

McCarthy & Stone Ltd

McCarthy & Stone Ltd

Annual Report and Financial Statements

For the year ended 31st October 2021

Registered number 06622199

Contents

For the year ended 31 st October 2021:	Page
Strategic Report	2
Directors' Report	16
Independent Auditor's Report	24
Consolidated Statement of Comprehensive Income	30
Consolidated Statement of Financial Position	31
Consolidated Statement of Changes in Equity	32
Consolidated Cash Flow Statement	33
Notes to the Consolidated Financial Statements	34
Company Statement of Financial Position	69
Company Statement of Changes in Equity	70
Notes to Company Financial Statements	71



McCarthy & Stone Ltd

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.

The Group is the UK's leading developer and manager of retirement communities, under the trading name McCarthy Stone.

Our customers maintain their independence within a beautiful, secure, contemporary private home, while enjoying the peace of mind that help and care is on hand if needed. Our communities make a positive difference to the lives of our customers and we are focused on supporting and championing the role, wellbeing and happiness of older people in society.

All developments built since 2010 are managed by our in-house management services team, providing peace of mind that we will look after customers and their properties for the long term. As of December 2021, we operate 475 developments across the UK for more than 21,000 customers.

Our commitment to quality and customer service continues to be recognised by residents. In March 2021, we received the full five-star rating for customer satisfaction from the Home Builders Federation for the sixteenth consecutive year – making us the only UK developer, of any size or type, to achieve this accolade.

The Group employs around 2,500 people across the UK and works with c.6000 suppliers, sub-contractors and local trades people to provide exceptional apartments for our customers to own outright, rent or part-buy part-rent.

McCarthy Stone has two main product ranges - Retirement Living and Retirement Living PLUS - which provide mainly one and two-bedroom apartments 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.

Business performance review

The year ended 31 October 2021 was a transformational period for the Group, highlighted by the acquisition of the Group by Mastiff BidCo Limited a wholly-owned indirect subsidiary of Lone Star Real Estate Fund VI. The Transaction was implemented by means of a Court-sanctioned scheme of arrangement (the Scheme) under Part 26 of the Companies Act. The Scheme was 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 at which point the Group de-listed from the London Stock Exchange.

The acquisition allowed the Group to bolster its financial position, with the legacy revolving credit facility of £200m cancelled and existing debt and accrued interest under this facility repaid in line with change of control provisions. Post-acquisition a new 5-year senior loan facility for £275m and revolving credit facility for £48.5m were put in place with the Group's immediate parent company (Mastiff Bidco Limited) as borrower. No covenants apply on the facilities until 30th October 2023, the details of covenants after 30 October 2023 are set out on note 24.

As a result, the Group maintains a strong liquidity position operating with strict cash controls in place. Net debt was £42.8m as at 31 October 2021 (2020: net debt £62.8m). 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 residual risks presented by Covid-19 uncertainty with the need to continue to invest in land and development to support the sales and profitability of future financial periods.

Despite trading conditions being materially impacted by the Covid-19 pandemic for a second consecutive year, the Group delivered volume growth of 21.8% with 1,013 legal completions during the year (2020: 832) and saw revenue increase by 70.0% to £335.5m (2020: £197.3m). Revenue growth outpaced the recovery in volumes in part owing to 135 units sold to the Waverstone joint venture included in the prior year volumes in addition to the introduction of new revenue streams in 2021 in respect of rental tranche sales and contract revenue recognised in respect of the Anchor Hanover partnership.

The Group continues to make good progress on its multi-tenure strategy with 176 (17.4%) of the legal completions in the period relating to rental completions, demonstrating that there is good long-term demand for the multi-tenure offering. Furthermore, the Group entered into a partnership worth approximately £200m for the development of its Retirement Living rental portfolio during the year. The partnership is provided jointly by John Laing and Macquarie Capital, both of whom are well-known infrastructure investors with a focus on development projects and platforms, including in accommodation and broader social infrastructure.

In addition to the expansion of the rental offering, the Group entered into a partnership with Anchor Hanover during the year, which will see the country's two leading retirement providers deliver a range of 'affordable for all' later living communities across England. The partnership will initially deliver five large-scale sites (which are currently owned by McCarthy Stone and have planning consent). The partnership contributed £27.8m of revenue in the year (2020: nil).

McCarthy & Stone Ltd

The underlying operating loss for the year narrowed substantially to £2.5m (2020: £56.5m loss) driven by the year-on-year revenue growth of £138.2m on a broadly stable operating cost base. Non-underlying items in the year of £23.9m (2020: £90.8m) primarily related to costs associated with the acquisition by Lone Star, this represented a significant year on year reduction owing to £60.3m of goodwill and brand impaired in the prior year. Consequently, the reported operating loss reduced significantly to £37.5m (2020: £148.3m). financial loss after tax of £30.1m (2020: £124.6m loss) and at 31 October 2021, mirroring the operating loss trend. The Group had consolidated net assets of £614.6m (2020 £645.9m).

On 24 September 2021, Waverstone LLP, Waverstone Investments Holdings Limited and Waverstone Investments Limited were acquired in full by the Group. The fair value of the net assets acquired was £2.1m. The total consideration paid was £2.3m, resulting in a £0.2m goodwill balance. Further information on the acquisition is set out in note 31.

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 30 and in the Consolidated Statement of Financial Position on page 31.

Key performance indicators

Indicator	2021	2020
Legal completions	837	666
Average selling price	£315k	£302k
Rental completions	176	166
First occupations	28	11
Developments under management	475	444
Customer satisfaction	92%	93%

Non-financial information statement

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 is to provide **affordable** and **flexible** products and services for our customers to **choose** from.

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.

McCarthy & Stone Ltd

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 (93% 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.

McCarthy & Stone Ltd

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:

	2021	2020	2019
McCarthy Stone	279	61	337
Homebuilder peer group	264	263	287
HSE construction industry average	330	366	366

We have had no fatalities on any of our construction sites during the year.

McCarthy Stone's AIIR was 279 for the 12 months to 31 March 2021, a substantial increase on 61 in the year ending 31 March 2020 with 5 RIDDOR's (2020: 1). The primary driver for this deterioration is as a direct result of the our construction sites being closed during 2020, due to Covid-19, reducing the risk of accident. Both the AIIR and RIDDOR's are lower than the 12 months to 31 March 2019, the last comparable period when construction was unimpacted by Covid-19 lockdowns.

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.

McCarthy & Stone Ltd

The Group Sustainability Committee has oversight of the Group's strategy and key policies, is chaired by the CEO and comprises Executive Committee 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. Details of the Group's emissions reporting can be found on page 10 of the Strategic Report.

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.mccarthyandstone.co.uk

Equality, diversity and inclusion

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.

McCarthy & Stone Ltd

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)

	2021	2020
Female	20	19
Male	<u>46</u>	<u>53</u>
	66	72

It can also be seen that female staff represent 77% of our workforce. Our Management, Care and Wellbeing business employee significantly more females than males. We can also see that FY21 has seen an improved percentage of females in senior roles within the company in comparison to FY20.

Total employees of the Group:

	2021	2020
Female	1,990	1,932
Male	<u>591</u>	<u>596</u>
	2,581	2,528

McCarthy & Stone Ltd

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 and improves our competitive advantage.

Overall emissions increased by 11% year on year to 15,983 tCO₂e. Scope 1 emissions remained at roughly the same level as the previous year at 6,129 tCO₂e but Scope 2 emissions rose by 18% to 9,854 tCO₂e. Much of this increase was attributable to our ability to access more robust and comprehensive energy data, especially in relation to our Managed Developments. Likewise, while our intensity measure has risen, 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, in October 2021 McCarthy Stone began a transition to source 100% renewable electricity for development communal spaces and offices. This transition will be complete by March 2022 and deliver significant reductions in our Scope 2 and total emissions.

