McCarthy & Stone

Britain's leading retirement housebuilder

Annual Report and Accounts 2014

McCarthy & Stone is Britain's leading retirement housebuilder with a c.70% share of the owner-occupied market.

We buy land and then build, sell and manage high quality retirement developments. We have sold c.50,000 apartments across more than 1,000 locations since 1977.

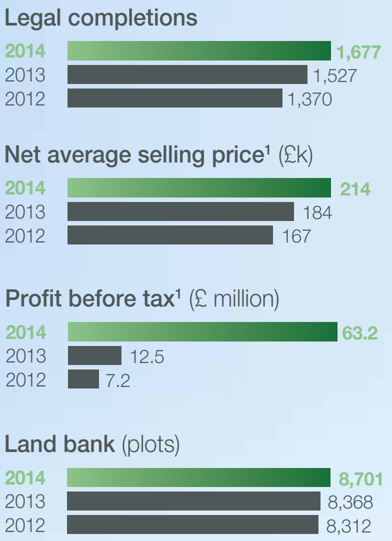
Claridge House, Littlehampton

Front cover: Horton Mill Court, Droitwich

Our Performance
Highlights

- **Strong growth with new management,** generating profit before tax[1] of £63.2 million
- **Growth in sales volumes,** capitalising on increasing market demand for specialist retirement housing
- **Increased operational efficiency,** improved cost discipline and greater regionalisation of the business, including the launch of a new North London office, our first new region for 14 years

- **Increased investment in land and build:**
  - 74 new development sites acquired since September 2013
  - Attractive and profitable land bank – 8,701 plots, over five years' supply
  - Doubling the size of the business to more than 3,000 units per annum over the medium term
  - Capturing a wider share of the growing retiree market
- **Robust platform for sustained growth:**
  - New leadership team with considerable sector experience
  - Strong balance sheet and cash generation supporting £2 billion investment in land and build over the next four years
  - All planning consents in place to deliver sales to 2015/16
  - All land under control to deliver sales to 2016/17
  - Improving margins and returns on capital



1 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used

Hilltree Court, Giffnock

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Mr and Mrs Malcolm, homeowners

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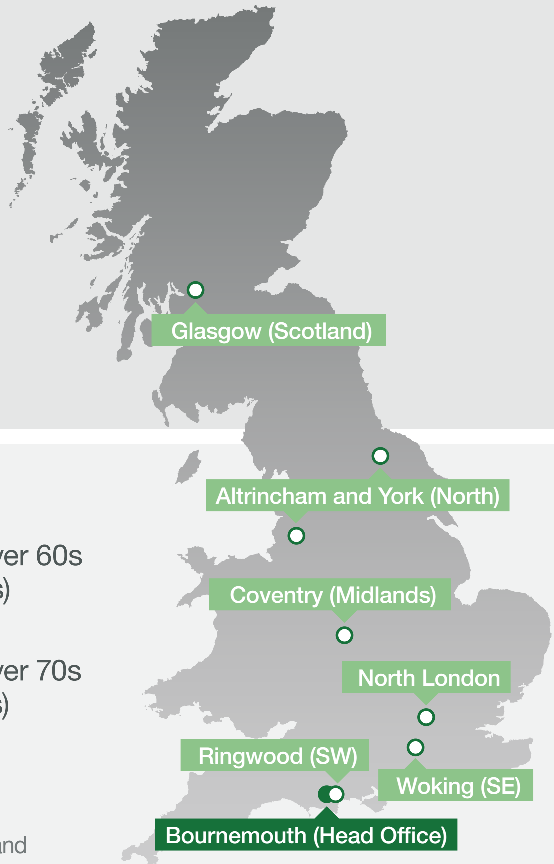
Britain's leading retirement housebuilder

- c.70% share of the owner-occupied market
- Proven track record of buying land, delivering planning consents and then building, selling and managing high-quality retirement developments
- Sold c.50,000 apartments in more than 1,000 locations since 1977
- Consistent 'Five Star' top rating in the Home Builders Federation (HBF) New Home Customer Satisfaction awards
- 1,677 new homes sold in 2013/14
- Six regions with close links to local communities
- Separate management services business providing property management, security, care and support to our customers




Mandeville Court, Potters Bar

Two core products:

- Retirement Living, exclusively for the over 60s (66% of completions)
- Assisted Living, exclusively for the over 70s (34% of completions)

1,677
New homes sold in 2013/14

8,701
Plots, owned and under control, more than five years' supply

£2 billion
Planned investment in land and build over the next four years

Core services

Property development

Property development is at the heart of our business. We pioneered the concept that older homeowners want and deserve attractive residential property that is designed and built with their needs in mind during their retirement years. By acquiring appropriate and well-located sites and then creating and selling high-quality developments, we have become Britain's leading retirement housebuilder.

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Management, care and support services

As well as building and selling owner-occupied retirement developments, we manage all aspects of property maintenance, care and security so that our customers don't have to worry. Our House Managers and Estate Management teams look after our developments and the grounds that surround them, and our on-site team of trained and qualified care workers provide a range of flexible care and support services in all new Assisted Living developments.

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51%

The number of people aged 65 and over is set to grow from 11.4 million in 2014 to 17.2 million in 2033[1]

£388 million

Revenue[2], 25% up on 2013/14

5★

Housebuilder in HBF New Home Customer Satisfaction awards

Top right:
Homeowner's apartment, Queen Elizabeth Court, Kirkby Lonsdale

Bottom left:
Dial Stone Court, Weybridge

"I believe that McCarthy & Stone is in a unique position as the only housebuilder capable of meeting the nationwide need for high-quality, specialist housing for the growing number of older people who are looking to move to homes more suited to their lifestyle and needs in retirement."

Clive Fenton, CEO See page 14

Core products

Retirement Living

- Independent living in owner-occupied apartments
- Exclusively for those aged 60 and above
- One and two bedroom apartments
- House Manager and emergency call line
- Built to Lifetime Homes standards
- Shared homeowners' lounge and guest suite
- Lifts to all floors
- Secure camera entry system
- Landscaped gardens

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Assisted Living

- As Retirement Living but exclusively for those aged 70 and above
- Flexible care and support packages available
- 24-hour staff presence
- Domestic assistance
- Wheelchair accessible throughout
- Table-service restaurant with on-site kitchen
- Care Quality Commission registered

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1 Population projections by the Office for National Statistics (2012 based)
2 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used

Strong growth with new management

Results

I am pleased to report a strong set of results for the year ended 31 August 2014, the first under our new leadership team. McCarthy & Stone capitalised on increasing market demand for specialist retirement housing to deliver its best financial performance since the housing market recession and establish a strong pipeline of land and build as a basis for sustained growth over the medium term.

The business delivered legal completions of 1,677 homes, an increase of 10% over the prior year (2013: 1,527). Profit before tax[1] for the full year increased to £63.2 million (2013: £12.5 million).

The Group's net average selling price[1] increased by 16% to £214k (2013: £184k), substantially reflecting a more disciplined approach to discounts and incentives, as well as the improved quality of the developments McCarthy & Stone is now bringing to market. As a result, full year revenues[1] increased by 25% over the previous year to reach £387.8 million (2013: £310.8 million). Visitor levels to our developments remained high throughout the year.

Operating margin[1] increased to 19% (2013: 15%) producing an operating profit[1] of £75.1 million (2013: £45.2 million). The Group has benefited from stricter control of overheads, a strong focus on build costs, reduced debt levels and the new capital structure put in place in August 2013. It is also supported by a continuing strong balance sheet and robust financial position, with £474.4 million of net assets at 31 August 2014 (2013: £431.4 million) and £48.9 million of net debt (2013: £63.1 million), giving gearing[1] of 10% (2013: 15%).

Outlook

McCarthy & Stone continues to invest significantly in its land bank to support future growth and capture a wider share of the growing retirement market. The Group acquired 74 new sites during the year (2013: 48 sites) at locations across Britain, equating to c.2,500 new plots (2013: 1,776). The Group now has sufficient properties in stock, under build or with detailed planning consent, to deliver anticipated completions and profit growth for the next two years and expects to open c.60 new sales outlets this year. In total, the land bank owned and under control stood at 8,701 plots at 31 August 2014. This represents 5.2 years' supply.

McCarthy & Stone remains exclusively focused on developing its position as Britain's leading retirement housebuilder. Demographics remain strongly in favour of specialist retirement development, with the number of people aged over 85 expected to increase by 130% and the number of people aged 65 and older expected to increase by over 50% by 2033[2]. One in four over 60s are interested in retirement living, yet only 1% of older owner-occupiers currently live in specialist retirement housing[3]. This gives the Group confidence that there is a very large addressable market for its products and the Group continues to innovate to sustain its appeal to the broad retirement age group.

The housing needs of this age group must now become a priority for Government. Most household growth over the next 20 years will involve older people and policy makers need to look beyond the first time buyer. Retirement housing improves well-being, releases under-occupied family-sized homes and is highly sustainable. It must become an essential part of overall UK housing output. We are encouraged to see Government begin to look seriously at encouraging retirement housing and await with interest the publication of its research on developing new policy options in this area over coming months.

Given the substantial demographic opportunity open to McCarthy & Stone in retirement housing and the quality of the current land pipeline controlled by the Group, offering potential for profitable growth over the medium term, the Board has raised McCarthy & Stone's four-year investment target for land and build to £2 billion from the £1.5 billion announced in September 2013. In parallel, the Group continues to drive operational improvements and invest significantly in its land bank to support future growth, improve return on capital and capture a wider share of the growing retiree market.

The Group increased its order book of forward sales at the end of the financial year and the early weeks of trading have been encouraging, with our weekly net reservation rate c.20% ahead of last year for the first nine weeks. Total forward sales, including legal completions in the year to date, stood at c.£160 million on 31 October 2014 (2013: c.£130 million).

Board

There have been significant changes to the Board during the year. My arrival as Chairman in September 2013, having previously been Chairman and Chief Executive at Persimmon plc, was followed by Clive Fenton's appointment as CEO alongside the existing CFO, Nick Maddock. Clive brings with him over 30 years' experience in the industry as Group Executive Director of Barratt Developments plc and then CEO of Mount Anvil. In addition, John Tonkiss (former Chief Operating Officer at Unite Group plc) joined the Executive Leadership Team, alongside the Land & Planning Director, Gary Day, and the Operations Director, Mike Jennings, who between them have more than 40 years' experience of retirement housing at McCarthy & Stone.

In addition, the Group appointed two experienced Non-Executive Directors during the year: Mike Parsons (founder and former CEO of Barchester Healthcare) and Frank Nelson (former Finance Director of Galliford Try plc).

The excellent results for 2013/14 is a testament to the way this new team has started to take the business forward as well as a reflection of the hard work of our site teams, sales force, property management teams and the rest of our employees. I would like to pass on my and the Board's thanks for the dedication and considerable efforts of our employees this year. Their commitment and the strong fundamentals of the specialist retirement market ensure that McCarthy & Stone is well-positioned for the future and I remain confident of further progress in 2014/15 and beyond.

John White
Group Chairman
31 October 2014

Top:
Mandeville Court, Potters Bar

Left:
Shared homeowners' lounge, Haven Court, Hythe

1 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used
2 Population projections by the Office for National Statistics (2012 based)
3 Demos, September 2013

Positive market fundamentals

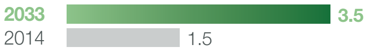
While there is a growing need for all types of housing in the UK, there is a significant nationwide need for more retirement accommodation, presenting a unique opportunity for specialist housebuilders operating in this sector.

