# McCarthy & Stone (Home Equity Interests) Limited

# ANNUAL REPORT & FINANCIAL STATEMENTS

**For the year ended 31 August 2017**



**Company registration number: 05984851**

# CONTENTS

# DIRECTORS AND ADVISORS

For the year ended 31 August 2017

**Directors**

C Fenton
N W Maddock (resigned 6 January 2017)
P D Hole (appointed 1 September 2016)
R C Baker (appointed 6 January 2017)

**Company Secretary**

P D Hole

**Registered Office**

4th Floor
100 Holdenhurst Road
Bournemouth
Dorset
BH8 8AQ

**Independent Auditor**

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ

**Bankers**

HSBC Bank plc
70 Pall Mall
London
SW1Y 5EZ

# DIRECTORS' REPORT

For the year ended 31 August 2017

The Directors of McCarthy & Stone (Home Equity Interests) Limited (the Company) (registered number 05984851) present their Annual Report and audited financial statements for the year ended 31 August 2017. This Directors' Report has been prepared in accordance with the provisions applicable to companies entitled under the small companies' exemption. Accordingly, the Company is not required to include a Strategic Report.

**Ownership**

The Company is a wholly-owned subsidiary of McCarthy & Stone Retirement Lifestyles Limited. The ultimate parent company McCarthy & Stone plc produces consolidated financial statements and listed on the London Stock Exchange in November 2015. McCarthy & Stone plc and its subsidiaries are referred to as the Group.

There has been no change to the Company's issued share capital during the year.

**Principal activity**

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

**Results**

The profit after taxation for the year amounted to £692,873 (2016: £572,073).
No dividends have been proposed or paid either in the current year or prior year.

**Directors and Directors' interests**

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

| Name | Date of appointment | Date of resignation |
|---|---|---|
| Clive Fenton | 17 February 2014 | - |
| Nick Maddock | 31 August 2012 | 6 January 2017 |
| Patrick Hole | 1 September 2016 | - |
| Rowan Baker | 6 January 2017 | - |

No Director has any interest in the shares of the Company. There have been no changes in the Directors' interests in the share capital of the Company since 31 August 2017.

**Directors' insurance**

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

**Directors' conflicts of interest**

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where he has, or could have a direct or indirect interest that conflicts with the interests of the Company. The Company's Articles of Association contains provisions for dealing with conflicts or potential conflicts. The procedures for dealing with conflicts of interest have operated effectively during the year under review and the Directors have concluded that there were no conflicts of interest during the year.

**Directors' indemnities**

As permitted by the Company's Articles of Association, qualifying third party indemnity provisions for the benefit of its Directors have been in place throughout the year under which the Company has

# DIRECTORS' REPORT (CONTINUED)

For the year ended 31 August 2017

**Directors' indemnities (continued)**

agreed to indemnify the Directors, to the extent permitted by law and by the Articles, against all liability arising in respect of any act or omission in the course of performing their duties.

**Future developments**

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

**Employees**

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

**Post balance sheet events**

Post balance sheet events have been discussed in note 11.

**Going concern**

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

**Financial risk management**

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

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

**Statement of disclosure of information to the independent auditor**

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

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

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

Deloitte were reappointed as auditor at the Annual General Meeting on 24 January 2018.

# DIRECTORS' REPORT (CONTINUED)

For the year ended 31 August 2017

**Approval of reduced disclosures**

The Company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. The Company's shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

The Company also intend to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the Company by McCarthy & Stone Retirement Lifestyles Limited, as the immediate parent of the entity. They should be served by no later than 31 August 2018.