Moving from a standard home to a McCarthy and Stone flat could save a substantial quantum of CO₂ each year in a downsizing dividend. Encouraging older people to move to a McCarthy and Stone flat would also create a 'home improvement dividend' as younger homeowners are more likely to move into the freed up family homes and make further energy efficiency alterations to reduce their own carbon emissions. The key point about the 'downsizing dividend' is that in the absence of the McCarthy and Stone offering, older people are more likely to stay living in their existing houses, thus driving a need to build more new houses (as opposed to build new flats) in order to meet demand, and because new build houses have higher emissions than new build flats, this in turn is likely to mean higher emissions from housing overall.

Greenhouse gas emissions in tCO₂e (unless otherwise stated)

	2020	2021	2022
Total emissions	11,821	14,458	15,983
Scope 1	6,557	6,109	6,129
Scope 2 - Location-Based	5,264	8,349	9,854
Intensity - emissions per number of Managed Developments	38	32	34
Total Energy Consumption (MWh)	N/A	69,777	73,188

Methodology

We have applied the UK Government's 2020 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.

McCarthy & Stone Ltd

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 2020/21 is calculated by reference to the number of our Managed Developments (475).

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 and 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 Risk Owners supporting operational management in their own specialist areas to ensure operational processes have adequate controls in place and that these are routinely tested for both design and operational effectiveness.
3. The Group Compliance and Governance department, 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.

McCarthy & Stone Ltd

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.

Pandemics:

An epidemic or pandemic of an infectious disease (either a further 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:

In January 2021 MHCLG reversed its decision to exempt the retirement housing industry from the zero rating of new ground rents. The ban is set to come in from April 2023. The Group has carried out an impact assessment of having no ground rents on new build properties. It is considering new commercial options and has 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 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 typically 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.

Workflow:

The Group continues to align workflow towards a steady state production and workflow is closely monitored by divisional management, the Executive Committee and the Board.

McCarthy & Stone Ltd

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. 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 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 Executive Committee. Care Quality Commission inspections are performed across all Retirement Living PLUS developments and actions are tracked to address any potential weaknesses in process.

Carrying 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 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.

McCarthy & Stone Ltd

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.

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 UK 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 resale 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:

Robust sustainability objectives and targets have been developed in line with the United Nations Sustainability goals and these are 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.

McCarthy & Stone Ltd

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 approach by Lone Star which 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 of 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 in favour of the acquisition. Staff, suppliers and key stakeholders were kept informed of progress of the transaction and notified on its completion.

McCarthy & Stone Ltd

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 2021. 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 Fourth Floor, 100 Holdenhurst Road, Bournemouth BH8 8AQ.

Results and dividends

The Groups consolidated results for the year are as outlined in the Strategic Report on pages 2 to 15, together with a review of the Groups business during the year. Information about the Group's risk management is also provided in the Strategic Report.

No dividends were paid during the year ending 31 October 2021.

Directors

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

J Tonkiss	– appointed 5 th November 2015
M Abell	– appointed 1 st August 2020
Paul Lester*	– resigned 28 th October 2021
M Lloyd	– resigned 4 th June 2021
Frank Nelson*	– resigned 1 st February 2021
Geeta Nanda*	– resigned 1 st February 2021
Arun Nagwaney*	– resigned 1 st February 2021
Gill Barr*	– resigned 1 st February 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 throughout the year and 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.

McCarthy & Stone Ltd

Statement of Directors responsibilities

Financial statements and accounting records:

The Directors as listed on page 16 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 United Kingdom 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; and
- 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; and
- Make an assessment of the Company's and the Group's (as the case may be) ability to continue as a going concern.

McCarthy & Stone Ltd

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 2021 there were 538,849,621 ordinary shares of 8p nominal value in issue. No shares have been issued or bought back and cancelled during the financial period.

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 58 in note 26 to the financial statements.

McCarthy & Stone Ltd

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 29 to the financial statements on pages 60 to 64.

Going Concern

The Directors have assessed the Group's business activities and the factors likely to affect future performance considering current and anticipated economic conditions. In making their assessment the Directors have reviewed the Group's latest budget, forecasts, available loan facilities and considered reasonably possible downside sensitivities 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 14 months from the date of approval of the financial statements being to April 2023.

The going concern assessment considers the Group's projected liquidity position from existing committed financing facilities throughout the forecast period to April 2023. The Group had an unrestricted cash balance of £157.2m as at 31 October 2021. The Group also has the following committed sources of external funding:

- a 5-year senior loan facility for £275m with bi-annual interest payments; and
- an undrawn £48.5m revolving credit facility

The external facilities are held by the Group's immediate parent Mastiff BidCo Limited and provided to the Group via a £200m intercompany loan which is repayable on demand. McCarthy Stone Limited has obtained a parental letter of support confirming that the amount will not be called within the going concern period. Management has assessed the ability of the parent to provide such support should it be required.

The facility has no income statement based financial maintenance covenants, with the sole financial covenant being an LTV ratio. No measurement of this covenant is required prior to October 2023 unless loans drawn under the revolving credit facility exceed 40% of the total facility.

The Directors have prepared a base case cash flow forecast which covers a period of more than twelve months from the date of approval of these financial statements to April 2023. This base case assumes that:

- Trading performance including pricing, cost inflation, sales volumes, land acquisitions and build programmes are aligned to the Group's latest board approved budget;
- That the Group will successfully execute quarterly sales of rental properties to a third-party investor in each quarter of the Forecast Period; and
- Grant income will be secured from Homes England in connection with a new proposed Affordable Shared Ownership customer proposition

This base case indicates that the Group will have sufficient funds to enable it to operate within its available facilities and settle its liabilities as they fall due for at least the next twelve months.

McCarthy & Stone Ltd

2.2.2.2 Severe but plausible downside scenario

The Directors have prepared a severe but plausible downside scenario covering the same forecast period to April 2023, being at least the next twelve months from date of approval of these financial statements, which includes both sensitivities and mitigating actions that consider the potential impact of:

- An extended period of trading weakness as a result of the continuing uncertainty over demand from Group's core demographic owing to the ongoing Covid-19 pandemic with a c.24% volume reduction across the forecast period;
- Quarterly sales of rental properties to a third-party investor cease once the initial contractual commitment is fully utilised;
- No Homes England funding is secured in the forecast period; and
- The combination of further build cost inflation and no house price inflation.

In response to the crystallisation of each of the above sensitivities, the primary mitigating actions used to conserve liquidity are the curtailment of land purchases and postponement build starts. Such mitigating actions are within the Directors' control and the business closely monitors appropriate lead indicators to implement these actions in sufficient time to achieve the required cash preservation impact.

The combined impact of the above downside sensitivities and mitigating actions indicates that the Group and Company will have sufficient funds to enable it to operate within its available facilities and settle its liabilities as they fall due for at least the next twelve months in a reasonable worst-case scenario.

As a result of the above considerations, the Directors consider that the Group has adequate resources in place for at least 14 months from the date of the approval of these financial statements to April 2023 and have therefore adopted the going concern basis of accounting in preparing the financial statements.

Post Balance Sheet Events

On 20 December 2021, the Group received notification from Brigid Investments Ltd that it had exercised the option under clause 6.2.2 of the Offtake Agreement to increase its commitment to purchase qualifying rental properties from the Group to the maximum initial contractual commitment. This provides the Group with increased certainty over the availability of funding to support its rental strategy.

McCarthy & Stone Ltd

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 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 Wates Principles of Corporate Governance are being adopted following the acquisition by Mastiff Bidco 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.

McCarthy & Stone Ltd

Employees

The Company held a number of Group wide business updates during the year, led by the Chief Executive, Chief Financial Officer and Chief People 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.

McCarthy Stone received an external accreditation from Great Place to Work UK, which is given to companies with an exceptional workplace culture. We received the award based on feedback from 1,777 employees from across the company who took part in our first full Great Place to Work survey.

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 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.

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 joined our Buddy scheme to ensure that customers 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

Our investors are actively involved with strategic and operational decisions.