The HBF estimates that in 2014 the UK is one million homes short of what is needed[1].

Projected population growth of over 65s (million)

The number of people aged 65 and over in the UK is set to grow from 11.4 million in 2014 to 17.2 million in 2033

Projected population growth of over 85s (million)



The number of people aged 85 and over is set to grow from 1.5 million in 2014 to 3.5 million in 2033

58%

Of property owners aged 60 and over are interested in moving home but many feel restricted by a lack of suitable alternative housing

£1.2 trillion

Held in housing equity in the 60+ market

£400 billion

Tied up in homes of those who want to downsize

3.5 million

People interested in buying a retirement property

Owner-occupied retirement units and developments in the UK, all developers[4]

Calendar year	Units built	Developments built
2005	2,504	62
2006	3,862	86
2007	4,189	104
2008	3,949	104
2009	2,058	52
2010	925	28
2011	1,473	44
2012	1,876	55
2013	2,465	60

The number of people aged 65 and over in the UK is set to grow from 11.4 million in 2014 to 17.2 million in 2033, a rise of 51%, while the number of people aged 85 and over is set to grow from just over 1.5 million in 2014 to almost 3.5 million in 2033, a rise of 130%[2].

However, to date, the market has supplied just c.110,000 retirement properties for ownership[3]. In 2013, just 2,465 private retirement units were built[4], compared to a total of 114,440 new housing completions in England[5].

In addition to an undersupply of retirement housing, we know that demand is rising. 58% of property owners aged 60 and over are interested in moving home but many feel restricted by a lack of suitable alternative housing. One quarter express particular interest in buying a retirement property – a total of 3.5 million people[6].

As well as a willingness to move, older property owners have the capital to invest in a retirement apartment. Those aged 60 and over hold £1.2 trillion in housing equity, and £400 billion of this is tied up in homes of those who want to downsize[6].

This age group is also the one age group where rates of property ownership have risen in recent years. Census data shows that levels of property ownership fell for all other age groups between 2001 and 2011 because of rising house prices and supply shortages. For those aged between 65 and 74, rates of ownership rose from 73% in 2001 to 76% in 2011.

While there is a growing demand and undersupply in the retirement housing market, barriers to entry for new providers remain high. The specialised nature of the product, its unique design, the provision of associated care and support services and the targeted customer base have together restricted new entrants, with the result that McCarthy & Stone remains the only national housebuilder developing retirement housing in significant volumes. In addition, local authorities have not historically planned proactively for this form of housing, further limiting opportunities for new entrants in this part of the housing market.

Growing Government support

These positive demographics are supported by growing Government backing for retirement housing. An Inter-Ministerial Working Group was formed in July 2013 to consider the challenges society faces in housing an ageing population, and new National Planning Practice Guidance, adopted by the Department for Communities and Local Government (DCLG) in March 2014, recognises that the need to provide housing for older people has become 'critical'[7]. DCLG has subsequently commissioned high-level research aimed at developing policy options to increase the supply of suitable housing for older people, including specialist retirement housing.

The updated Scottish Planning Policy, published in June 2014, made its first reference to older people's housing. It now requires local councils to plan for this form of accommodation, allocate sites and support future development[8]. Similar policies appear in the draft alterations to the Greater London Authority's London Plan, published in January 2014, which noted that the ability of older Londoners to move into local specialist retirement housing had been constrained through inadequate supply and that, over the period 2015 to 2025, older Londoners alone may require 3,600 to 4,200 new specialist retirement units per year, including 2,600 private units[9].

Together, these new policies show how Government at all levels is acknowledging and responding to the housing needs of the UK's rapidly ageing population.

Conclusion

These factors provide continued confidence in the future growth of the retirement housing sector. Strong demographics, rising demand and growing Government support place McCarthy & Stone in a unique position to increase volumes and grow its business profitably over future years.

Above:
Saxon Grange,
Chipping Campden

1 Housing shortage hits one million, HBF press release (March 2014)
2 Population projections by the Office for National Statistics (2012 based)
3 Figure based on the 105,000 private retirement units highlighted by Professor Michael Ball in Housing markets and independence in old age: expanding the opportunities (2011) plus two years of additional units built since then
4 UK-wide figures supplied by Elderly Accommodation Counsel. Figures are for the full calendar year, not McCarthy & Stone's financial year. Numbers include leasehold, freehold and Scottish equivalents
5 House building in England: April to June 2014, Department for Communities and Local Government
6 Top of the Ladder, Demos (2013)
7 National Planning Practice Guidance, Department for Communities and Local Government (2014)
8 Scottish Planning Policy, paragraphs 132 to 133 (2014)
9 Draft Further Alterations to the London Plan, page 100 (January 2014)

Targeting the specialised retirement market

While our business model has similarities to traditional housebuilding, including buying land, obtaining planning consents, designing buildings and selling homes, there are a number of key factors that set us apart.

A distinct and growing customer base

Exceptional lifestyle and societal benefits

Homes specifically designed around the needs of older customers

A specialised management services offering

A tailored approach to land and planning

A high-quality, premium product

A distinct and growing customer base

- Target customer age: over 60s in Retirement Living, over 70s in Assisted Living
- 54% single women, 16% single men, 30% couples
- Older owner-occupiers who are keen to downsize into attractive and secure housing with community benefits
- Those who wish to maintain their independence with support on-hand if and when required
- Addressing undersupply of homes dedicated to the needs of older customers

Homes specifically designed around the needs of older customers

- Higher density than traditional housebuilding
- Developments built to Lifetime Homes standards or above, for lasting quality
- Solely apartments with an average of 41 units per development
- Lower parking ratios due to lower car ownership, given the average age of our homeowners
- Ongoing innovation with apartment types and designs to address the changing needs and aspirations of our customers

A tailored approach to land and planning

- Our sites are within towns and cities and are typically 0.5 to 2.0 acres in size
- Sites are centrally located, close to amenities with level access and good public transport links
- We face less competition for our sites from traditional housebuilders, who tend to be interested in larger, usually greenfield, locations
- Limited on-site affordable housing requirements and mitigated impact of Section 106 and Community Infrastructure Levy payments
- Experienced and specialist in-house planning team
- Optimisation of development density through reduced on-site parking and amenity space requirements

A high-quality, premium product

- High-quality product which captures a significant new-build premium
- Homeowners buy their apartment plus access to shared areas, management and support services, delivering unique lifestyle benefits
- Priced to attract older people wishing to downsize and release equity

A specialised management services offering

- McCarthy & Stone Management Services Limited (MSMS) delivers management services in new Retirement Living developments
- A flexible personal care and support service in Assisted Living developments is provided by YourLife Management Services Limited, a subsidiary of MSMS, and is 50/50 owned in partnership with Somerset Care Group, a large and experienced not-for-profit care provider

Exceptional lifestyle and societal benefits

- Significant health and well-being benefits for homeowners, as well as increased companionship and sense of security
- 64% of our homeowners say their well-being improves after moving, helping to reduce adult social care and public health costs
- Release of much-needed and under-occupied family-sized housing back onto local markets, helping to address the wider housing shortage
- ‘Five Star’ top rating in the HBF New Home Customer Satisfaction awards in March 2014, the only housebuilder to have top marks since the awards were established in 2005

Shared homeowners' lounge,
Cartwright Court, Malvern

Increased investment to meet the needs of our ageing population

Market opportunity

I am delighted to have joined McCarthy & Stone as Chief Executive this year. It is clear that the Group has a very substantial demographic opportunity open to it, with the financial strength, the pipeline of land and the operational capability to capitalise on this growing market.

McCarthy & Stone stands alone among the national housebuilders as the only one that focuses on the retirement market. During almost four decades as the retirement market leader the Group has formulated a tailored approach to site acquisition, obtaining planning consents and the design of developments that mainstream housebuilders have been unable to replicate. The Group also manages new developments to the highest standards through our management services offering, ensuring that our customers receive the highest standards of ongoing support after purchasing their new homes.

This gives us a unique position as the only housebuilder capable of meeting the nationwide need for high-quality, specialist housing for the growing number of older people who are looking to move to homes more suited to their lifestyle and needs in retirement.

Market conditions

The housebuilding market in the UK has sustained further improvement during 2014 as mortgage and transaction volumes have increased and steady house price inflation has again become a feature in most regional markets.

Although Help to Buy has had a dramatic impact on the mainstream housebuilders, it does not directly benefit McCarthy & Stone, as few of our customers require mortgages. However, improving market liquidity has provided a benevolent backdrop to our selling activities during the year, notwithstanding the introduction of some land and build cost inflationary pressures.

Growth strategy

It is against this attractive backdrop that the Group has set an ambition to create an efficient and scalable business capable of doubling in size to deliver more than 3,000 units per annum. We have announced that we are increasing our proposed investment in land and build to £2 billion over the next four years (2013: £1.5 billion). This investment will enable us to deliver around 12,000 new homes across more than 300 different locations nationwide and drive top-line growth in the business.

Our differentiated land requirements mean that we face less competition from traditional housebuilders. In addition, growing support for our product and recognition of the many social benefits it provides, coupled with our specialised approach to planning, enables us to benefit from limited on-site affordable housing requirements and to mitigate Section 106 obligations and Community Infrastructure Levy payments. This provides us with confidence that we can increase our acquisition of new land in attractive locations above the level of 74 new sites acquired in the year to 31 August 2014 (2013: 48). We expect to open c.60 new sales outlets this year and over the medium term to develop and sell our land bank of 8,701 plots.

Investment will primarily be targeted on our two established products: Retirement Living, which offers security and companionship in high-quality apartments for the over 60s; and Assisted Living, which is designed for the over 70s and offers a retirement apartment with additional features, including on-site dining, flexible care and support.

In addition, we will see in 2015 the opening of our first Ortus Homes developments. Ortus Homes presents an exciting opportunity for the future, exclusively for the over 55s and those in the early stages of retirement who are seeking to downsize for their leisure years. It is with great excitement that we are currently constructing Ortus Homes developments at Solihull and Swanage, and the Group has a further 20 sites in its pipeline for the Ortus product. We expect Ortus Homes will help us to capture a wider share of the active retiree market for whom the traditional concept of retirement housing has not been appropriate.

We are pursuing an increasing regionalisation of our business to support our investment programme and in July we were able to announce the opening of our first new regional office in 14 years, dedicated to the North London market and the counties of Buckinghamshire, Bedfordshire, Hertfordshire and Essex. This will enable us to respond better to the local market and capitalise on the significant growth potential in this region. We continue to review other areas where regional expansion will facilitate accelerated growth.

Operational efficiency and cost discipline

During the year, we completed an organisational review and implemented a number of initiatives to drive operational improvements and support progress in profit and capital returns.

A key focus of these improvements is the acceleration of the capital cycle through improved sales processes and reduced workflow times. We have set in motion a number of workstreams to improve the way the Group markets and sells to our customers. In addition, we are placing considerable focus on the development process from land exchange to build start. It is clear that there is scope to reduce this period significantly, delivering substantial benefit for asset turn and improved capital efficiency.

Alongside the development of our business processes, we remain focused on strong financial discipline around the pricing of our product, control of our cost base and our procurement capability. During the year we have improved our financial control environment by successfully implementing a new IT system to support the finance, procurement and construction functions, which is now being used across all regions.