Approved by the Board and signed on its behalf by:

R Baker
Director

9 February 2018

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

# DIRECTORS' RESPONSIBILITIES STATEMENT

For the year ended 31 August 2017

**Directors' responsibilities statement in respect of the financial statements**

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

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

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

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

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

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

For the year ended 31 August 2017

**Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of McCarthy & Stone (Home Equity Interests) Limited (the 'Company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

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

For the year ended 31 August 2017

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

For the year ended 31 August 2017

**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.

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

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

**Matters on which we are required to report by exception**
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Gregory Culshaw ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

9 February 2018

# PROFIT AND LOSS ACCOUNT

For the year ended 31 August 2017

| | Notes | 2017<br>£ | 2016<br>£ |
|---|---|---|---|
| Administrative expenses | | (1,200) | (1,200) |
| Other operating income | 3 | 1,024,958 | 1,093,176 |
| **Operating profit** | 3 | 1,023,758 | 1,091,976 |
| Interest payable and similar expenses | 4 | (300,452) | (484,442) |
| **Profit before taxation** | | 723,306 | 607,534 |
| Taxation charge | 5 | (30,433) | (35,461) |
| **Profit for the financial year** | | 692,873 | 572,073 |

All of the figures above relate to continuing operations.

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

The notes on pages 13 to 18 form part of these financial statements.

# BALANCE SHEET

As at 31 August 2017

| | | Notes | 2017 £ | 2016 £ |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Other debtors: | amounts due after one year | 6 | **5,816,789** | **6,269,725** |
| **Current assets** | | | | |
| Other debtors: | amounts due within one year | 6 | **3,003,523** | **1,880,845** |
| | | | **8,820,312** | **8,150,570** |
| **Other creditors: amounts falling due within one year** | | 7 | **(456,811)** | **(479,942)** |
| **Net assets** | | | **8,363,501** | **7,670,628** |
| **Capital and reserves** | | | | |
| Called up share capital | | 8 | **8,200,001** | **8,200,001** |
| Profit and loss account | | | **163,500** | **(529,373)** |
| **Shareholders' funds** | | | **8,363,501** | **7,670,628** |

The notes on pages 13 to 18 form part of these financial statements.

The financial statements were authorised for issue by the Board of Directors on 9 February 2018 and were signed on its behalf:

R Baker
Director

Company registration number: 05984851

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 August 2017

| | *Notes* | Share capital £ | Profit and loss account £ | Total £ |
|---|---|---|---|---|
| **Balance as at 1 September 2015** | *8* | **8,200,001** | **(1,101,446)** | **7,098,555** |
| Profit for the year | | - | 572,073 | 572,073 |
| **Total comprehensive income for the year** | | - | **572,073** | **572,073** |
| **Balance as at 31 August 2016** | *8* | **8,200,001** | **(529,373)** | **7,670,628** |
| Profit for the year | | - | 692,873 | 692,873 |
| **Total comprehensive income for the year** | | - | **692,873** | **692,873** |
| **Balance as at 31 August 2017** | *8* | **8,200,001** | **163,500** | **8,363,501** |

The notes on pages 13 to 18 form part of these financial statements.

**1. Accounting policies**

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

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

**Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

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

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

**Going concern**

The financial statements have been prepared on a going concern basis. For further details please refer to the Directors' Report on pages 3 to 5.

**Other operating income**

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

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

**Corporation tax**

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

**Financial assets**

Financial assets are classified as 'fair value through profit and loss' ('FVTPL') when the financial asset is either held for trading or is designated as at FVTPL.

**1. Accounting policies (continued)**

**Shared equity receivables**

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

The value of the shared equity receivables changes in response to an underlying variable and therefore is accounted for as a derivative. The shared equity receivables are initially recognised at fair value plus transaction costs that are directly attributable to the receivable. The fair value of future anticipated cash receipts takes into account the Directors' view of future house price movements and the expected timing of receipts.

