At 31 August 2011	8.0
Amortisation	
At 31 August 2010	(0.5)
Charge for the year	(0.4)
At 31 August 2011	(0.9)
Net book value at 31 August 2011	**7.1**
Net book value at 31 August 2010	7 5

8. Tangible fixed assets

a. Investment properties at valuation

	Long leasehold equity interests in sold flats £m	Other long leasehold interest (shops) £m	Total £m
At 31 August 2010	1 2	0 2	1 4
Redemptions	(0 3)	-	(0 3)
At 31 August 2011	**0.9**	**0.2**	**1.1**

Long leasehold equity interests represent interests in apartments sold between 1989 and 1993 using a sales incentive scheme under which the Company undertook to contribute towards service charges in exchange for an equity share in the apartment These interests are secured by legal charges on those apartments

The Investment properties are valued based on prices achieved on recent sales of similar properties, and are subject to annual review by the Board of Directors which includes suitably qualified Chartered Surveyors and Chartered Accountants The revaluation exercise led to no change in the valuation These properties have not been depreciated

b. Other

	Land and buildings		Fixtures, fittings and equipment	Total
	Freehold £m	Long leasehold £m	£m	£m
Cost				
At 31 August 2010	0 4	3 8	2 4	**6.6**
Additions	-	-	-	-
Disposals	(0 2)	-	-	**(0.2)**
At 31 August 2011	**0.2**	**3.8**	**2.4**	**6.4**
Depreciation				
At 31 August 2010	-	0 4	0 8	**1.2**
Charge for the year	-	0 3	0 5	**0.8**
At 31 August 2011	-	**0.7**	**1.3**	**2.0**
Net book value at 31 August 2011	**0.2**	**3.1**	1 1	**4.4**
Net book value at 31 August 2010	0 4	3 4	1 6	5 4

NOTES TO THE FINANCIAL STATEMENTS

9 Investments

	£m
Shares in unlisted subsidiary undertakings	
Cost	
At 31 August 2010	**4 0**
Additions	-
At 31 August 2011	**4 0**
Provision	
At 31 August 2010	-
At 31 August 2011	-
Net book value at 31 August 2011	**4 0**
Net book value at 31 August 2010	4 0

The principal active subsidiary undertakings of the Company during the period were

Company	% Holding ordinary shares	Nature of business	Incorporated & operating in
McCarthy & Stone (Equity Interests) Limited	100	Property Investment	England
McCarthy & Stone (Home Equity Interests) Limited	100	Property Investment	England
McCarthy & Stone Investment Properties No 23 Limited	100	Property Investment	England
McCarthy & Stone (Total Care Living) Limited	100	Property Investment	England
McCarthy & Stone (Alnwick) Limited	100	Property Investment	England
Keyworker Properties Limited	100	Property Investment	England

All companies were registered in the United Kingdom

Each of the above shareholdings gives the immediate parent company 100% voting rights

10. Stocks

	2011 £m	2010 £m
Land for development	**217.9**	**150.6**
Sites in the course of construction	**73 7**	**64 4**
Finished stock	**164 1**	**195.1**
	455 7	**410 1**
Land for development is further analysed as follows		
Exchanged land with planning	28 2	-
Completed land with planning	53 5	38 3
Unconditional land without planning	16 1	15 1
Conditional land without planning	120 1	97 2
	217.9	**150.6**

11. Debtors: amounts falling due within one year

	2011 £m	2010 £m
Trade debtors	**0.3**	**0.2**
Other debtors and prepayments	**5.1**	**4.8**
Amounts owed by subsidiary undertakings	**35 6**	**18.0**
	41.0	**23.0**

12. Debtors: amounts falling due after one year

	Notes	2011 £m	2010 £m
Secured mortgages		**4.7**	**5.1**
Shared equity receivables		**3 5**	**4.1**
Deferred tax	*6*	**0.2**	-
		8 4	**9.2**

Secured mortgages represent amounts outstanding from the sale of certain of the Company's apartments under a sales incentive scheme, which was discontinued in 1995, together with interest thereon The amounts are secured by mortgages repayable on subsequent sale of the underlying unit, or certain other specified events