McCarthy & Stone Ltd

CONFIDENTIAL – FOR THE USE OF THE AUDITORS ONLY

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:



John Tonkiss
Chief Executive Officer
16 February 2022

Opinion

We have audited the financial statements of McCarthy & Stone Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 October 2021 which comprise of the Consolidated Statement of Comprehensive Income, the Company and Consolidated Statement of Financial Position, the Company and Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 34, and Company notes 1 to 11 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 and 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 FRS 102 (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 October 2021 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.

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. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Performing a walkthrough of the entity's financial close process to confirm our understanding of management's going concern assessment process and engaging with management early to ensure all key risk factors we identified were considered in their assessment.

- Obtaining management's going concern assessment, including the cashflow forecasts for the going concern assessment period to 30 April 2023, then performing procedures to confirm the clerical accuracy of the underlying model including validating the forecast liquidity position, including access to committed financing facilities throughout the forecast period, being a 5-year senior loan facility for £275m with the Group's immediate parent company (Mastiff Bidco Limited) as borrower and an undrawn £48.5m revolving credit facility.
- The Group has modelled a base scenario and a severe but plausible scenario. As part of our understanding of management's base case scenario, we noted that the key assumptions present were trading performance, forecasted unit completions, house price growth, build cost inflation, land acquisitions, and build programmes which were aligned to the Group's budget. It is also assumed that the Group will successfully execute quarterly sales of rental properties to a third-party investor during the forecast period and secure grant income from Homes England in connection with a new Affordable Shared Ownership customer proposition. We performed enquiries with management to understand the basis of the key assumptions and performed substantive procedures to independently determine their appropriateness, such as reviewing the forecasts within the context of historic performance and critically assessing management's ability to accurately forecast through lookback analysis on the prior year's actual results. We also corroborated house price increases and build cost inflation with industry expectations. The severe but plausible scenario covers the same forecast period and includes sensitivities such as a reduction in trading volumes, the cessation of the quarterly sale of rental properties and no Homes England funding.
- Reviewing and reperforming management's stress test of their cash forecasts and covenant calculations in order to quantify then assess the likelihood of the downside scenarios required to exhaust forecast liquidity and breach covenant ratios. There is only one financial covenant, which is the Loan to Value (LTV) ratio. No measurement of this covenant is required prior to October 2023 unless loans drawn under the revolving credit facility (RCF) exceed 40% of the total facility. The RCF is yet to be drawn and it is available until November 2025.
- Considering the impact and feasibility of potential mitigating activities that are within the control of the Group, such as curtailment of land purchases and postponement of build starts.
- Reviewing the going concern disclosures included in the Annual Report in order to assess their completeness and conformity with the reporting standards.

We observed that at 31 October 2021, the Group had cash of £157.2m in addition to the Group's revolving credit facility of £48.5m which was undrawn as at 31 October 2021. We note that, whilst the groups revolving credit facility is not due for renewal until November 2025, they have a £200m loan in place with Mastiff Bidco Limited, the groups immediate parent, which is repayable on demand. We gained comfort over the fact that this did not cast significant doubt on the groups ability to continue as a going concern by obtaining a letter of support from the parent company, and also performing an assessment on their ability to provide this support.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least 12 months from

when the financial statements are authorised for issue until 30 April 2023, being the going concern assessment period.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other information

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

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.

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report 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 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 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 17, 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's and the 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. 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 those that relate to the reporting framework (International Accounting Standards for the Group financial statements, and as regards the parent company financial statements, Financial Reporting Standard 102 as applied in accordance with Section 408 of the Companies Act 2006), Companies Act 2006 and the relevant tax compliance regulations in the UK. In addition to this, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statement, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect, health and safety, data protection, and anti-bribery and corruption.
- We understood how McCarthy & Stone Limited is complying with those frameworks by making enquiries of management and those charged with governance to understand how the company maintains and communicates its policies and procedures in these areas. Our audit procedures were designed to either corroborate or provide contrary evidence, the results of which were followed up appropriately.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved a review of board minutes to identify any non-compliance with laws and regulations, assessment of financial statement disclosures to ensure compliance with the relevant reporting frameworks, and enquiries with management and those charged with governance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override. Our procedures to address management override involved testing journals identified by specific risk criteria such as manual, large or unusual journals. We also discussed with management from various parts of the business to understand where it considered there was susceptibility to fraud and by assessing key assumptions over significant estimates made by management for evidence of bias. We also considered *performance targets and their propensity to influence efforts made by management to manage revenue and 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 this risk was higher, we performed incremental audit procedures to address each identified fraud risk. These procedures included those on inventory valuation and profit recognition and revenue recognition; and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- To address our identified fraud risk of incorrect inventory valuation and profit recognition, we performed a site review for a sample of developments owned by the group to understand the appropriateness of the judgements and estimates made by management in determining site margins. For each item in our site review, we obtained explanations from the group finance team to understand the key drivers of movements in the prior year forecast margins and the margins actually recorded within the financial period. Based on our understanding of the Group's margin equalisation accounting policy, we set expectations that margins would remain comparable year to year and challenged management where there were margin movements were outside of our set expectations when comparing periods. For sites where margin movements were not consistent with our expectations, we performed further enquires with Divisional management teams to ensure that there was alignment in the explanations provided by both the Group and Divisional teams to understand the reasons behind movements in margins where our expectations were not met. We also reviewed post year-end sales activity to

corroborate the recoverable amounts estimated in management's inventory provisioning assessments with post year-end sales activity.

- To address our identified fraud risk of incorrect revenue recognition around the period end, we tested a sample of unit completions recorded before and after the year end on a sample basis by vouching to evidence (such as legal completion documents and bank statements) that the performance obligations are satisfied, and revenue has been recorded in the right period. We also utilised data analytics tools to analyse unit completions recorded before and after year end, this helped us to identify periods where unit sales were concentrated, from which we selected samples to test.

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

Use of our report

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

Ernst & Young LLP

James Harris (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
16 February 2022

McCarthy & Stone Ltd

Consolidated Statement of Comprehensive Income

For the year ended 31 October 2021

	Notes	2021 £m	2020 £m
Revenue	6	335.5	197.3
Cost of sales		(308.6)	(212.4)
Gross profit/(loss)		26.9	(15.1)
Other operating income	9	111.7	178.5
Other operating expenses	9	(96.3)	(173.9)
Administrative expenses		(68.7)	(137.8)
Operating (loss)		(26.4)	(148.3)
Amortisation of brand	7	–	(1.0)
Non-underlying items	7	(23.9)	(90.8)
Underlying operating (loss)		(2.5)	(56.5)
Finance income	10	2.1	1.8
Finance expense	11	(13.2)	(6.1)
(Loss) before tax	7	(37.5)	(152.6)
Income tax credit	12	7.4	28.0
(Loss) for the year from continuing operations and total comprehensive income		(30.1)	(124.6)

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

Adjusted measures

Underlying operating (loss)	7	(2.5)	(56.5)
Underlying (loss) before tax	7	(3.5)	(60.8)

McCarthy & Stone Ltd

Consolidated Statement of Financial Position

As at 31 October 2021	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Goodwill	13	0.2	-
Intangible assets	13	3.7	3.4
Property, plant and equipment	14	0.7	0.8
Right of use assets	15	3.3	4.7
Investment properties	16	27.9	75.2
Deferred tax asset	19	25.4	18.9
Other receivables	18	29.9	49.1
Total non-current assets		91.1	152.1
Current assets			
Inventories	17	708.9	656.6
Trade and other receivables	18	8.9	22.3
UK corporation tax		0.9	6.4
Restricted cash		1.2	0.6
Cash and cash equivalents	29	157.2	137.2
Total current assets		877.1	823.1
Total assets		968.2	975.2
Equity and liabilities			
Capital and reserves			
Share capital	26	43.1	43.0
Share premium		102.7	101.6
Retained earnings		468.8	501.3
Total equity		614.6	645.9
Current liabilities			
Short term borrowings	24	200.0	-
Trade and other payables	20	101.5	74.8
Land payables	22	24.3	34.7
Lease liabilities	23	1.4	1.4
Provisions	21	5.6	5.8
Total current liabilities		332.8	116.7
Non-current liabilities			
Long-term borrowings	24	-	198.6
Trade and other payables	20	1.5	0.7
Land payables	22	6.5	2.2
Lease liabilities	23	3.1	4.8
Provisions	21	9.7	6.3
Total liabilities		353.6	329.3
Total equity and liabilities		968.2	975.2