In parallel with this, we have introduced a new central procurement function which is strengthening our procurement discipline and enabling us to take full advantage of our significant purchasing power. This is already providing substantial benefits in controlling our build costs, which, as for other housebuilders, have been subject to some upward price pressure this year.

Customer focus

As the industry leader, it is critical to us that we maintain the highest standards of build quality and customer satisfaction. In that regard, I am delighted that for the ninth year running, McCarthy & Stone has been recognised with a ‘Five Star’ award from our customers. These awards reflect independent customer satisfaction surveys undertaken by the HBF and are independently audited by the University of Reading. We are the only UK housebuilder, of any size or type, to take top marks every year since the awards were established in 2005. We are pleased that the quality of our product has also been recognised by the National House Building Council (NHBC), which has awarded us three Pride in the Job Quality awards and two Seals of Excellence, recognising the best site managers in the construction industry. In addition, we are delighted that one of our site managers was the regional winner for the Northern area for the second year running.

Putting safety first

The construction industry exposes individuals to a number of potential hazards. Our leading presence in developing and managing retirement properties brings us into contact with many groups of people, including vulnerable customers, on a daily basis. In this context, it is critical to us that we continue to make proper provision for the health, safety and welfare at work of our employees, our partners, our customers and others who may be affected by our activities.

We are pleased to have made good progress with developing the Health and Safety environment across the business this year. Our vision is not just to achieve compliance with safety legislation, but to lead our sector with a robust and consistent safety culture across our organisation.

Working with local communities

Engaging and informing local communities during the planning application process has become a fundamental part of our approach to development. We work with councils, site neighbours and local groups to seek to mitigate any impact that our developments may have on their environment. Every development brought forward in 2013/14 featured a detailed community consultation programme, which included activities such as public exhibitions and meetings, one-to-one briefings, newsletters and dedicated websites. In the year, we spent 622 hours consulting on our applications with local people and this collaborative approach helped us to design and build better developments that meet both the aspirations of our homeowners and local communities.

Our people

Our people are key to the growth and success of our business. We are determined to build a culture at McCarthy & Stone that enables each employee to regard the Group as a great place to work through development opportunities, recognition of achievements and appropriate industry-competitive rewards. As part of this strategy, we have introduced employee PRIDE awards which recognise our employees who live our Company values in their day-to-day work.

Outlook

The Group has built a strong pipeline of land over recent years, offering the potential to build-out our substantial land bank at attractive margins and providing a platform for sustained growth.

During 2013/14, we have put in place the building blocks that will enable us to capitalise on this opportunity and we are forecasting further significant growth in volumes, revenue and profit during 2014/15.

Clive Fenton
Group Chief Executive Officer
31 October 2014

Doubling the size of our business

Our strategy is to create an efficient and scalable business capable of building and selling more than 3,000 units per annum over the medium term. In support of this strategy, we are increasing investment in our pipeline of high-quality land, developing our product to meet the changing needs of our customers and driving operational efficiencies. This will enable us to target top-quartile sector margins and returns on capital over the medium term.

Increased investment

Strategic priority

£2 billion targeted investment in land and build over four years to support growth and capture a wider share of the active retiree market

2013/14 progress

- 74 high-quality sites acquired (2013: 48)
- 8,701 plots now under control (2013: 8,368)
- Five-year land bank with attractive margins – strong pipeline of opportunities
- £2 billion land bank value
- 60 planning consents granted (2013: 50)
- All planning consents in place to deliver sales to 2015/16
- All land under control to deliver sales to 2016/17

2014/15 objectives

- Build out pipeline of high-quality and profitable consented land
- Further targeted investment in land bank
- Create additional regions, following launch of a new North London region

Sales growth

Strategic priority

Grow completion volumes to more than 3,000 units per annum over the medium term, responding to strong market demand for our product

2013/14 progress

- Legal completions up 10% to 1,677 units (2013: 1,527 units)
- Net average selling price[1] up 16% to £214k (2013: £184k)
- Forward sales at 31 August 2014 of £95.6 million (2013: £76.2 million)
- Units for 2014/15 completion in build or in stock

2014/15 objectives

- Improved sales rates and increased number of new developments to drive continued growth in completion volumes
- Further pricing progression through improved product and sustained discipline over discounts and incentives

Continued product innovation

Strategic priority

Develop our product design specifications and our service offerings to meet the changing needs of our customers and expand our customer base

2013/14 progress

- Formalisation of distinct Retirement Living and Assisted Living designs and branding
- 138 developments managed by our management services business at year end
- Recent launch of Ortus Homes, to complement Retirement Living and Assisted Living – two developments due to open in 2014/15 and 20 more in pipeline

2014/15 objectives

- Ongoing enhancements to core Retirement Living and Assisted Living products
- Increased scale enabling management services business to become profit-making
- Launch Ortus Homes developments at Solihull and Swanage

Operational efficiency

Strategic priority

Create an efficient and scalable business to support planned investment and targeted growth

2013/14 progress

- Organisational review announced in March 2014, delivering headcount reductions primarily in central support functions
- Workstreams in place to improve sales processes and reduce workflow times
- Increased regionalisation of the business, including launch of a new North London region
- Procurement discipline reinforced, resulting in identified savings of more than £10 million per year so far

2014/15 objectives

- Deliver increased sales rates through improvement programme
- Reduce time to build start and improve capital turn
- Identify further procurement savings to mitigate emerging cost inflation
- Focus on delivering best-in-class customer experience

Focus on performance

Strategic priority

Target top-quartile sector margins and returns on capital

2013/14 progress

- Operating profit[1] up 66% to £75.1 million (2013: £45.2 million)
- Operating margin[1] up to 19% (2013: 15%)
- Return on average capital employed[1] up to 17% (2013: 12%)
- Year end gearing[1] of 10% (2013: 15%)

2014/15 objectives

- Further improvement in both operating margin[1] and return on average capital employed[1] towards sector top-quartile
- Manage capital structure and financing costs in line with housebuilding peer group

1 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used

Retirement Living

Independence with peace of mind

Shared homeowners' lounge, Merrilees Gate, Edinburgh

Retirement Living provides high-quality apartments exclusively for those aged 60 and over, offering security, independence and companionship among like-minded people.

Apartments feature one or two bedrooms, spacious lounges, kitchens, extra storage, en-suite facilities and often private outside space in the form of balconies, terraces or patios. In addition, there are extensive shared areas, including landscaped grounds, attractive communal lounges and guest suites to accommodate visiting family and friends.

Our site-based House Managers, who are available to offer help and assistance, are responsible for the day-to-day running of each development.

In 2013/14, we sold 1,100 Retirement Living apartments, representing c.66% of our annual sales.

23
New Retirement Living developments opened in 2013/14

1,100
Retirement Living homes sold in 2013/14

78
Developments in pipeline

Merrilees Gate, Edinburgh

Our Products

Assisted Living

A retirement apartment with flexible care and support

Assisted Living is designed exclusively for customers aged 70 and over. The product includes additional features to our Retirement Living range, including a personal care service, a full table-service restaurant with meals prepared freshly on-site, plus a function room and secure mobility scooter store room.

The Estates Management team is on-hand 24 hours a day to provide care and support as well as facilitate social events and activities. Assisted Living is an attractive alternative for those seeking an additional level of help but who wish to retain independent home ownership and do not want to move into residential care.

Assisted Living is a unique offering in the market place and one which we can deliver at scale. In 2013/14, we sold 577 Assisted Living apartments, representing c.34% of our annual sales.

7
New Assisted Living developments opened in 2013/14

577
Assisted Living homes sold in 2013/14

23
Developments in pipeline

Roswell Court, Exmouth

Our Products

Ortus Homes

Downsize for the leisure years


Sales suite, Scarlet Oak, Solihull

Ortus Homes presents an exciting opportunity for the future, helping us broaden our product range and reach a larger audience.

Exclusively for the over 55s and those in the early stages of retirement, it is designed for people wanting to downsize into high-quality, well-located and low-maintenance apartments.

Developments have fewer units than our core products, with more car parking and larger apartments. They are intelligently and attractively designed to future-proof later living. Their age-exclusivity means that security and lifestyle is a focus, and privacy and personal space is a key consideration. The more active nature of these homeowners allows us to look for new land opportunities away from our traditional locations.

Our first developments will open in Solihull and Swanage in 2015, delivering 50 units for sale.

2
Ortus Homes' developments in build for 2014/15 launch

10
Ortus Homes' sites with planning consent for build start in 2014/15

10
Additional Ortus Homes' sites under control

Scarlet Oak, Solihull

Our Services

Management, care and support

Ongoing support for our customers

Since 2010, all new McCarthy & Stone developments have been managed by our dedicated management services business, allowing us to provide a consistent service to our customers from the point of sale.

Our ability to provide our own high-quality and cost-effective management service has proven to be an attractive offering. It ensures that our customers receive the highest standards of support at all times and provides added peace of mind during the sales process.

As well as building and selling our apartments, this arrangement means we take care of all aspects of property management and security. Our House Managers and Estate Management teams look after our developments and the grounds that surround them. We additionally provide a range of flexible care and support services in all new Assisted Living developments.

McCarthy & Stone Management Services Limited (MSMS), a wholly-owned subsidiary, delivers these services in new Retirement Living developments. Our personal care and management service in Assisted Living developments is provided by YourLife Management Services Limited (YLMS). YLMS is a subsidiary company of MSMS and is 50/50 owned in partnership with Somerset Care Group, a large and experienced not-for-profit care provider.

Our new management services business has grown rapidly in recent years, and will become a profitable business in its own right in 2014/15. We are pleased to see it become a core part of our service offering alongside property development.

138
Developments under management

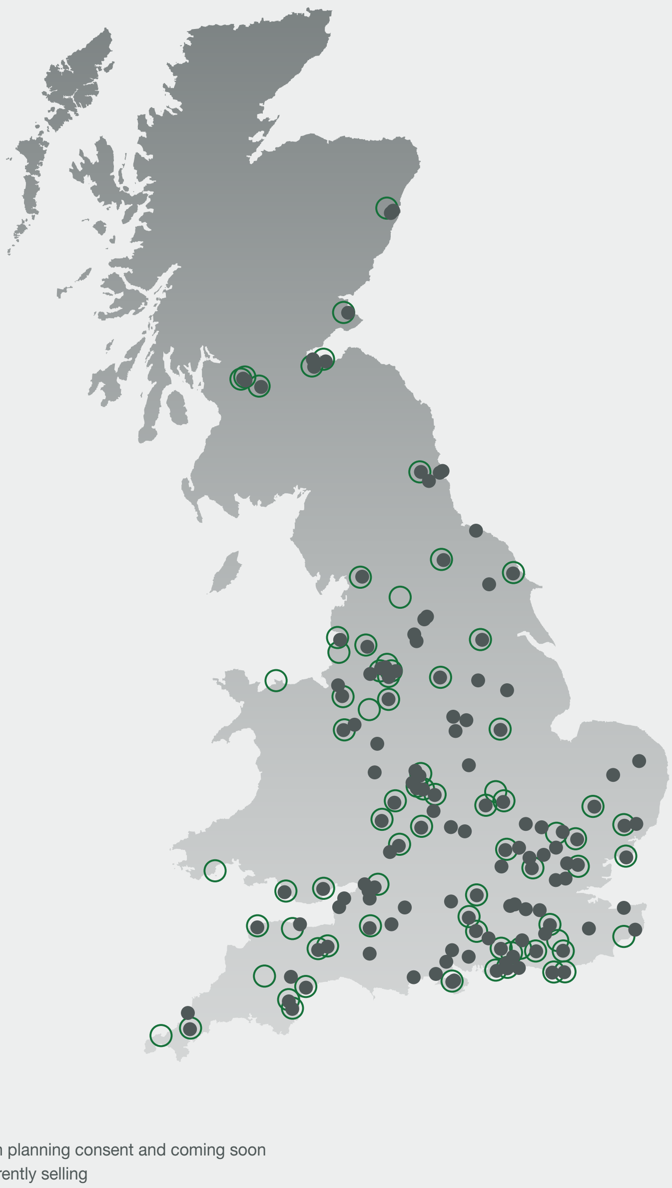
2,040
Care and support hours delivered per month

20,000
Meals served per month


Thomas Court, Cardiff

National scale meeting local needs

We are Britain's leading retirement housebuilder, with a nationwide operation and six tightly-managed regions. We enjoy close links with the local communities in which we operate and have in-depth experience and understanding of local housing needs and planning requirements.