The Company's shared equity interests arise from sales incentives under which the Company receives a proportion of the resale proceeds of certain apartments on its developments The Company's equity share is protected by a registered entry on the title and usually represents the first interest in the property

13. Creditors: amounts falling due within one year

	Notes	2011 £m	2010 £m
Trade creditors		7 0	6 9
Land creditors		145 3	104 0
Amount owed to subsidiary undertakings		4 4	-
Deferred tax	*6*	-	0 3
Other creditors		12 7	13 9
		169.4	**125.1**

Land creditors primarily relate to the unpaid purchase consideration due on sites acquired conditional on achieving a satisfactory planning consent

14. Creditors: amounts falling due after more than one year

	2011 £m	2010 £m
Bank Loans	338 9	351 6
PIK Notes	92 1	80 2
Preference Shares	-	5 8
	431.0	**437.6**

Preference shares of £5 0m issued by McCarthy & Stone Retirement Lifestyles Limited, which accrued a preference dividend at the rate of 12 per cent per annum, were acquired, along with the rights to £1 1m accrued interest, by McCarthy & Stone (Developments) Ltd for an agreed price of £2 0m, which was settled in cash They were converted into 25,000,000 ordinary shares at 20 pence each in McCarthy & Stone Retirement Lifestyles Limited on 26 April 2011

The Company's bank loans, all of which are repayable in 2014, are analysed as follows

	Nominal interest rate	Year of maturity	Outstanding at 31 August 2011 £m	Outstanding at 31 August 2010 £m
Facility A	Libor + 1 625%	2014	338 1	350 9
Facility B2 (PIK)	14 25%	2014	0 8	0 7
Revolving credit facility	Libor + 6%	2014	-	-
PIK	14 25%	2014	92 1	80 2
			431.0	**431.8**

14. Creditors: amounts falling due after more than one year (continued)

The Company has £431 0m (2010 £431 8m) of bank loans in the form of term debt facilities, which are non-amortising, with a five year term, repayable in April 2014 Of this amount, £92 9m (2010 £80 9m) is 'PIK' debt where there is no principal or interest payment until maturity The balance of £338 1m (2010 £350 9m) has an annual cash interest cost currently estimated to be approximately £17 0m per annum, with at least 90% of the interest cost being hedged for the full term of the debt

At 31 August 2011, the Company had cash at bank and in hand of £137 5m (2010 £143 7m) The Company meets its day-to-day working capital requirements through its trading cash flows, supported, where necessary, by a revolving credit facility of £15 0m which is repayable in April 2014

Bank loans are secured on the fixed and floating assets of the Company

15. Derivatives and other financial instruments

The Group has entered into an interest rate swap to hedge its exposure to fluctuations in the interest rates on the loans held by the Group At 31 August 2011, the Group was contracted to receive LIBOR and to pay fixed rate interest at 3 25% on a total (capital) amount of £356 8m The swap arrangements mature on 8 May 2014

As at 31 August 2011, the fair value of the Group's interest rate swap arrangements was a liability of £22 9m (2010 £25 7m)

NOTES TO THE FINANCIAL STATEMENTS

16. Analysis and reconciliation of net debt

	31 August 2010 £m	Cash flow £m	Other non-cash movement £m	31 August 2011 £m
Cash	143.7	(6.2)	-	137.5
Loans due after one year	(351.6)	12.8	(0 1)	(338.9)
PIK notes	(80 2)	-	(11.9)	(92.1)
Chattel mortgage	(0.1)	0 1	-	-
Preference shares	(5.8)	2.0	3.8	-
Total debt (excluding cash)	(437.7)	14 9	(8.2)	(431.0)
Net debt	(294.0)	8 7	(8.2)	(293.5)

	2011 £m	2010 £m
(Decrease)/ Increase in cash	(6.2)	65.9
Cash outflow from movement in debt	14.9	28.9
Change in net debt resulting from cash flow	8.7	94.8
Other non-cash movement	(8 2)	(11 0)
Net debt at 1 September	(294.0)	(377.8)
Net debt at 31 August	(293.5)	(294 0)