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

These financial statements were approved by the Board on 16 February 2022 and signed on its behalf by:

John Tonkiss
Chief Executive Officer

31

Martin Abell
Chief Financial Officer

McCarthy & Stone Ltd

Consolidated Statement of Changes in Equity

For the year ended 31 October 2021

	Notes	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 November 2019		43.0	101.6	624.4	769.0
Loss for the year		–	–	(124.6)	(124.6)
Total comprehensive income for the year		–	–	(124.6)	(124.6)
Transactions with owners of the Company:					
Share-based payments	30	–	–	1.5	1.5
Balance at 31 October 2020		43.0	101.6	501.3	645.9
Loss for the year		–	–	(30.1)	(30.1)
Total comprehensive loss for the year		–	–	(30.1)	(30.1)
Transactions with owners of the Company:					
Share-based payments	30	–	–	(1.2)	(1.2)
Issue of ordinary shares		0.1	1.1	(1.2)	–
Balance at 31 October 2021		43.1	102.7	468.8	614.6

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

McCarthy & Stone Ltd

Consolidated Cash Flow Statement

For the year ended 31 October 2021

	Notes	2021 £m	2020 £m
Net cash flow from operating activities	27	(23.7)	(39.7)
Investing activities			
Purchases of property, plant and equipment	14	(0.3)	(0.2)
Purchases of intangible assets	13	(1.0)	(1.0)
Proceeds from sale of property, plant and equipment		–	0.1
Inflows/(outflows) in relation to investment properties	16	46.1	(46.7)
Acquisition of an associate		(2.3)	–
Net cash from/(used in) investing activities		42.5	(47.8)
Financing activities			
Issue of short-term borrowings		200.0	195.0
Repayment of long-term borrowings		(200.0)	(7.0)
Dividends paid		–	–
Cash acquired on acquisition		1.2	–
Net cash (used in)/from financing activities		1.2	188.0
Net increase in cash and cash equivalents		20.0	100.5
Cash and cash equivalents at beginning of year		137.2	36.7
Cash and cash equivalents at end of year		157.2	137.2

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

McCarthy & Stone Ltd

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 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, OBPX 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 Directors have assessed the Group's business activities and the factors likely to affect future performance considering current and anticipated economic conditions. In making their assessment the Directors have reviewed the Group's latest budget, forecasts, available loan facilities and considered reasonably possible downside sensitivities 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 14 months from the date of approval of the financial statements being to April 2023.

The going concern assessment considers the Group's projected liquidity position from existing committed financing facilities throughout the forecast period to April 2023. The Group had an unrestricted cash balance of £153.9m as at 31 October 2021. The Group also has the following committed sources of external funding:

- a 5-year senior loan facility for £275m with bi-annual interest payments at nominal interest rate; and
- an undrawn £48.5m revolving credit facility.

The external facilities are held by the Group's immediate parent Mastiff BidCo Limited and provided to the Group via a £200m intercompany loan which is repayable on demand. McCarthy Stone Limited has obtained a parental letter of support confirming that the amount will not be called within the going concern period. Management has assessed the ability of the parent to provide such support should it be required.

The facility has no income statement based financial maintenance covenants, with the sole financial covenant being an LTV ratio. No measurement of this covenant is not required prior to October 2023 unless loans drawn under the revolving credit facility exceed 40% of the total facility. The Directors have prepared a base case cash flow forecast which covers a period of more than twelve months from the date of approval of these financial statements to April 2023. This base case assumes that:

- Trading performance including pricing, cost inflation, sales volumes, land acquisitions and build programmes are aligned to the Group's latest board approved budget;
- That the Group will successfully execute quarterly sales of rental properties to a third-party investor in each quarter of the Forecast Period; and
- Grant income will be secured from Homes England in connection with a new proposed Affordable Shared Ownership customer proposition

This base case indicates that the Group will have sufficient funds to enable it to operate within its available facilities and settle its liabilities as they fall due for at least the next twelve months.

The Directors have prepared a severe but plausible downside scenario covering the same forecast period to April 2023, being at least the next twelve months from date of approval of these financial statements, which includes both sensitivities and mitigating actions that consider the potential impact of:

- An extended period of trading weakness as a result of the continuing uncertainty over demand from Group's core demographic owing to the ongoing COVID-19 pandemic with a c.24% volume reduction across the forecast period;
- Quarterly sales of rental properties to a third-party investor cease once the initial contractual commitment is fully utilised;
- No Homes England funding is secured in the forecast period; and
- The combination of further build cost inflation and no house price inflation.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

Going concern (continued)

In response to the crystallisation of each of the above sensitivities, the primary mitigating actions used to conserve liquidity are the curtailment of land purchases and postponement build starts. Such mitigating actions are within the Directors'

control and the business closely monitors appropriate lead indicators to implement these actions in sufficient time to achieve the required cash preservation impact.

The combined impact of the above downside sensitivities and mitigating actions indicates that the Group and Company will have sufficient funds to enable it to operate within its available facilities and settle its liabilities as they fall due for at least the next twelve months in a reasonable worst-case scenario.

As a result of the above considerations, the Directors consider that the Group has adequate resources in place for at least 14 months from the date of the approval of these financial statements to April 2023 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. There were several other new and amendments to standards and interpretations which are applicable for the first time in the year, but either do not cause any impact or have no relevance to the Group.

Other standards issued

The Group has considered the impact of Amendments to IAS 1 and IAS 8: '*Definition of Material*'; Amendment to References to the Conceptual Framework in IFRS Standards; and Amendment to IFRS 3: '*Business Combinations*', which are applicable to the Group for this financial year. These amendments to standards and interpretations had no significant impact on the financial statements.

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

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 (Extra Care Living) Limited which consolidates all cash-generating units ('CGUs') of the Group. This is the lowest level at which goodwill is monitored internally. Goodwill arose on acquisition of Waverstone LLP in September 21 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.

As at 31 October 2021, there have been no significant changes to the business that suggest that the goodwill balance should be impaired.

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'.

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.

In April 2021, the Group entered into a contract to sell an initial "seed" portfolio of rental properties with a third party investor and an offtake agreement which secures the future sale of rental properties in regular tranches. The sale of units in the seed portfolio was recognised through other income as the properties sold were classed as investment properties. The sale of rental units from stock included in the offtake agreement tranches is classed as revenue. See note 6 for further information.

Revenue from contracts with customers

The Group has entered into a strategic partnership with Anchor Hanover ('AHG'), England's largest provider of specialist housing and care for people in later life. A contractual relationship has been agreed for McCarthy & Stone to deliver 316 apartments across five projects for Anchor Hanover. The land on each site is sold to Anchor Hanover and McCarthy Stone then construct the development on the land controlled by AHG. As AHG control the land, revenue is recognised over time on a percentage completion basis, using costs incurred as a measure of the works completed to date.

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

Operating rental income

The Group earns revenue from acting as a lessor in operating leases. Rental income arising from operating leases on investment property and rental stock 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, revenue from an associate amounted to 2% of the Group's revenue (2020: 11%) – 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, profits arising from the realisation of shared equity receivables and profits arising on disposal of investment properties.

In April 2021, the Group entered into a contract to sell an initial "seed" portfolio of rental properties with a third party investor and an offtake agreement which secures the future sale of rental properties in regular tranches. The sale of units in the seed portfolio was recognised through other income as the properties sold were classed as investment properties. The sale of rental units from Investment Properties included in the offtake agreement tranches is classed as other operating income.

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 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.

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

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.