Merrilees Gate, Edinburgh
- Retirement Living
- 45 apartments
- Opened 2013

Yew Tree Court, Sanderstead, London
- Retirement Living
- 26 apartments
- Opened 2014

Emma Court/Lady Susan Court, Basingstoke
- Dual Retirement Living and Assisted Living developments
- 94 apartments in total
- Opened 2013

Queen Elizabeth Court, Kirkby Lonsdale
Recently awarded 'Best UK Retirement Development' at the UK Property Awards 2014

- Retirement Living
- 36 apartments
- Opened 2014

Middleton Court, Porthcawl

- Retirement Living
- 60 apartments
- Opened 2013

Coopers Court, Bristol

- Retirement Living
- 43 apartments
- Opened 2014

Mallory Court, Skipton

- Retirement Living
- 33 apartments
- Opened 2014

Mandeville Court, Potters Bar

- Assisted Living
- 53 apartments
- Opened 2014

Scarlet Oak, Solihull

- Ortus Homes
- 28 apartments
- Opening 2015

Exceptional standards of customer satisfaction

We are proud to deliver a high-quality product with exceptional lifestyle benefits, addressing the needs of our ageing population.

92.5%
Of our customers would recommend us to a friend

5 STAR HOME BUILDER CUSTOMER SATISFACTION HBF 2014 HOME BUILDERS FEDERATION

Those who purchase an apartment from us are in their later years and at a point in life where the place they call home is increasingly important. Our developments and services are specifically built around their needs and play a key role in helping our customers to live happier, healthier and longer lives.

Our customers are often frail and in need of some extra support, but they also want an environment where they are able to maintain their independence for as long as they can. Our developments are able to provide this balance.

We remain committed to delivering exceptional standards of satisfaction to our customers across all of our products and services. In March 2014, for the ninth year running, we were awarded 'Five Stars' in the HBF New Home Customer Satisfaction awards, the leading benchmark for customer satisfaction in the housebuilding sector. We are delighted to be the only UK housebuilder, of any size or type, to have taken top marks in these awards every year since their launch in 2005.

Almost 1,000 of our customers responded to the survey, with more than 90% saying they would recommend us to a friend. We take this as a considerable vote of confidence in our delivery of products and services and are committed to doing even better in future years.

"I can't thank McCarthy & Stone enough for what they have done for us in such a short period of time. We are really looking forward to our new life and all the free time we are going to have together."

Mr and Mrs Malcolm, homeowners

"McCarthy & Stone have transformed my life! I absolutely love my apartment and I'm so thankful I made the move."

Mrs Jean Pearce, homeowner

"There's a great social side. Everybody is lovely. I really couldn't want for anything else."

Ms Jane Elkins, homeowner

Top-line growth underpins improved margins and returns

Financial review

McCarthy & Stone made solid financial progress during the financial year ended 31 August 2014, which saw the Group deliver an increased number of legal completions as well as improved pricing, revenue[1], operating margin[1], profit before tax[1] and return on average capital employed[1].

In the year to 31 August 2014, the Group generated 1,677 legal completions (2013: 1,527) at a net average selling price[1] of £214k (2013: £184k), with the result that Group revenue[1] was 25% higher at £387.8 million (2013: £310.8 million). A key driver for the higher selling prices was improved management control over the level of discounts and incentives given to customers, which reduced sharply as a proportion of list price compared with the prior year.

This enabled the Group to deliver strong site margins which, together with an increase in revenue from the sale of freehold reversionary interests, generated gross profit of £104.0 million (2013: £66.6 million).

The level of overheads in the business continued to be well controlled, supported by actions taken as part of the organisational review which saw some streamlining and headcount reductions, primarily in central support functions. As a result, the Group generated an improved operating profit[1] of £75.1 million (2013: £45.2 million).

The Group expensed net interest charges of £13.4 million during the year (2013: £41.3 million), benefiting from the considerable reduction in Group indebtedness as a result of our August 2013 shareholder refinancing. After interest charges, profit before tax[1] came in at £63.2 million (2013: £12.5 million).

As in 2013, no dividend has been proposed or paid in the year. Cash generated through sales of new apartments has been retained within the business to support future investment in land and build and drive further growth.

The Group started construction on 43 sites during the year ended 31 August 2014 (2013: 35) and opened 31 new sales outlets (2013: 38), providing a total of 1,236 new apartments for sale (2013: 1,965).

Land acquisition activity moved sharply ahead, with 74 sites exchanged in the year (2013: 48) and 60 planning consents were delivered (2013: 50). Coupled with 1,370 units of stock carried into the year, this should provide a platform for further strong growth in completions and profits in 2014/15 and beyond.

Capitalisation of production costs

During the year, management reassessed the application of its policy for the capitalisation of costs into sites in the course of construction. It was identified that further directly attributable costs were capable of being accurately measured and captured into site costs, the impact of which, research showed, would more closely align the basis of gross and operating margin with peer group companies. As a consequence, the Group revised the estimation technique by which production overheads directly attributable to the construction of developments are identified and subsequently capitalised.

In accordance with FRS18, this revised estimation technique has been adopted prospectively from 1 September 2013. This has resulted in costs being capitalised into stock in 2013/14 with a net impact of £8.1 million, representing an increase of c.1% of our stock value. These costs will be recognised in the Profit and Loss Account as the units to which they relate are sold.

Cash flow and funding

The Group closed the year with a further increase in its tangible gross asset value[1] to £456.1 million (2013: £422.8 million). Net assets on 31 August 2014 were £474.4 million (2013: £431.4 million) and net debt was £48.9 million (2013: £63.1 million), giving gearing[1] at the year end of 10% (2013: 15%).

The Group's debt requirements are currently provided through a five-year £160.0 million term loan which is payable in full in August 2018. The Group is in full compliance with all provisions of the loan agreement. The Group's plans to invest £2 billion over the next four years can substantially be financed from this facility and from sales-generated cash flows. However, the Group continues to review alternative sources of debt finance with a view to optimising its capital structure and financing costs.

Risk management

The Group maintains a robust risk management framework, providing a clear link between strategy and the strategic, operational and financial risks faced by the business. This provides an appropriate basis for the management of risk at all levels of management across the business. The approach to risk is set by the Board, which maintains a close involvement in identifying and mitigating risk and monitors certain key risk indicators on an ongoing basis.

The control environment has been significantly enhanced during the year through the successful implementation of a new procurement and accounting system across the business, which replaces a number of legacy systems and manual controls. In addition, the establishment of a new Internal Audit function is further enhancing the control environment by providing the Board with reliable and independent assurance that risk management governance and internal control processes are operating effectively.

Housebuilding is inevitably a cyclical business. As part of managing the financial risk in the business, the potential financial impact of a downturn in the housing market or the broader UK economic environment is regularly evaluated. McCarthy & Stone's national reach and relatively small development size ensures that it is not overly dependent on particular local markets or individual developments. In addition, McCarthy & Stone's distinct business model insulates it better from a downturn than most mainstream housebuilders, with land acquisition normally contracted subject to planning and commercial viability, providing the Group with a basis to review land acquisition decisions in light of planning outcomes and latest market conditions, prior to confirming the commitment of capital.

Target returns

In the year to 31 August 2014, the combination of top-line growth and cost discipline enabled the Group to deliver an improvement in operating margin[1] from 15% to 19% which, together with improved capital discipline, generated an improvement in return on average capital employed[1] to 17% (2013: 12%). The Group is targeting to increase both operating margin[1] and return on average capital employed[1] further, to bring them in line with the top-quartile of the housebuilding sector peer group over the medium term.

Nick Maddock
Group Chief Financial Officer
31 October 2014

Top:
Peel Court,
Welwyn Garden City

Bottom:
Westonia Court,
Northampton

1 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used

Strong progress in 2013/14

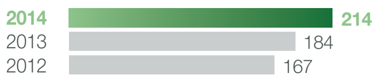
The Group made strong progress in 2013/14 with trading ahead of 2012/13 in all areas. This was driven by increasing market demand for high-quality, specialist retirement housing and management's drive to deliver operational efficiencies, supported by the wider upturn in the residential market.

Revenue

Revenue from sales of new homes is the primary driver of the Group's profitability. The fundamentals of the retirement housing market, McCarthy & Stone's distinct business model and its strong pipeline of quality land provides the platform for sustained revenue growth over the medium term.

Legal completions

Net average selling price[1] (£k)



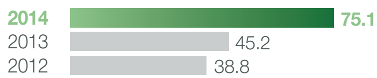
Revenue[1] (£ million)

The Group has continued to grow volumes in 2013/14 at higher prices, supported by a higher-quality product, the improved market backdrop and management's focus on reducing cash discounts and other sales incentives.

Profit

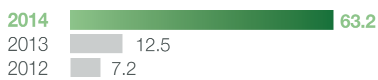
McCarthy & Stone's margin has historically been one of the best in the sector and management's focus on delivering sustained top-line growth with improved operational efficiency will deliver significant further margin improvement.

Operating profit[1] (£ million)



Operating margin[1] (%)

Profit before tax[1] (£ million)



Growth in profitability was driven in 2013/14 by volume growth, stronger pricing, stricter control of our cost base and a reduction in interest charges following the August 2013 shareholder refinancing. It also reflects the change in cost capitalisation estimation technique set out in the CFO's Review on page 30.

Workflow

The Group's medium-term growth is dependent on its ability to develop its existing land bank profitably and to sell its current stock to generate cash for reinvestment.

Land bank (plots)

2014	8,701
2013	8,368
2012	8,312

Land secured (sites)

2014	74
2013	48
2012	52

Stock available for sale

2014	1,370
2013	1,783
2012	1,346

An increase in the number of sites acquired in 2013/14 enabled further growth in the land bank. The strong sales performance helped to reduce the closing stock of finished units and to provide cash for reinvestment in developing this land bank.

Returns

McCarthy & Stone has historically delivered strong returns on capital. A combination of revenue growth, margin improvement and capital discipline will deliver increased returns on capital as the current land bank is developed.