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

**Related party transactions**

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

**2. Critical accounting judgements and estimation uncertainty**

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

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

**Critical judgements in applying the Group's accounting policies**

No critical judgments have been made in the process of applying the Group's accounting policies 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 major sources of estimation uncertainty at the end of the reporting period, that 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 year.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2017

**2. Critical accounting judgements and estimation uncertainty (continued)**

**Assumptions and other sources of estimation uncertainty (continued)**

***Fair value of shared equity receivables***

Shared equity receivables are recognised at the fair value of future anticipated cash receipts that takes into account the Directors' view of an appropriate discount rate, a new build premium, future house price movements and the expected timing of receipts. Shared equity receivables are reviewed at each reporting date using a variety of estimates that anticipate future cash flows from the assets. Further information regarding the assumptions and sensitivity effects of a reasonable possible change can be seen within the McCarthy & Stone plc Annual Report on page 142.

**3. Operating profit**

**a. Employees**

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

**b. Auditor's remuneration**

Remuneration of the auditor is settled by McCarthy & Stone (Developments) Limited on behalf of all companies within the McCarthy & Stone plc Group, and was not recharged in the prior year. The total Group audit fee was £0.2m (2016: £0.2m).

**c. Directors' remuneration**

There was no Directors' remuneration during the year (2016: £nil). The Directors are paid by other Group companies and the allocation to this Company is £nil (2016: £nil).

**d. Other operating income**

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

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Risk of ownership premium | 783,088 | 892,527 |
| Profit from realisation of shared equity receivables | 241,870 | 200,649 |
| **Other operating income** | **1,024,958** | **1,093,176** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2017

## 4. Interest payable and similar expenses

| | 2017 £ | 2016 £ |
|---|---|---|
| Interest payable to fellow Group undertakings | 626,470 | 714,021 |
| Change in fair value on long-term receivable | (326,018) | (229,579) |
| **Interest payable and similar expenses** | **300,452** | **484,442** |

Interest is payable on an initial loan balance provided by the parent company at a rate of 8% per annum (2016: 8%).

## 5. Taxation on profit

### a. Analysis of tax charge for the year

| | 2017 £ | 2016 £ |
|---|---|---|
| *Current tax:* | | |
| UK corporation tax on profit for the year | 30,433 | 35,461 |
| **Tax on profit** | **30,433** | **35,461** |

### b. Factors affecting tax charge for the current year

| | 2017 £ | 2016 £ |
|---|---|---|
| Profit before tax | 723,306 | 607,534 |
| Anticipated tax charge based on profit before tax at 19.58% (2016: 20.00%) | 141,623 | 121,507 |
| *Effects of:* | | |
| Income not taxable | (111,190) | (86,046) |
| **Tax charge for the year** | **30,433** | **35,461** |

The effective tax rate for the year was 19.58% following a reduction in the tax rate from 20% to 19% on 1 April 2017.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2017

## 6. Other debtors

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Shared equity receivables | 5,816,789 | 6,269,725 |
| **Amounts due after one year** | **5,816,789** | **6,269,725** |
| Amounts owed by Group undertakings | 3,003,523 | 1,880,845 |
| **Amounts due within one year** | **3,003,523** | **1,880,845** |

Balances owed by Group undertakings are repayable on demand.

## 7. Other creditors: amounts falling due within one year

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Amounts owed to Group undertakings | 456,811 | 479,942 |

Balances owed to Group undertakings are repayable on demand.

## 8. Share capital

| | Authorised<br>No. | Authorised<br>£ | Allotted, called up & fully paid<br>No. | Allotted, called up & fully paid<br>£ |
|---|---|---|---|---|
| **Equity share capital**<br>Ordinary shares of £1 each | | | | |
| As at 31 August 2016 & 31 August 2017 | 8,301,000 | 8,301,000 | 8,200,001 | 8,200,001 |

Each ordinary share carries equal voting, dividend and capital repayment rights.

The profit and loss account represents cumulative profits or losses net of other adjustments.

## 9. Related parties

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

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 August 2017

**10. Ultimate parent undertaking and controlling party**

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

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

The financial statements of McCarthy & Stone plc can be obtained from their registered office:

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

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

**11. Post balance sheet events**

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