Government grants

Grants have been received for furlough payments under the Government's Coronavirus Job Retention Scheme. 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 year 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 £0.1m (2020: £3.7m).

A government grant agreement has been agreed in respect of New Homes England, which while not financially impacting the group within the current financial period, is expected to have a material impact in future financial periods.

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/recoverable is based on taxable profit or losses for the year. Taxable profit or losses differs from net profit or losses 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/asset for current tax is calculated using tax rates that have been enacted, or substantively enacted, at the reporting date.

McCarthy & Stone Ltd

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 recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax 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 at the year 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 - 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 does not exceed ten years. Development expenditure relating to software has been capitalised and is detailed in note 13 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.

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

Impairment of tangible and intangible assets and goodwill (continued)

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.

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 assessed by management. 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.

In April 2021 the Group entered into a contract for the sale of an initial "seed" portfolio of rental properties and an offtake agreement which will secure the future sale of rental properties in regular tranches. Future rental properties that meet the criteria of the offtake agreement will no longer be reclassified to investment property and will remain held in inventory until sold to an investor.

Investment properties sold in the "seed" portfolio in FY21 have been treated as disposals of investment properties and any gains recognised through other operating income.

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.

During the year the group performed a step acquisition to acquire the group's only associate. On 24 September 2021, Waverstone LLP, Waverstone Investments Holdings Limited and Waverstone Investments Limited were acquired in full by McCarthy & Stone Limited. Subsequently the group has no associates at year end.

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

Inventories (continued)

Rental stock includes properties that have been rented to customers which the group intends to sell to a third party investor rather than hold for rental income or capital appreciation. Properties remain held in stock until sold in the offtake tranches. See investment property for more detail.

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, is 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.

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 29.

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 recognised in finance income/expense.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

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.

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 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'. 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 and loans.

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.

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 30.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

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.

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

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.

A full reconciliation between the statutory results and the underlying measures can be seen within note 7. Net debt/cash has been defined and calculated within note 25. 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 2021.

The Group has considered the impact of 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*', Amendments IAS 16 '*Property, Plant and Equipment*', 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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

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.

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

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 flows 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 most significant uncertainty is 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 50-84% (2020: 54-85%) for the various functions. Overhead costs capitalised during the year amount to £11.0m (2020: £8.4m). If the prior year cost capitalisation rates were to be used, the value of the overhead costs capitalised would have increased by £0.4m.

Provisions

A provision was initially recognised in the prior period in relation to combustible materials, fire risk and protection and regulatory compliance on completed developments, which has been adjusted during 2021. The Group has calculated this using its best estimates of 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 20.

Deferred tax

At the year end, the Group has recognised a deferred tax asset of £25.4m (2020: £18.9m) 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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

6. Revenue

	2021 £m	2020 £m
Unit sales - external customers	266.4	163.2
Unit sales - revenue from an associate	6.1	21.8
Unit sales - revenue from sale of rental properties	16.5	–
Revenue from contracts	27.8	–
FRI revenue	12.8	7.2
Rental revenue	5.9	5.1
	335.5	197.3

All unit sales revenue arose from the sale of properties. All revenue was generated within the UK.

Unit sales to external customers includes the sale of properties to individual homeowners. No individual customer is significant to this revenue stream.

Unit sales revenue from rental properties includes bulk sales of rental properties to Brigid Investments Ltd under a deal negotiated during the year. The deal included an initial sale of a “seed” portfolio of rental properties and an offtake agreement to secure the sale of future rental properties in regular tranches. The properties in the seed portfolio were previously classed as investment properties and revenue from the sale of these assets has been included in other income in line with previous revaluation gains on those units. There were two offtake tranche sales of units in the year, which included a mix of properties previously held in investment property and units held as rental stock in inventory. The revenue from the rental stock unit sales is considered part of the normal course of business and part of the core future activity of the Group as part of the strategy and therefore is included above in revenue.

Revenue from contracts includes revenue generated from a strategic partnership with Anchor Hanover (‘AHG’), England’s largest provider of specialist housing and care for people in later life. A contractual relationship has been agreed for McCarthy & Stone to deliver 316 apartments across five projects for Anchor Hanover. The land on each site is sold to Anchor Hanover and MCS then construct the development on the land controlled by AHG. As AHG control the land, revenue is recognised over time on a percentage completion basis, using costs incurred as a measure of the works completed to date.

Revenue from an associate relates to income received in relation to property sales relating to Waverstone. Following the acquisition on 24 September 2021 there is no more revenue of this sort to be recognised.

7. Loss before tax

Loss before tax has been arrived at after charging:

	Notes	2021 £m	2020 £m
Amortisation of intangibles	13	0.7	1.8
Depreciation of property, plant and equipment	14	0.3	0.6
Depreciation of right-of-use assets	15	1.4	1.7
Cost of inventories recognised as an expense		239.4	143.1
Staff costs	8	102.9	97.9
Share-based payments charge	30	(1.2)	1.5
Movement in inventory provision (including part-exchange properties)		1.1	0.6

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

7. Loss before tax (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:

	2021 £m	2020 £m
a) Costs in relation to strategic review	2.1	6.1
b) Sell side costs in relation to Lone Star acquisition	16.4	0.9
c) Fire safety provision	5.2	12.1
Other one-off items	0.2	–
Goodwill and Brand impairment	–	60.3
Covid-19 costs	–	11.4
	23.9	90.8

a) 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 build programmes.

b) £16.4m sell side costs have been incurred by the Group in relation to their acquisition by Lone Star. These costs include advisor fees, legal fees and reorganisation costs incurred as a direct result of the acquisition.

c) The UK government issued guidance notes in respect of combustible materials, fire risk and protection and regulatory compliance on completed developments. A review was carried out by McCarthy & Stone prior to Lone Stars acquisition for property under their 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. A provision was put in place to cover estimates of the costs to repair, replace and complete works across several sites identified. In FY21 a further review took place on specific sites and the provision was increased by £5.2m. The provision can be seen further within note 21.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

7. Loss before tax (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.

Year ended 31 October 2021	Notes	Statutory £m	Non-underlying Non-underlying items £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating (loss)		(26.4)	23.9	–	(2.5)
Finance income	10	2.1	–	–	2.1
Finance expense	11	(13.2)	–	–	(13.2)
(Loss) before tax		(37.5)	23.9	–	(13.6)
Income tax credit		7.4	(4.5)	–	2.9
(Loss) for the year attributable to owners of the Company		(30.1)	19.4	–	(3.1)

Year ended 31 October 2020	Notes	Statutory £m	Non-underlying Non-underlying items £m	Adjusted cost Amortisation of brand £m	Underlying £m
Operating (loss)		(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)

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

7. Loss before tax (continued)

Auditor's remuneration

	2021 £m	2020 £m
Fees payable to the Group's auditor		
Audit of the Company and Consolidated Financial Statements	0.4	0.4
Audit of the Company's subsidiaries	–	–
For the year ended 31 October 2021	0.4	0.4

Audit of the Company's subsidiaries amounted to £30,000 (2020: £30,000). Audit related assurance services amounted to £nil (2020: £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.

8. Staff costs

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

	2021 £m	2020 £m
Wages and salaries	90.0	81.3
Social security costs	8.5	8.3
Other pension costs	5.3	5.4
Share-based payments	(1.2)	1.5
Termination payments	0.3	1.4
For the year ended 31 October 2021	102.9	97.9

Staff costs include £0.1m received for furlough payments under the Government's Coronavirus Job Retention Scheme.

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

	2021 Number	2020 Number
Office management and staff	849	824
House managers	1,563	1,562
Construction staff	137	148
For the year ended 31 October 2021	2,549	2,534

At 31 October 2021 the Group employed 2,581 people (2020: 2,528).