Tangible gross asset value[1] (£ million)

2014	456
2013	423
2012	358

Return on average capital employed[1] (%)

2014	17
2013	12
2012	11

Gearing[1] (%)

2014	10
2013	15
2012	483

Higher profitability and faster capital turn delivered a significant improvement in returns in 2013/14, while good cash generation enabled both higher investment and lower gearing[1].

1 Please refer to Glossary of Financial Terms on page 70 for definitions of the financial terms used

How we manage the risks to our business

Effective management of risk is integral to the successful implementation of McCarthy & Stone's corporate strategy. In the summer of 2014, we strengthened this area of the business through the appointment of a Director of Risk and Internal Audit to enhance our existing Risk Management framework and develop our Internal Audit function.

Our risk management process

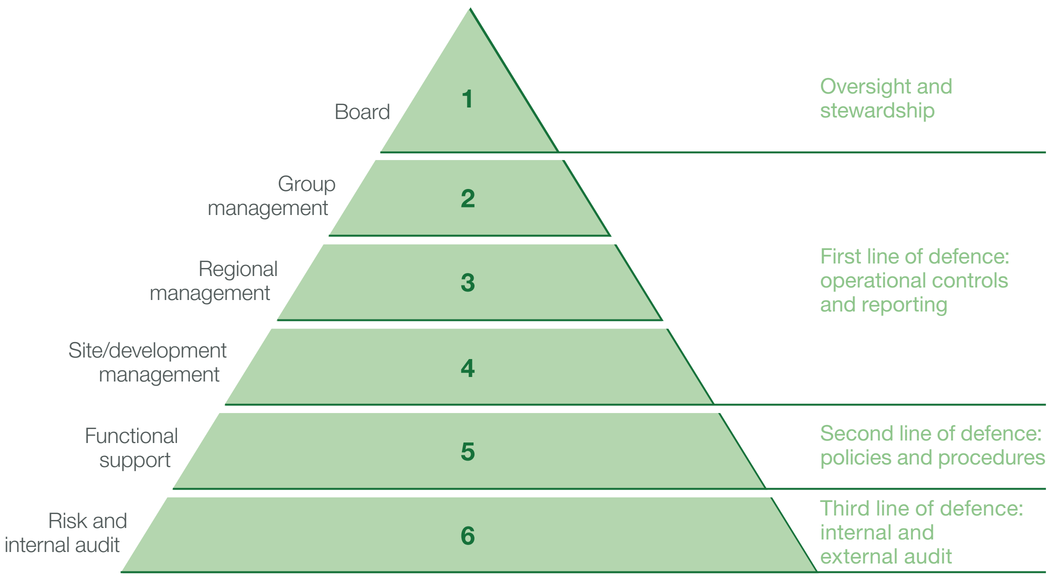
Risk is managed at McCarthy & Stone through a five-step risk management process, led from the Board. The Group's risk management framework requires the maintenance and regular update of Group, regional and functional risk registers to identify the risks to our business model and strategic plan, with the major risks reviewed by the Board in the context of the Group's appetite for risk.

These risk registers are supported by frameworks of key operational and financial controls that enable risks to be treated, tolerated or transferred to third parties. The risk registers are complemented by the monitoring of a set of key risk indicators, which provide early warning of potential issues and enable management to react accordingly.

Assurance is provided over the effective design and operation of the risk framework through a formal programme of assurance activity. This is structured around three lines of defence: management assurance, through operational controls and reporting; functional support in the form of formal policies and procedures; and a programme of assurance activity, including internal and external audit.

Overall oversight is provided by the Board, with individual members of the Board and the Executive Leadership Team sponsoring each of the key risks.

How we manage risk



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

The principal risks and uncertainties facing McCarthy & Stone include, but are not limited to:

Risk area	Risk description	Mitigating actions
Economic conditions	Housebuilding is cyclical and reliant on the broader economy. A deterioration in the economic outlook could have a significant impact on the Group's financial performance.	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 Group CEO, the Group CFO, the Operations Director and the Land and Planning Director. The Group aims to maintain a national and product spread of developments to ensure that it is not reliant on one particular location, development or product.
Land acquisition	Inability to acquire sufficient and high-quality land in suitable geographical locations at the right price could constrain the Group's ability to grow profitably.	The Group seeks to maintain sufficient land under control to deliver its forecast completions for the following three years. Land buyers are incentivised to identify suitable additional land opportunities for subsequent years in line with explicit hurdle rates for profit and return on capital. All land acquisition opportunities are approved by the Group Investment Committee, and larger investments additionally require Board approval.
Development cycle	The Group's financial plan assumes it can bring developments from land exchange to planning consent to build start within budgeted timescales. Failure to deliver build starts on schedule could result in slower capital turn and reduced cash for reinvestment, adversely impacting growth plans.	Workflow is monitored throughout the organisation at each stage of the workflow cycle, culminating in a monthly review by the Board of progress towards all budgeted build starts. As the business grows, the capacity to bring a greater volume of developments to build start is being enhanced through the outsourcing of some design activities to third parties and the pursuit of a programme of process and capability change which will accelerate workflow timelines and provide greater protection against planning risk.
Build programmes	The Group's financial performance is dependent on its ability to deliver build programmes on time and on budget. Build programme or cost overruns could result in slower sales or reduced build margins.	Build progress and costs are reviewed regularly by dedicated regional commercial teams and are reported to regional and Group management. Framework agreements have been established with key subcontractors and suppliers to provide greater certainty of price and supply. The establishment in 2013/14 of a central procurement capability and the introduction of a new IT system for procurement provides a basis to deliver ongoing procurement efficiencies.
Health and Safety	Construction sites are inherently risky, which could expose employees/subcontractors to the risk of serious injury/fatality. Homeowners in the developments we manage are ageing and sometimes frail, with the risk that they can be more susceptible to injury.	The Group strives for excellence in Health and Safety and considers it to be the top priority. The Head of Health and Safety reports directly to the Executive Leadership Team, identifying areas of concern, near misses and accidents, and is supported by a rigorous, independent site inspection programme which routinely assesses and reports on standards.
Sales performance	The Group's financial plan assumes that it can consistently sell its products at attractive prices. Any volume shortfall or pricing weakness could have significant impact on the Group's financial performance.	Detailed reporting enables the Group to monitor sales and pricing at a site and unit level and regularly review performance against expectation with regional and local management. Processes are in place to initiate recovery action for underperforming sites. The Group is investing in an improvement programme that will upgrade its sales processes and capability and improve its ability to sell quickly at attractive prices.
Reputation and customer satisfaction	The Group constructs and sells a quality product to an ageing and sometimes frail customer base and provides ongoing management, care and support services. Any issues with the products or services we provide could impact on customer experience or satisfaction to the detriment of the Group's business model.	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 support services are provided by our own management services business within a robust framework of controls which is closely monitored. Each region has dedicated customer services capability and the Group tracks customer satisfaction through NHBC surveys and other reporting.
Employees	The Group's employees are central to the achievement of the Group's objectives. Failure to recruit and retain sufficient staff resource of the right quality could constrain growth plans.	The Group has put in place attractive reward mechanisms and provides extensive opportunities for personal 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 the availability of the right resource at the right time to deliver the Group's plans.

Pride in our people

The Group's employees are central to the delivery of its objectives. The Group recognises that attracting and retaining employees is only possible if the right working environment is created and appropriate reward mechanisms and opportunities for personal development and training are provided. The Group has a wide range of policies relating to employees to support this.

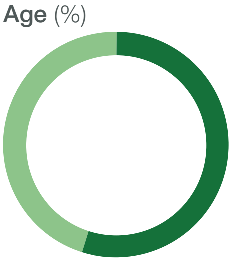
Our employees (%)

- 32% Site-based
- 52% Office-based
- 16% Management services

Gender (%)

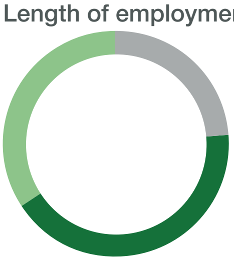
- 44% Female
- 56% Male

Age (%)



- 55% Under 50
- 45% Over 50

Length of employment (%)



- 24% Under one year
- 42% One to five years
- 34% Over five years

Our employees

Our employees are central to the delivery of our objectives. At 31 August 2014 the Group employed 900 people (2013: 941), excluding subcontractors and agency workers. Some 48% of these are employed on sites or at developments with the balance based in our regional and central offices.

Diversity policy

The Group is committed to promoting policies to ensure that those who are employed by the Group's businesses are treated equally, regardless of status, sex, age, colour, race or ethnic origin. At the end of the financial year almost half of all employees were female and a similar percentage were over the age of 50.

Although there are currently no female Directors on the Board, 20% of senior management employees are female, including four female Directors of our main trading subsidiaries.

	Male	Female
Directors of the Group (Executive)	2	–
Directors of subsidiary companies not included in above	3	4
Employees in other senior management positions	32	5
Total senior management excluding Directors of the Group	35	9
Other employees of the Group	466	388

Disability policy

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

Training and development

The Group's ability to achieve its commercial objectives and meet the needs of its customers in a profitable, competitive and safe manner depends on the contribution of employees throughout the Group. Employees are encouraged to develop their contribution to the business wherever they work and the Group has an ongoing commitment to their training and development.

Performance against objectives is reviewed bi-annually. The process includes the identification and implementation of a tailored personal development plan. Improvement programmes focused on quality, efficiency and customer service provide an opportunity for all employees to be involved in the development of the Group's business and products.

Employee communications

The Group communicates with its employees about its objectives, progress and activities through a variety of channels including regular monthly updates, quarterly newsletters and the Group's intranet. The Group has established a set of corporate values and conducts regular employee surveys. Group-wide roadshows are conducted during the year to update all employees on the business strategy and to provide employees with an opportunity to provide feedback to management.

Our PRIDE awards

In 2013, as part of our strategy of recognising and rewarding employee excellence, we introduced our PRIDE awards which recognise employees who live our Company values in their day-to-day work:

> Passion
> Responsibility
> Innovation
> Determination
> Excellence

Employees are nominated by their colleagues and fellow workers for instant awards, which are given in recognition of commitment to one or more of our PRIDE values. Since we launched the PRIDE awards, over 260 employees throughout the Group have been recognised with an instant award.

Quarterly awards are given to the top instant winners in each region, who are automatically shortlisted for our annual national PRIDE awards. So far over 60 employees have received a quarterly award.

Top:
McCarthy & Stone donated 200 reflective wristbands to Juniper Green Primary School in Edinburgh to help keep pupils safe on their way to school during winter

Left:
One of our Estate Managers receiving her Quarterly Pride Award

Safety first

The Board considers Health and Safety to be its top priority in all aspects of its business. McCarthy & Stone is not satisfied with mere compliance, but seeks to establish a culture of excellence where we set standards for others to follow.

Health and Safety

The Board seeks to promote a consistent culture of 'safety first' across the organisation. We made great progress last year, in spite of an increase in the number of construction sites and managed developments, with the achievement of regional accolades from our independent consultants, The Building Safety Group, as well as NHBC Pride in the Job awards, a significant part of which requires excellent Health and Safety management on site.

The Board leads the way on Health and Safety with Directors ensuring that they proactively engage in safety discussions and carry out site safety visits in all regions. In addition, 2014 has seen the establishment of an employee coaching scheme that will provide the organisation with qualified Health and Safety coaches to champion the cause of Health and Safety throughout the organisation. Board members also attend and contribute to the Group Health and Safety Committee and attend Health and Safety events around the country. The Group's determination to set the highest Health and Safety standards and exceed compliance is led from the top, with the Head of Health and Safety reporting directly to the Executive Leadership Team.