Of the other non-cash movement of £8 2m, £12 0m relates to accrued interest on the PIK notes and preference shares which is added to the nominal value of the loans

The Preference Shares of £5 8m were acquired for £2 0m cash, see note 14

NOTES TO THE FINANCIAL STATEMENTS

17. Operating lease commitments

Financial commitments under non-cancellable operating leases will result in the following payments due in the next financial year

	Land & buildings 2011 £m	Other 2011 £m	Land & buildings 2010 £m	Other 2010 £m
Operating leases expiring				
In less than one year	0 2	0 1	0 3	0.3
In two to five years	0.1	1.1	0.1	0 5
In more than five years	0.3	-	0 3	-

18. Share capital and reserves

	Authorised No. '000	Authorised £'000	Allotted, called up & fully paid No. '000	Allotted, called up & fully paid £'000
Equity share capital				
Ordinary 'A' shares of 20p each				
As at 31 August 2010	80,000	16,000	41,400	8,280
As at 31 August 2011	80,000	16,000	66,400	13,280

During the period 5,000,000 preference shares of £1 each were sub-divided into 25,000,000 preference shares of 20p each These were converted into 25,000,000 ordinary shares of 20p each

19. Combined reconciliation of shareholders' funds and statement of movement on reserves

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
At 1 September 2009	8.3	33.1	1.3	42.7
Capital contributions	-	-	3.8	3.8
Loss for the financial year	-	-	(4.9)	(4.9)
As at 31 August 2010	8 3	33.1	0 2	41.6
Shares issued	5.0	-	-	5.0
Capital contributions	-	-	5 7	5.7
Profit for the financial year	-	-	6 5	6.5
As at 31 August 2011	13.3	33.1	12.4	58.8

NOTES TO THE FINANCIAL STATEMENTS

19. Combined reconciliation of shareholders' funds and statement of movement on reserves (continued)

The Company received three separate capital contributions totalling £5 7m during the year ended 31 August 2011 The transactions were in the form of gifts of cash, being gifts that the beneficiaries of the liquidation of Monarch Realisations 2 Limited in creditors' voluntary liquidation agreed to contribute to the Company under the Court approved Scheme of Arrangement effective on 24th April 2009 They have been reported as capital contributions within equity

20. Contingent liabilities

The Company has given unlimited guarantees in relation to the bank overdraft, loan and hire purchase liabilities of the other companies within the McCarthy & Stone Limited Group At 31 August 2011, the amount outstanding under those facilities was £55 9m (2010 £56 1m)

The Group paid Stamp Duty Land Tax (SDLT) of £2 4m in connection with the purchase on 23 April 2009 of the trade and business assets and liabilities of Monarch Realisations 2 Limited in creditors' voluntary liquidation It is possible that the SDLT liability might be increased by an amount of up to approximately £5 2m in the event that there is a change of control of the acquiring entity for the purposes of the relevant legislation within three years of the date of the purchase transaction

21. Pensions

A defined contribution money purchase pension arrangement is operated for employees in the UK to which the Company makes a contribution under specified circumstances The Company's pension cost for the period was £1 1m (2010 £1 0m) The unpaid contributions outstanding at the year end are £nil (2010 £nil)

22. Related parties

The Company has taken advantage of the exemption available under FRS 8 paragraph 3(c) from disclosing the transactions between members of the McCarthy & Stone Limited Group of companies

23. Share based payments

At the balance sheet date, the valuation of any outflow in connection with the management incentive scheme described in note 1 is considered to be £nil given that there is uncertainty over the timing and value of the transaction which is dependent on uncertain future market conditions No liability has therefore been recorded as at the balance sheet date

24. Ultimate parent undertaking and controlling party

Mandarin 1 Limited, which is registered in England and Wales, is considered to be the Company's ultimate parent undertaking and controlling party The accounts of Mandarin 1 Limited can be obtained from the registered office Homelife House, 26-32 Oxford Road, Bournemouth, Dorset, BH8 8EZ The smallest Group in which this Company's accounts are consolidated is McCarthy & Stone Ltd, and the largest Group in which this Company's accounts are consolidated is Mandarin 1 Ltd