Directors' emoluments

Amounts recognised in respect of year end Board Directors' emoluments:

	2021 £m	2020 £m
Wages and salaries	1.7	2.2
Social security costs	0.2	0.3
Share-based payments	–	0.5
Other pension costs ¹	0.1	0.2
For the year ended 31 October 2021	2.0	3.2

¹ Includes salary supplements in lieu of pension

The emoluments of the highest paid director was £1.1m (2020: £0.8m), including pension contributions of £nil (2020: £nil). The number of Directors in the Company pension plan was nil (2020: two).

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

9. Other operating income/expenses

	2021 £m	2020 £m
Other operating income		
Other income	21.9	11.2
Valuation gains from investment property	7.2	8.9
Part-exchange revenue	82.6	158.4
For the year ended 31 October 2021	111.7	178.5

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

	2021 £m	2020 £m
Other operating expenses		
Other expenses	15.4	13.1
Part-exchange expenditure	80.9	160.8
For the year ended 31 October 2021	96.3	173.9

Other expenses arise on the provision of services provided by Group subsidiaries to manage certain developments and non-core expenditure such as customer care.

10. Finance income

	2021 £m	2020 £m
Gain in fair value of shared equity receivables	0.5	0.5
Interest income received	1.6	1.3
For the year ended 31 October 2021	2.1	1.8

11. Finance expense

	2021 £m	2020 £m
Loans interest and overdraft fees	1.2	4.4
Refinancing issue costs	1.4	1.0
Lease interest	0.1	0.2
Loss in fair value of shared equity receivables	0.4	0.5
Interest due to parent undertaking	10.1	-
For the year ended 31 October 2021	13.2	6.1

Interest due to parent undertaking relates to interest charged on the £200m intercompany loan described in note 24.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

12. Income tax credit

	Notes	2021 £m	2020 £m
Corporation tax (credit)/charges			
Current year		(0.4)	(6.5)
Adjustments in respect of prior years		(0.5)	–
Deferred tax (credit)/charges			
Current year	19	(7.0)	(21.5)
Adjustments in respect of prior years		0.5	–
For the year ended 31 October 2021		(7.4)	(28.0)

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

	2021 £m	2020 £m
(Loss) before tax	(37.5)	(152.6)
Tax (credit) at the UK corporation tax rate of 19.0% (2020: 19.0%)	(7.1)	(29.0)
Tax effect of		
Expenses that are not deductible in determining taxable profit	4.7	0.3
Income not taxable in determining taxable profit	–	(0.2)
Share options timing difference	(0.2)	0.4
Effects of tax rate changes	(4.8)	0.5
Tax (credit) for the year	(7.4)	(28.0)

The rate of corporation tax was 19% throughout the year (2020: 19.0%). The UK deferred tax assets/liabilities at 31 October 2021 have been calculated based on the expected rate at which the asset/liability will unwind.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

13. Goodwill and intangible assets

	Goodwill £m	Brand £m	Software £m	Total £m
Cost				
At 1 November 2019	41.7	41.4	7.0	90.1
Additions	–	–	1.0	1.0
Disposals	(41.7)	(41.4)	(1.7)	(84.8)
At 31 October 2020	–	–	6.3	6.3
Additions	0.2	–	1.0	1.2
At 31 October 2021	0.2	–	7.3	7.5
Amortisation				
At 1 November 2019	–	(21.7)	(2.5)	(24.2)
Charge for the year	–	(1.0)	(0.8)	(1.8)
Impairment	(41.7)	(18.7)	–	(60.4)
Disposals	41.7	41.4	0.4	83.5
At 31 October 2020	–	–	(2.9)	(2.9)
Charge for the year	–	–	(0.7)	(0.7)
At 31 October 2021	–	–	(3.6)	(3.6)
Carrying amount				
At 31 October 2020	–	–	3.4	3.4
At 31 October 2021	0.2	–	3.7	3.9

Goodwill additions in the year arose as a result of the acquisition of Waverstone LLP on 24 September 2021.

Brand assets represent the McCarthy & Stone brand name purchased as part of the business combination in 2009. As of 31 October 2020 these brand assets were fully impaired.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

14. Property, plant and equipment

	£m
Cost	
At 1 November 2019	4.6
Additions	0.2
Disposals	(0.5)
At 31 October 2020	4.3
Additions	0.3
Disposals	(0.5)
At 31 October 2021	4.1
Accumulated depreciation and impairment	
At 1 November 2019	(3.3)
Charge for the year	(0.6)
Eliminated on disposals	0.4
At 31 October 2020	(3.5)
Charge for the year	(0.3)
Eliminated on disposals	0.4
At 31 October 2021	(3.4)
Carrying amount	
At 31 October 2020	0.8
At 31 October 2021	0.7

15. Right of use assets

The Group's leased assets comprise of property leases and vehicle leases.

	Properties £m	Vehicles £m	Total £m
At 1 November 2019	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
Depreciation	(1.0)	(0.4)	(1.4)
At 31 October 2021	2.7	0.6	3.3

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

16. Investment properties

	Rental £m	Other £m	Total £m
Cost			
At 1 November 2019	27.6	0.9	28.5
Additions	46.7	–	46.7
At 31 October 2020	74.3	0.9	75.2
Acquired in business combination	4.8	–	4.8
Additions	33.2	–	33.2
Disposals	(84.0)	(0.1)	(84.1)
Revaluation	(1.2)	–	(1.2)
At 31 October 2021	27.1	0.8	27.9

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 management's valuation of the portfolio.

In April 2021 the Group entered into a contract for the sale of an initial "seed" portfolio of rental properties and an offtake agreement which will secure the future sale of rental properties in regular tranches. Future rental properties that meet the criteria of the offtake agreement will no longer be reclassified to investment property and will remain held in inventory until sold in an offtake tranche sale.

Investment properties sold in the "seed" portfolio and offtake tranches in FY21 have been treated as disposals of investment properties and any gains recognised through other operating income.

17. Inventories

	2021 £m	2020 £m
Land held for sale	–	0.9
Land held for development	86.3	103.6
Sites in the course of construction	245.1	217.9
Rental stock	27.3	–
Finished stock	305.0	312.4
Part-exchange properties	45.2	21.8
At 31 October 2021	708.9	656.6

18. Trade and other receivables

	2021 £m	2020 £m
Trade and other receivables due in less than one year		
Trade receivables – external	0.6	0.4
Trade receivables from an associate	–	12.5
Other debtors and prepayments	8.3	9.4
At 31 October 2021	8.9	22.3

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

18. Trade and other receivables (continued)

	2021 £m	2020 £m
Trade and other receivables due in greater than one year		
Trade receivables from an associate	–	18.8
Secured mortgages	1.4	2.3
Shared equity receivables	21.3	20.9
Shared ownership receivables	7.2	7.1
At 31 October 2021	29.9	49.1

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.

19. Deferred tax

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

	Other temporary differences £m	Accelerated tax depreciation £m	Unrelieved tax losses £m	Total £m
At 1 November 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
Statement of Comprehensive Income charge	0.8	(0.5)	6.2	6.5
At 31 October 2021	1.1	0.1	24.2	25.4

Deferred tax assets of £nil (2020: £0.1m) in relation to capital losses carried forward of £nil (2020: £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.

20. Trade and other payables

	2021 £m	2020 £m
Trade and other payables due in less than one year		
Trade payables	13.1	13.5
Other taxes and social security costs	2.4	1.9
Accrued expenses	59.1	33.8
<i>Other creditors and deferred income</i>	26.9	25.6
At 31 October 2021	101.5	74.8

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

20. Trade and other payables (continued)

	2021 £m	2020 £m
Trade and other payables due in greater than one year		
Other creditors and deferred income	1.5	0.7
At 31 October 2021	1.5	0.7

21. Provisions

	£m
At 1 November 2020	12.1
Provided in the year	5.2
Utilised in the year	(2.0)
At 31 October 2021	15.3
Of which:	
Current	5.6
Non-current	9.7
At 31 October 2021	15.3

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 £15.5m to the Group. £12.1m of this provision was assumed in the business combination with McCarthy & Stone Limited and a further £5.2m was recognised in the period post acquisition following a further detailed review on some specific sites. This has been recognised in non-underlying costs.