Over the last year, we have brought our Health and Safety training in-house where it can be tailored to our needs. This initiative is in its infancy and has already brought with it significant safety improvements. Our accident statistics have improved and we compare favourably with other major housebuilders. We are accredited to deliver both IOSH and CITB Health and Safety management courses, which we offer to our own employees and our contractor workforce.

During the year, Health and Safety awareness and behavioural safety events have been held for contractors and site teams in all of our regions. These have set new standards and provided a pathway for those who work for us to achieve them. The Group's PRIDE values have been applied to Health and Safety with the introduction of 'Pride in Safety' events and discussions. This range of safety initiatives should significantly improve our culture as well as safety for our employees, contractors, customers and the public who are affected by our projects.

We have also introduced training for staff to enable them to become increasingly self-supporting in their management of Health and Safety.

It remains our commitment as the Group continues to grow that our management of Health and Safety will continually improve in keeping with our aspiration to establish a culture of excellence which sets standards for others to follow.

Environmental sustainability

For McCarthy & Stone, positive relationships with communities during construction are as important as building excellent schemes. We manage every aspect of the construction process and look to ensure that our activities have regard to site neighbours and the general public.

We are committed to working with suppliers who can provide us and our customers with good quality products and materials from sustainable and local sources in a responsible and ethical manner. We are working with our supply chain to develop a waste minimisation programme that encourages the reduction, reuse and recycling of viable products from all of our waste streams. Our supply chain is required to demonstrate an acceptable standard of environmental performance and we use a balanced scorecard to assess this. We have an open and competitive tender process to enable the development of commercial relationships with suppliers who meet our values in quality, safety and sustainability. We encourage the use of framework agreements to create open, transparent and fair trading terms and ensure that payment terms and other conditions are fulfilled.

NHBC Pride in the Job Awards 2014

The NHBC is the UK's leading housebuilding industry standard setting body. As part of its strategic aim of improving the quality of new-build homes, the NHBC awards the prestigious and highly regarded Pride in the Job awards to site managers who have shown exemplary standards of build quality and site safety.

McCarthy & Stone's site managers have a strong tradition of receiving these awards since their inception 34 years ago and this year proved no different. We were delighted that three of our site managers received a Pride in the Job award in 2014 and two received a Seal of Excellence. We were even more pleased that one of our site managers was awarded regional winner for the Northern area for the second year running and will now go forward to the national final in January 2015. These awards reinforce to our customers the quality of product they are buying.

Above :
Two of our NHBC Pride in the Job 2014 award winners

Right:
Construction site, Fleet, Hampshire

This Strategic Report was approved by the Board on 31 October 2014 and signed on its behalf by Nick Maddock, Director.

Nick Maddock
Director
31 October 2014

Board of Directors

John White
Group Chairman

Experience
John was most recently Group Chairman of Persimmon plc, a position he held between April 2006 and April 2011, having previously been Group Chief Executive since 1993. He has spent all his working life in the housing industry and has unrivalled experience of working within the sector. John has also been a Director of Northampton Saints Rugby Club since 2012.

Committees
Chairman of Nominations Committee and member of Audit Committee and Remuneration Committee.

Clive Fenton
Group Chief Executive Officer

Experience
Clive has a wealth of both housebuilding and business experience, having spent almost 30 years with Barratt Developments plc. He joined Barratt in 1983 and worked in a number of finance and operational roles before being appointed to the Group Board in 2003 with overall responsibility for all operations in the south of England. He was also responsible for Group Strategic Land, Partnership Housing and Retirement Homes. More recently he was CEO of Mount Anvil, a development company specialising in the residential property market in central London. Clive is also currently an independent, Non-Executive, advisory member of the Board of Pocket Living (2013) LLP, a subsidiary entity of Pocket Living Limited, a developer of intermediate, starter homes for first time buyers.

Committees
Member of Nominations Committee.

Nick Maddock
Group Chief Financial Officer

Experience
Nick joined McCarthy & Stone in 2011, having previously worked as Finance Director for Centrica's upstream oil and gas business.
He was previously Financial Controller at British Gas and a Director in Mergers and Acquisitions at ING Barings. Nick trained as a Chartered Accountant and Chartered Tax Adviser with Ernst & Young. Nick led the August 2013 refinancing of the Group's liabilities, reducing the debt of the Group by £350 million. Nick is also the Group Company Secretary.

Committees
None

Frank Nelson
Independent
Non-Executive Director

Experience
Frank joined the Board in late 2013 having previously been the Finance Director of Galliford Try plc, the FTSE 250 housebuilding and construction group, for 25 years before retiring in 2013. In the last 12 months he was Interim CFO of Lamprell, the Dubai-based offshore construction company, where he helped complete a complex refinancing and turnaround before his recent return to the UK.

Frank is also a Non-Executive Director of Thames Valley Housing Association where he is Chairman of the Treasury Committee and a Non-Executive Director of HICL Infrastructure Company plc.

Committees
Chairman of Audit Committee and member of Remuneration Committee and Nominations Committee.

Mike Parsons
Independent
Non-Executive Director

Experience
Mike founded Barchester Healthcare 20 years ago, following a successful career in advertising. Award-winning Barchester has grown rapidly becoming the fourth biggest independent healthcare provider in the UK. Mike retired as CEO of Barchester in 2013 but remains a Director of Grove, the holding company. He is also Vice Chair of Care England, the sector industry association, and Chair of the Barchester Charitable Foundation.

Committees
Chairman of Remuneration Committee and member of Audit Committee and Nominations Committee.

Nils Albert
Nominee Director

Experience
Nils has been a Director at TPG Capital since 2004. He previously served as MD of B-business Partners, an Investor AB backed venture capital fund. Nils spent 13 years at General Electric in various general management roles. He served as the MD, GE Capital European Equipment Finance and Vice President, GE Capital based in London. Prior to this, he served as the MD of GE Quartz Europe headquartered in Germany and also held positions in GE Lighting and with the GE Corporate Audit Staff. Nils is also a Director of TPG Capital, Media Broadcast, Ainscough, Anglian and Vernacare.

Committees
Member of Audit Committee, Remuneration Committee and Nominations Committee.

Executive Leadership Team

Left to right:
Gary Day
John Tonkiss
Mike Jennings
Paula Jordan
Nick Maddock
Clive Fenton

Clive Fenton
Group Chief Executive Officer

Responsible for the day-to-day management of the operational activities of the Group.

Nick Maddock
Group Chief Financial Officer

Responsible for financial strategy and the financial management of the Group. He is also responsible for the Group IT function and has an oversight role over the Group Legal and Company Secretarial functions through his role as Group Company Secretary.

Gary Day
Land and Planning Director

Experience

Gary is a Chartered Town Planner and member of the Chartered Institute of Housing and has more than 38 years' experience in the industry. Gary joined the Group having worked in local government for 13 years as a senior town planner. He is currently a member of the Homes and Communities Agency's Vulnerable and Older People's Advisory Group and over the years has sat on numerous groups concerned with the housing implications of the UK's ageing population.

Responsibilities

Gary is responsible for land conveyancing, planning and political/public affairs.

Mike Jennings
Operations Director

Experience

Mike joined McCarthy & Stone as a Director in 1997. He worked previously for Tarmac, McLean Homes (in the UK and the US) and, prior to joining McCarthy & Stone, for Redrow Homes.

Responsibilities

Mike is responsible for overseeing Group Construction, Group Procurement, all of the Group's operating regions and McCarthy & Stone's management services business. He also has primary responsibility, on behalf of the Executive Leadership Team, for the Group Health and Safety function.

Paula Jordan
HR Director

Experience
Paula joined McCarthy & Stone in 2008 with an extensive range of HR and business experience through her previous HR Director appointments in the financial services and telecoms industries.

Responsibilities
Paula is responsible for the delivery of McCarthy & Stone's people strategy, underpinning and supporting the Group's ambitious business strategy and growth plans by ensuring that we acquire, develop and retain the best possible talent in the marketplace.

John Tonkiss
Business Transformation Director

Experience
John was previously CEO of Human Recognition Systems Limited, the UK's leading biometric solutions provider. Prior to that, he worked for ten years for the Unite Group, the UK's largest provider of purpose-built student accommodation, becoming Group Chief Operating Officer in 2008. John's earlier career included senior operational management roles at TRW, one of the world's largest automotive suppliers and a number of engineering roles at Lucas Electrical.

Responsibilities
John is responsible for leading the improvement change programme to accelerate business growth, enhance customer experience and improve operating performance.

Patrick Hole
Interim General Counsel

Experience
Patrick joined McCarthy & Stone on an interim basis in July 2014. Patrick is a qualified solicitor with more than 20 years' post qualification experience. Patrick has been a partner in private practice for many years and also has a broad range of in-house experience, including interim roles at both DTZ and Keepmoat.

Responsibilities
Patrick is responsible for the Legal and Company Secretarial functions of the Group.

John White
Group Chairman

This section of the Report sets out how we manage and govern our business. A good corporate governance framework is essential for upholding our core business values and delivering our strategy. Corporate governance has therefore been one of the Board's main areas of focus over the past year, following its restructure and the appointment of additional Non-Executive Directors. However, there is still more to do and we continue to develop and improve our corporate governance policies as our business grows.

The Board has overall responsibility for our governance framework and we aim to adopt the provisions of the UK Corporate Governance Code (the Code) and the Walker Guidelines for Disclosure and Transparency in Private Equity (the Walker Guidelines) whenever possible. Our target is to be fully compliant with the Walker Guidelines by the end of the next financial year. The Code is available at www.frc.org.uk and the Walker Guidelines are available at www.walker-gmg.co.uk.

The following statement sets out our corporate governance compliance during the year under review.

The Board

The Board is responsible for operational control of the Group, including all strategic, financial, organisational, legal and regulatory matters and the Directors normally meet once a month to enable them to discharge their duties. The Company Secretary is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Directors may take independent professional advice as required.

There is a formal schedule of matters specifically reserved for Board decisions. In managing the Group's operations, the Board takes account of the Investment Agreement, which governs the relationship between the Group and its shareholders. Matters requiring Board approval include Group strategy and business plans, governance, risk and major capital expenditure. Decisions on investments and development activities are made by the Group Investment Committee which meets weekly, membership of which includes the Group CEO, the Group CFO, the Operations Director, and the Land and Planning Director. Major investment decisions are additionally referred to the Board for approval.

Board composition and independence

The appointment and replacement of the Company's Directors and the Company Secretary is governed by the Investment Agreement between the Company and its shareholders, the Company's Articles of Association, the Companies Act 2006 and the individual service contracts and terms of appointment of the Directors. The maximum number of Directors is seven.

The Board currently comprises the Chairman, two Executive Directors and three Non-Executive Directors. Details of the current Directors are set out on pages 40 and 41. The Non-Executive Directors have all been appointed by the Company's shareholders. There is no Senior Independent Director or Deputy Chairman.

The Board has considered the independence of the individual Directors. The date of appointment of each of the Directors is set out on page 49 in the Directors' Report. None of the Directors has served for more than four years. One of the Non-Executive Directors, Mr Albert, has been appointed by Remich Holding I S.à.r.l., the Company's largest shareholder. Mr Albert is not considered to be independent by the Board. The Board has determined that Mr White, Mr Nelson and Mr Parsons are all independent.