22. Land payables

	2021 £m	2020 £m
Land payables due in less than one year		
Other creditors and deferred income	24.3	34.7
At 31 October 2021	24.3	34.7
	2021 £m	2020 £m
Land payables due in greater than one year		
Other creditors and deferred income	6.5	2.2
At 31 October 2021	6.5	2.2

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

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

23. Lease liabilities

This has been split accordingly as follows:

	Properties £m	Vehicles £m	Total £m
Current	1.0	0.4	1.4
Non-current	2.9	0.2	3.1
At 31 October 2021	3.9	0.6	4.5

The total cash outflow of IFRS 16 leases in the year was £1.8m (2020: £1.9m).

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

	2021 £m
As a lessee:	
Within one year	1.6
In the second to fifth years inclusive	3.1
After five years	0.1
Outstanding commitments for future minimum lease payments	4.8

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

24. Borrowings

	2021 £m	2020 £m
Short-term borrowings		
Related Party Creditors	200.0	–
At 31 October 2021	200.0	–
Long-term borrowings		
Loans (Revolving Credit Facility)	–	200.0
Unamortised issue costs	–	(1.4)
At 31 October 2021	–	198.6

	Outstanding at	
	2021 £m	2020 £m
Revolving Credit Facility	–	200.0

Following the acquisition by Mastiff Bidco, the Revolving Credit Facility was repaid on 2 February 2021 with a new 5-year senior loan facility for £275m was put in place. This is held above the McCarthy & Stone Limited consolidation group. A covenant testing holiday has been agreed until October 2023.

The McCarthy & Stone Limited consolidation group is financed by a £200m loan from the parent company which is to be repayable on demand.

The £200m related party creditor relates to funding provided by Mastiff Bidco Limited to the group following their acquisition in February 2021. Further details on the transaction can be found in note 33.

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

	2021 £m			
	At 1 November 2020	Cash flow Net cash flow	Non-cash changes Net (issue)/ amortisation of issue costs	Others
Borrowings				
Loans	200.0	(200.0)	–	–
Unamortised issue costs	(1.4)	–	1.4	–
Related Party Creditor	–	200.0	–	–
Total liabilities from financing activities	198.6	–	1.4	–
	2020 £m			
	At 1 November 2019	Cash flow Net cash flow	Non-cash changes Net (issue)/ amortisation of issue costs	Others
Borrowings				
Loans	12.0	188.0	–	–
Unamortised issue costs	(2.4)	–	1.0	–
Total liabilities from financing activities	9.6	188.0	1.0	–

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

25. Net debt

	2021 £m	2020 £m
Loans and borrowings	200.0	198.6
Add back unamortised issue costs	–	1.4
Cash and cash equivalents	(157.2)	(137.2)
Net debt	42.8	62.8

Net debt 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).

26. Share capital

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

	2021 £m	2020 £m
Allotted and issued ordinary shares		
8p each fully paid: 538,849,621 ordinary shares (2020: 537,766,920)	43.1	43.0

Dividends on equity shares

No interim dividend was paid during the year (2020: £nil) and no final dividend has been proposed by the Board (2020: £nil) per share resulting in a total ordinary dividend for the year of £nil (2020: £nil).

The cost of the dividends on equity paid within the financial year amounted to £nil (2020: £nil). Dividends from subsidiaries paid externally from consolidated joint ventures totalled £nil (2020: £nil).

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

27. Notes to the cash flow statement

	Notes	2021 £m	2020 £m
(Loss) for the financial year		(30.1)	(124.6)
Adjustments for			
Income tax (credit)	12	(7.4)	(28.0)
Amortisation of intangible assets	13	0.7	1.8
Impairment of goodwill	13	–	41.7
Impairment of brand	13	–	18.7
Impairment of right of use assets	15	–	2.0
Share-based payments credit	30	(1.2)	1.5
Depreciation of property, plant and equipment	14	0.3	0.6
Depreciation of right of use assets	15	1.4	1.7
Finance expense	11	13.2	6.1
Finance income	10	(2.1)	(1.8)
Revaluation of inventories to investment properties	9	(7.2)	(8.9)
Revaluation of investment property	16	1.2	–
Profit from a transaction with related party	6	–	1.7
Operating cash flows before movements in working capital		(31.2)	(87.5)
Decrease/(Increase) in trade and other receivables		33.3	(15.5)
(Increase)/Decrease in inventories		(45.0)	77.2
Increase/(Decrease) in trade and other payables		14.6	(6.6)
Cash generated by operations		(28.3)	(32.4)
Interest received		–	0.1
Interest paid		(1.9)	(3.7)
Income tax credit received		6.5	(3.7)
Net cash flow from operating activities		(23.7)	(39.7)
Cash and cash equivalents			
Cash and bank balances		157.2	137.2

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.

28. 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 £5.3m for the year ended 31 October 2021 (2020: £4.8m). Unpaid contributions amounted to £0.4m as at 31 October 2021 (2020: £0.4m).

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

29. 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	2021 £m	2020 £m
Financial assets		
Fair value through profit or loss		
Shared equity receivables	21.3	20.9
Shared ownership receivables	7.2	7.1
At amortised cost		
Cash and cash equivalents	157.2	137.2
Trade receivables – associate	–	31.3
Trade and other receivables	0.5	3.0
Secured mortgages	1.4	2.3
	187.6	201.8
Financial liabilities		
Other financial liabilities		
Trade and other payables	84.6	52.6
Land payables	30.8	36.9
Loans	200.0	198.6
	315.4	288.1

Capital risk management

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

The Group 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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

29. Financial risk management (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 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 through 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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

29. Financial risk management (continued)

The maturity of the financial liabilities of the Group at 31 October 2021 and 31 October 2020 are as follows:

	2021			
	Carrying value £m	Contractual cash flows £m	Within 1 year £m	1–5 years £m
Loans (net of borrowing costs)	200.0	214.0	214.0	-
Financial liabilities carrying no interest	115.4	115.4	107.4	8.0
Total	315.4	329.4	121.4	8.0

	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

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.

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

29. Financial risk management (continued)

At 31 October 2021, the shared equity receivables were valued at £21.3m (2020: £20.9m) and the shared ownership receivables were valued at £7.2m (2020: £7.1m).

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 year end.

Shared equity receivables

Assumptions	2021	2020
Discount rate	3.6%	3.5%
Timing of receipt	3 to 5 yrs	3 to 10 yrs
Fair value	15.1%	16.2 to 30.0%
	2021 Increase assumptions by 1%/1 year £m	2021 Decrease assumptions by 1%/1 year £m
Sensitivity-effect on value of other financial assets (less)/more		
Discount rate	(0.3)	0.3
Timing of receipt	(0.2)	0.2
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 year ended 31 October 2021 and the year ended 31 October 2020.

	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

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

29. Financial risk management (continued)

	2021
	Shared equity receivables £m
Opening balance	20.9
Additions	0.9
Disposals	(1.0)
Revaluation gains and (losses) recognised in the statement of comprehensive income	0.5
Closing balance	21.3

Shared ownership receivables

Assumptions	2021	2020
Discount rate	3.6%	3.5%
New build premium	5%	5%
Timing of receipt	7 yrs	7 yrs

The following tables present the changes in Level 3 instruments for the 12 month year ended 31 October 2021 and the 12 month year ended 31 October 2020:

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

	2021
	Shared ownership receivables £m
Opening balance	7.1
Additions	5.9
Disposals	(5.8)
Closing balance	7.2

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

30. Share-based payments

Equity-settled share-based payment plans

The Group operated share-based payment schemes as set out below:

Long Term Incentive Plan ('LTIP')

The Group's LTIP was open to key management at the discretion of the Board. Awards under the scheme were granted in the form of £nil-priced share options. LTIP awards 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.

During the year, prior to acquisition by Lone Star, management reviewed the outstanding performance conditions and confirmed that none of the remaining schemes would vest. As a result, the applicable charge on the remaining schemes has been reversed in FY21.

Savesave 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 were 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.

Following the acquisition by Lone Star, new shares were issued based on the number of options remaining at the point of acquisition. This resulted in an additional 814,369 new shares being issued.

Share Incentive Plan ('SIP')

The SIP allowed all employees to purchase partnership shares each month from pre-tax pay, which are then held in trust. These shares could 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. This scheme was closed during the financial year.

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.

Following the acquisition by Lone Star, new shares were issued based on the number of options remaining at the point of acquisition. This resulted in an additional 268,332 new shares being issued.

	2021 £m	2020 £m
Analysis of the income charge:		
Equity-settled share-based payments		
SAYE	–	0.4
LTIP	(1.2)	1.1
	(1.2)	1.5

McCarthy & Stone Ltd

Notes to the Consolidated Financial Statements (continued)

31. Business combinations

On 24 September 2021, Waverstone LLP, Waverstone Investments Holdings Limited and Waverstone Investments Limited were acquired in full by McCarthy & Stone Limited.

Under IFRS 3, business combinations are accounted for using the acquisition method, which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. A full purchase price allocation exercise was performed to establish the fair value, as measured by IFRS 13, of the net assets acquired in the business combination. The recognition criteria for intangible assets under IFRS 3 has been considered and all intangible assets identified have been recognised at their respective fair values. The residual excess of the total cost over the fair value of the net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce. Goodwill is not anticipated to be deductible for tax purposes.

The fair value of the net assets acquired was £2.1m. The total consideration paid was £2.3m, resulting in a £0.2m goodwill balance.

Fair value information

The fair value of the business combination can be analysed as follows:

	Total £m
Cash consideration paid	2.3
A summary of the fair values of the net assets acquired are as follows:	
Non-current assets	
Investment Property	4.8
Total non-current assets	4.8
Current assets	
Trade debtors and other payables	0.7
Cash and cash equivalent	1.2
Inventories	36.6
Total current assets	38.5
Total assets	43.3
Current liabilities	
Trade and other payables	–
Total current liabilities	–
Non-current liabilities	
Bank loan	(8.5)
Long-term borrowings	(32.7)
Total non-current liabilities	(41.2)
Total liabilities	(41.2)
Net Assets acquired	2.1
Goodwill	0.2
Total value of acquisition	2.3

McCarthy & Stone Ltd

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	2021 % of shares owned	2020 % 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	1	05663330	Property investment	100	100
McCarthy & Stone (Home Equity Interests) Limited	1	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	1	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, 6	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	100
McCarthy & Stone (Shared Ownership) Limited	1	12330830	Property investment	100	100
Waverstone LLP		OC429156	Property investment	100	49
Waverstone Investments Holdings Limited	1	12245754	Property investment holding	100	–
Waverstone Investments Limited	1	09817139	Property investment holding	100	–
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 2021

2 These subsidiaries are considered dormant for the year ended 31 October 2021 and have taken advantage of the section 394A 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

6 These subsidiaries will receive a parent company guarantee under section 479C of the Companies Act 2006 for the year ended 31 October 2021

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

McCarthy & Stone Ltd

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 received intercompany funding from its parent company, Mastiff BidCo Limited by way of a £200m loan, which is to be repayable on demand.

The outstanding balance at the year-end is set out below:

	2021 £m	2020 £m
Borrowings		
Intercompany loan	200.0	–
	200.0	–

The Group had no trading transactions with related parties during the year ended 31 October 2021 that would materially affect the performance of the Group. Intra-group transactions between the Company and the fully consolidated subsidiaries or between fully consolidated subsidiaries are eliminated on consolidation.

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 10 (2020: 16). 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'.

	2021 £m	2020 £m
Short-term employee benefits	3.7	3.8
Social security costs	0.5	0.5
Share-based payments	–	0.7
Pension contributions	0.2	0.4
	4.4	5.4
Aggregate emoluments of the highest paid director	1.2	0.8

34. Events after the balance sheet date

On 20 December 2021, the Group received notification from Brigid Investments Ltd that it had exercised the option under clause 6.2.2 of the Offtake Agreement to increase its commitment to purchase qualifying rental properties from the Group to the maximum initial contractual commitment. This provides the Group with increased certainty over the availability of funding to support its emerging rental strategy.

McCarthy & Stone Ltd

Company Statement of Financial Position

As at 31 October 2021

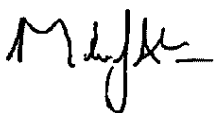
	Notes	2021 £m	2020 £m
Assets			
Non-current assets			
Investments in subsidiaries	4	439.4	439.4
Total non-current assets		439.4	439.4
Current assets			
Trade and other receivables	5	15.2	16.4
Total current assets		15.2	16.4
Total assets		454.6	455.8
Equity and liabilities			
Capital and reserves			
Share capital	7	43.1	43.0
Share premium		102.7	101.6
Retained earnings		308.8	308.9
Total equity		454.6	453.5
Current liabilities			
Trade and other payables	6	–	2.3
Total current liabilities		–	2.3
Total liabilities		–	2.3
Total equity and liabilities		454.6	455.8

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 profit of £2.3m (2020: loss of £1.5m).

These financial statements of McCarthy & Stone Limited (formerly McCarthy & Stone plc) (06622199) were approved by the Board on 16 February 2022 and signed on its behalf by:


John Tonkiss
Chief Executive Officer


Martin Abell
Chief Financial Officer

McCarthy & Stone Ltd

Company Statement of Changes in Equity

For the year ended 31 October 2021

	Share capital £m	Share premium £m	Retained earnings £m	Total £m
Balance at 1 November 2019	43.0	101.6	308.9	453.5
Loss for the year	–	–	(1.5)	(1.5)
Total comprehensive income 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
Profit for the year	–	–	2.3	2.3
Total comprehensive loss for the year	–	–	2.3	2.3
Transactions with owners of the Company:				
Issue of ordinary shares	0.1	1.1	(1.2)	–
Share-based payments	–	–	(1.2)	(1.2)
Balance at 31 October 2021	43.1	102.7	308.8	454.6

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

McCarthy & Stone Ltd

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 profit of £2.3m (2020: loss of £1.5m).

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 and are reviewed if there is an indication that an asset may be impaired.

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.

McCarthy & Stone Ltd

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 (2020: no employees). A management fee relating to time incurred by Directors for Group activities is recharged to McCarthy & Stone plc.

4. Investments in subsidiaries

	2021 £m	2020 £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.

McCarthy & Stone Ltd

Notes to the Company Financial Statements (continued)

5. Trade and other receivables

	2021 £m	2020 £m
Trade and other receivables due within one year:		
<i>Amounts owed by subsidiary undertakings</i>	15.2	16.4
At 31 October 2021	15.2	16.4

Amounts repayable from McCarthy & Stone Retirement Lifestyles Limited are repayable on demand and carry interest of 2.2% (2020: 2.2%) at the year end date.

6. Trade and other payables

	2021 £m	2020 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	–	1.5
Other creditors and deferred income	–	0.8
At 31 October 2021	–	2.3

Amounts payable to McCarthy & Stone (Developments) Limited are repayable on demand and carry interest of 2.2% (2020: 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.

	2021 £m	2020 £m
Allotted and issued ordinary shares		
8p each fully paid: 538,849,621 ordinary shares (2020: 537,766,920)	43.1	43.0

Dividends on equity shares

No interim dividend was paid during the year (2020: £nil) and no final dividend has been proposed by the Board (2020: none).

McCarthy & Stone Ltd

Notes to the Company Financial Statements (continued)

8. Financial instruments

The Company has the following financial instruments:

	2021 £m	2020 £m
Financial assets		
At amortised cost:		
Trade and other receivables	15.2	16.4
Cash and bank balances	–	–
At 31 October 2021	15.2	16.4
Financial liabilities		
At amortised cost:		
Long term borrowings	-	2.3
At 31 October 2021	-	2.3

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 33 to the consolidated financial statements.