The Board is currently looking to identify an additional Non-Executive Director so that the Company is able to fulfil all the independence requirements of the Code.

On appointment, each of the Directors confirmed that he had sufficient time to fulfil his duties. Mr Maddock is not a Director of any external company. Mr Fenton is an independent, Non-Executive, advisory member of the Board of Pocket Living (2013) LLP. This takes up an immaterial amount of his time. The Board is satisfied that each of the Directors has discharged his responsibilities and duties effectively during the year.

During the year under review there were 12 formal Board meetings. Attendance at those meetings is shown in the table below.

Director	Board meetings attended	Board meetings missed since appointment	% Attendance since appointment
Number of meetings	**12**	**–**	**–**
John White	11	–	100%
Clive Fenton	7	–	100%
Nick Maddock	12	–	100%
Nils Albert	11	1	92%
Mike Parsons	7	2	78%
Frank Nelson	9	–	100%
Jeremy Jensen	4	–	100%
Mark Elliott	4	1	80%

On appointment, each Director receives an induction to the business. In addition, in order to assist the Directors further in their understanding of the business, some of the Board meetings are held at the regional offices to provide an opportunity for the Directors to meet the regional management team and to visit some of the Group's sites and developments.

All Directors have access to the advice and services of the Company Secretary and may also seek independent professional advice should this be required to enable them to fulfil their duties.

Role of Chairman and Chief Executive Officer

There is a clear separation of the roles of the Chairman and the Chief Executive Officer. The Chairman is responsible for leadership of the Board and for ensuring that the strategic direction and objectives of the Group are set. The Chief Executive Officer is responsible for the day-to-day management of the operational activities of the Group.

Board evaluation

With the exception of Mr Maddock and Mr Albert, all of the Directors of the Board have been appointed within the last year. There has not therefore been an evaluation of the Board and its effectiveness during the year under review.

Succession planning

Management of succession planning is fundamental to ensuring the best mix of skills, experience and innovation remain present at Board and senior management level. We will continue to review the diversity and abilities of our key personnel to ensure we have the right people to achieve our objectives.

Internal controls

The Group is fully committed to establishing a robust and effective risk management process. The Board is responsible for the system of internal controls, which are designed to manage the business risks faced by the Group, and for reviewing the effectiveness of those controls. There is an ongoing process for identifying, evaluating, monitoring and managing significant risks faced by the Group. Business targets are set within appropriate timeframes and policies, procedures and control processes for managing the Group's business activities have been put in place. Key financial risks are controlled through clearly laid down authorisation levels and segregation of duties.

Relations with shareholders

The Chairman, Chief Executive and Chief Financial Officer regularly meet with the Group's shareholders and provide feedback to all members of the Board on the issues discussed. The largest shareholder has Board representation. In addition, observers from some of the other major shareholders are invited to attend Board meetings.

Regular business updates, monthly financial reporting and other ad-hoc presentations have been provided to the Group's shareholders during the year.

Report of the Audit Committee

Frank Nelson
Audit Committee Chairman

It has been a year of change for the Committee. At the beginning of the year there were insufficient Non-Executive Directors on the Board to enable the Audit Committee membership to comply with corporate governance best practice. Following the appointment of additional Non-Executive Directors in the first quarter, the Committee membership has been reorganised. We now believe the Committee comprises members with a range of skills, and the Board is satisfied that I have recent and relevant financial experience.

During the year we have established a Risk and Internal Audit function and we are now better placed to focus on driving forward the audit and risk oversight for the Group.

Audit Committee membership

With effect from 29 April 2014, the Audit Committee comprises Frank Nelson (Chairman), John White, Nils Albert and Mike Parsons. Prior to the appointment of Mr White, Mr Nelson and Mr Parsons to the Board, the Audit Committee membership comprised Mr Jensen, Mr Elliott and Mr Maddock.

Prior to his appointment to the Board, the current Chairman of the Committee, Mr Nelson, was Finance Director of Galliford Try plc, the FTSE 250 housebuilding and construction group, for 25 years.

During the year there were three Audit Committee meetings, only two of which were held subsequent to the change in Committee membership.

The table below sets out attendance at the Audit Committee meetings during the year. Meetings are also attended, by invitation, by other Directors where appropriate.

Director	Audit Committee meetings attended	Audit Committee meetings missed since appointment	% Attendance since appointment
Number of meetings	**3**	**–**	**–**
Frank Nelson[1]	2	–	100%
John White[2]	1	–	100%
Mike Parsons[1]	2	–	100%
Nils Albert[1]	1	–	100%
Nick Maddock[3]	1	–	100%
Jeremy Jensen[4]	1	–	100%
Mark Elliott[5]	1	–	100%

1 Committee member since 29 April 2014
2 Committee member since 1 January 2014
3 Committee member until 29 April 2014
4 Committee member until 31 December 2013
5 Committee member until 17 February 2014

Responsibilities of the Committee

The Committee provides a forum for reporting by the Group's external auditor and for reviewing a wide range of financial matters, including the controls that are in place to ensure the integrity of the statutory annual accounts before their submission to the Board and ultimately to the shareholders. The Committee is responsible for the appointment of the external auditor, its fee and the scope of the annual audit. The performance and independence of the auditor and the work it performs is reviewed annually and the Committee remains satisfied as to the independence and effectiveness of Deloitte LLP.

The Committee reviews the annual financial statements before submission to the Board including any changes in accounting policies, going concern and compliance with the relevant accounting, legal and regulatory standards.

The Committee is also responsible for reviewing the Group's processes for assessing, managing and monitoring the effectiveness of the Group's system of risk management and internal controls.

During the year, the Committee reviewed and recommended to the Board for approval the Group's 2012/13 annual results and 2013/14 half year results as well as the audit plan for the 2013/14 year end audit.

Policy on non-audit services

It is the Group's practice, whenever possible, to put non-audit work out to tender. The Board only appoints Deloitte LLP to provide non-audit services if the Directors have satisfied themselves that the auditor's objectivity and independence have not been compromised. Deloitte LLP has been used for non-audit work when its historical knowledge of the issues has made it cost-effective to use it. During the year under review Deloitte LLP reviewed the controls around the introduction of the Group's new procurement and accounting system as well as providing a tax advisory service.

Establishment of Risk and Internal Audit function

As part of establishing a Risk and Internal Audit function, a Director of Risk and Internal Audit was appointed during the year. His initial priorities have been to develop the Group's risk management framework and establish a new Internal Audit function. He also reports to the Committee on the effectiveness and adequacy of the Group's management of its risks and controls. A description of the Group's principal risks and uncertainties and its mitigating actions are set out on page 35.

Report of the Nominations Committee and Report of the Remuneration Committee

Report of the Nominations Committee

A Nominations Committee was established in April 2014 to oversee the appointment of Directors. The membership of the Committee is John White (Chair), Frank Nelson, Mike Parsons, Clive Fenton and Nils Albert. Terms of reference for the Committee have been approved.

All of the current Directors, with the exception of Mr Maddock and Mr Albert, were appointed during the year prior to the formation of the Committee. As there have not been any changes to the composition of the Board since the formation of the Committee, there were no meetings of the Committee during the year. No external search consultancy was used in the appointment of the Directors during the year.

Under the terms of the Investment Agreement between the Company and its investors, Directors are approved by the shareholders prior to appointment. As the Company is a private company, Directors are not subject to annual election by the shareholders and therefore there is no requirement for the Committee to review rotation of the Directors.

John White
Nominations Committee
Chairman

Report of the Remuneration Committee

The Remuneration Committee currently comprises Mike Parsons (Chair), Frank Nelson, John White and Nils Albert.

The Committee's terms of reference set out its responsibilities which include the review of the terms and conditions of employment of the Executive Directors. The Committee also monitors the level and structure of remuneration for senior management within the Group. It reviews and approves any bonuses paid to the Group's employees.

The Committee is also responsible for the approval of any employee share schemes. There are currently no employee share schemes in place.

The Committee met once during the year to review the remuneration for senior management and the overall amount of bonuses paid to the Group's employees.

As the Company's shares are not listed, the Company is not required to provide a report on Directors' remuneration. Details of the aggregate of Directors' emoluments are set out in note 4 to the Financial Statements on page 60.

Mike Parsons
Remuneration Committee
Chairman

The Directors of McCarthy & Stone Limited (registered number 6622199) (the Company) present their Report for the year ended 31 August 2014 in respect of the Company and the Group.

Ownership

The Company is owned by a consortium of UK and overseas companies and funds. As at 31 August 2014 the major shareholders in the consortium who each owned more than 5% of the Company were:

Investor	% holding
Remich Holding I S.à.r.l.	25.74
ACMO S.à.r.l.	14.19
Canyon Capital Finance S.à.r.l.	9.04
Barclays Bank plc	8.07
Field Point IV S.à.r.l.	7.21
QP SFM Capital Holdings Limited	6.17

In addition a further 24 companies and funds owned the remaining 29.58% of the Company.

Directors and Directors' interests

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

Name	Position	Date of appointment
Current Directors:		
John White	Group Chairman	23 September 2013
Clive Fenton	Group CEO	17 February 2014
Nick Maddock	Group CFO	19 September 2011
Nils Albert	Non-Executive Director	23 August 2013
Mike Parsons	Non-Executive Director	4 November 2013
Frank Nelson	Non-Executive Director	18 November 2013
Directors who resigned during the year:		Date of resignation
Jeremy Jensen	Group Chairman/Director	31 December 2013
Mark Elliott	Group CEO	17 February 2014

No Director has any interest in the shares of the Company apart from Mr Albert who is a Director of TPG Capital (which, together with Goldman Sachs, owns Remich Holding I S.à.r.l., the Company's largest investor). Mr Albert is the Nominated Shareholder Representative of Remich Holding I S.à.r.l.

There have been no changes in the Directors' interests in the share capital of the Company since 31 August 2014.

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.

Directors' indemnities

As permitted by the Company's Articles of Association, qualifying third-party indemnity provisions for the benefit of its Directors have been in place throughout the year, under which the Company has agreed to indemnify the Directors, to the extent permitted by law and by the Articles, against all liability arising in respect of any act or omission in the course of performing their duties.

In addition the Company maintains Directors' and Officers' liability insurance for the Directors and Officers of all Group companies.

Dividends

The Directors are not recommending the payment of a dividend (2013: £nil).

Political donations

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

Capital structure and going concern

At 31 August 2014 the Group had cash at bank and in hand of £111.1 million (2013: £96.9 million) and £160.0 million (2013: £160.0 million) of gross term debt facilities, which are non-amortising, repayable in August 2018. This facility has an annual cash interest cost of approximately £12.0 million. The Board approved a detailed budget and business plan on 26 August 2014, which indicated that the Group has adequate cash resources to service its debt facilities and to reinvest to facilitate the planned growth of the business for the duration of the loan.

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. They accordingly continue to adopt the going concern basis in preparing the financial statements.

Financial risk management objectives and policies

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

Interest rate risk

The Group's historic capital structure exposed it to significant financial risk of changes in interest rates. Accordingly, the Group historically used interest rate swap contracts to hedge these exposures at fixed rates. These swap contracts were settled on 15 August 2013 as part of the refinancing of the Group. As the exposures under the new capital structure are significantly lower, no new swap contracts have been taken out against the current debt facility. Management is comfortable that the Group could absorb any resulting financial risk of reasonably foreseeable changes in interest rates.

Credit risk

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

Liquidity risk

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

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

Price risk

The Group is exposed to commodity price risk. The Group manages commodity price risk through supplier negotiations. The Group Procurement function meets with the Group's national agreement suppliers at least once a year. Such agreements tend to be of a high volume and are considered to be of strategic importance to the business.

Information presented in other sections

Key events during the year up to the date of this report and the future development of the business are set out in the Strategic Report on pages 01 to 39. The Strategic Report includes the financial review and a description of the principal risks facing the Group.

Details of the Group's risk management objectives and policies are set out on pages 34 and 35.

Information concerning the employment of disabled persons and the involvement of employees in the business is given in the corporate social responsibility section of the Strategic Report on page 36.

Statement of disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

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

This Directors' Report was approved by the Board on 31 October 2014 and signed on its behalf by Nick Maddock, Director.

Nick Maddock
Director
31 October 2014

Statement of Directors' responsibilities in respect of the financial statements

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

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

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

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

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

Independent Auditor's Report

To the members of McCarthy & Stone Limited

We have audited the financial statements of McCarthy & Stone Limited for the year ended 31 August 2014 which comprises the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 August 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.

Gregory Culshaw ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
31 October 2014

Group Profit and Loss Account

For the year ended 31 August 2014

	Notes	2014 Before exceptional items £m	2014 Exceptional items £m	2014 Total £m	2013 Before exceptional items (restated) £m	2013 Exceptional items (restated) £m	2013 Total (restated) £m
Turnover	2	**387.8**	**–**	**387.8**	310.8	–	310.8
Cost of sales		**(283.8)**	**–**	**(283.8)**	(244.2)	–	(244.2)
Gross profit		**104.0**	**–**	**104.0**	66.6	–	66.6
Administrative expenses	2	**(37.9)**	**(2.5)**	**(40.4)**	(29.1)	(11.2)	(40.3)
Other operating income	2	**7.9**	**–**	**7.9**	5.5	–	5.5
Other operating expenses		**(3.4)**	**–**	**(3.4)**	(2.3)	–	(2.3)
Operating profit		**70.6**	**(2.5)**	**68.1**	40.7	(11.2)	29.5
Share of joint ventures turnover		*0.1*	–	*0.1*	*0.1*	–	*0.1*
Share of joint ventures cost of sales		*(0.1)*	–	*(0.1)*	*(0.1)*	–	*(0.1)*
Share of operating profit in joint ventures	9	**–**	**–**	**–**	–	–	–
Net interest payable and similar charges	5	**(11.9)**	**(1.5)**	**(13.4)**	(32.7)	(8.6)	(41.3)
Profit/(loss) on ordinary activities before taxation		**58.7**	**(4.0)**	**54.7**	8.0	(19.8)	(11.8)
Taxation (charge)/credit	6	**(13.0)**	**0.9**	**(12.1)**	(2.3)	3.6	1.3
Profit/(loss) on ordinary activities after taxation		**45.7**	**(3.1)**	**42.6**	5.7	(16.2)	(10.5)
Equity minority interests	19	**(0.1)**	**–**	**(0.1)**	–	–	–
Profit/(loss) for the financial year	18	**45.6**	**(3.1)**	**42.5**	5.7	(16.2)	(10.5)

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

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

All of the figures above relate to continuing operations.

The current year operating exceptional items relate to redundancy costs following an operational review of the business, the exit of the previous Chief Executive Officer and the write-off of debt issue costs incurred in relation to the 2013 refinancing of the Group's liabilities. The prior year exceptional items relate to one-off legal, professional, financing and management incentive costs incurred as a result of the successful refinancing of the Group.

The classification between administrative expenses and cost of sales has been restated in the year. Please see note 1 for further details.

The notes on pages 56 to 68 form part of these financial statements.

Balance Sheets

As at 31 August 2014

		Notes		Group 2014 £m	Parent 2014 £m		Group 2013 £m	Parent 2013 £m
Fixed assets								
Intangible assets:	goodwill	7		**36.8**	**–**		39.3	–
	brand	7		**30.4**	**–**		32.4	–
Tangible assets:	investment properties	8		**0.6**	**–**		0.8	–
	property, plant and equipment	8		**5.7**	**–**		3.4	–
Investments		9		**–**	**419.7**		–	419.7
	share of gross assets		**0.9**			1.1		
	share of gross liabilities		**(0.6)**			(0.6)		
Investments in joint ventures		9		**0.3**	**–**		0.5	–
				73.8	**419.7**		76.4	419.7
Current assets								
Stocks		10		**694.8**	**–**		584.3	–
Debtors:	amounts due within one year	11		**9.5**	**15.3**		10.3	–
	amounts due after one year	12		**29.0**	**–**		27.4	–
Cash		15		**111.1**	**–**		96.9	55.2
				844.4	**15.3**		718.9	55.2
Creditors: amounts falling due within one year		13		**(283.8)**	**–**		(205.4)	(39.9)
Net current assets				**560.6**	**15.3**		513.5	15.3
Total assets less current liabilities				**634.4**	**435.0**		589.9	435.0
Creditors: amounts falling due after more than one year		14		**(160.0)**	**–**		(158.5)	–
Net assets				**474.4**	**435.0**		431.4	435.0
Capital and reserves								
Called up share capital		17		**381.1**	**381.1**		381.1	381.1
Share premium account		18		**56.4**	**56.4**		56.4	56.4
Profit and loss account		18		**36.5**	**(2.5)**		(6.1)	(2.5)
Shareholders' funds				**474.0**	**435.0**		431.4	435.0
Minority interests		19		**0.4**	**–**		–	–
Total capital employed				**474.4**	**435.0**		431.4	435.0

Company registration number: 06622199

Approved by the Board on 31 October 2014 and signed on its behalf by Nick Maddock, Director.

Nick Maddock
Director
31 October 2014

The notes on pages 56 to 68 form part of these financial statements.

Group Cash Flow Statement

For the year ended 31 August 2014

		2014		2013	
	Notes	£m	£m	£m	£m
Operating activities					
Net cash inflow/(outflow) from operating activities	2		**35.5**		(30.1)
Returns on investments and servicing of finance					
Interest received		**0.2**		0.5	
Interest paid		**(12.5)**		(18.5)	
Exceptional interest costs		**–**		(8.6)	
Net cash (outflow) from returns on investments and servicing of finance			**(12.3)**		(26.6)
Taxation					
UK corporation tax paid		**(5.9)**		(0.4)	
Net cash (outflow) from taxation			**(5.9)**		(0.4)
Capital expenditure					
Purchase of fixed assets		**(3.3)**		(1.8)	
Proceeds from sale of investment properties		**0.2**		–	
Proceeds from sale of fixed assets		**–**		2.3	
Net cash (outflow)/inflow from capital expenditure			**(3.1)**		0.5
Cash inflow/(outflow) before financing			**14.2**		(56.6)
Financing					
Issue of equity shares		**–**		150.7	
Loan facility		**–**		97.0	
Repayment of bank loans		**–**		(230.6)	
Capital contributions	18	**–**		0.5	
Net cash inflow from financing			**–**		17.6
Increase/(decrease) in cash during the period			**14.2**		(39.0)

The prior year exceptional item included within 'Returns on investments and servicing of finance' represents the payment of a one-off swap break fee cost incurred by the business in relation to the successful refinancing transaction completed within that year.

The notes on pages 56 to 68 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 August 2014

1. Accounting policies

The following accounting policies have been used in dealing with items that are considered material in the financial statements. They have been applied consistently throughout the current year and prior year with the exception of a change in estimation technique within stock (see below).

Basis of accounting

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

A separate Profit and Loss Account for the Parent Company has not been presented as permitted by the Companies Act 2006. For the year ended 31 August 2014, the Parent Company's loss on ordinary activities after taxation was £nil (2013: £0.3 million).

The accounts have been prepared on the going concern basis. For further details, please refer to the Directors' Report.

Basis of consolidation

The Group's financial statements consolidate the financial statements of McCarthy & Stone Limited and the entities it controls (its subsidiaries) drawn up to 31 August 2014, using consistent accounting policies applied across the Group. Subsidiaries are consolidated from the date of their acquisition or formation, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated. Acquisitions are accounted for under the acquisition method.

Purchased goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the separable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years. The Directors have reviewed the appropriateness of this useful life, and consider that in view of the reputation of the Group and the continuing popularity of the McCarthy & Stone product, a useful economic life of 20 years is justified. Impairment tests on the carrying value of goodwill are undertaken in accordance with FRS11 'Impairment of fixed assets and goodwill' as follows:

- At the end of the first full year following acquisition.
- Annually, if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible fixed assets

The brand in the Balance Sheet represents the fair value of the McCarthy & Stone brand name purchased as part of the business acquisition in 2009. This amount is written off on a straight-line basis over its useful economic life, which is 20 years. The Directors consider that in view of the continuing popularity of the McCarthy & Stone brand, it had a useful economic life of 20 years from 2009.

Interests in joint ventures

The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over these entities. The Group recognises its interest in these entities' assets and liabilities using the equity method of accounting.

Tangible fixed assets

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

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

Freehold buildings	– 50 years
Leasehold land and buildings	– over the shorter of the lease term and 50 years
Fixtures, fittings and equipment	– over three to ten years
Assets in course of construction	– not depreciated during course of construction, followed by depreciation over useful life once brought into use.

Shared equity receivables

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

The shared equity receivables are initially recognised within turnover at fair value being the estimated future amount receivable by the Group discounted to present day values. 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 the end of each financial year and the difference between the anticipated future receipt and the initial fair value is credited to finance income.

1. Accounting policies continued

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

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

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

Stocks
Stocks are stated at the lower of cost and estimated net realisable value. The cost of work in progress and finished stock comprises the cost of land purchases, which are accounted for from the date of contract exchange, when the Group obtains effective control of the site, building costs and attributable production overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. There has been a change to the way in which attributable production overheads have been estimated during the year. Please see note 10 for a further explanation.

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

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

Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Profit and Loss Account.

Pensions and other post-retirement benefits
The Group provides a defined contribution pension scheme arrangement. Contributions to the scheme are recognised in the Profit and Loss Account in the period in which they become payable. The amount charged to the Profit and Loss Account represents contributions payable to the individual policies held by employees with independent insurance companies.

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

Sale of leasehold interests
Revenue represents the consideration received for the sale of leasehold interests in retirement apartments and is recognised on legal completion. Where these completions result in the Group providing 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.

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

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

1. Accounting policies continued

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

Cost of sales
In order to improve the comparability and understandability of the financial statements the Directors have considered it appropriate to reclassify certain costs that were previously shown within 'administrative expenses' as 'cost of sales' within the Profit and Loss Account on the basis that these costs are directly attributable to the unit sales. The main direct costs that have been reclassified are: regional marketing costs that are directly attributable to sales, show flat running costs and estate agent referral fees. This change in disclosure is considered by the Directors to show a true and fair view and should improve comparability with other housebuilders. The reclassified costs total £6.2 million (2013: £6.7 million) and there is no impact on the total operating profit for the year or net assets.

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

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

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

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

Finance costs
Finance costs of financial liabilities are recognised in the Profit and Loss Account over the term of such instruments at a constant rate on the carrying amount.

Finance costs which are directly attributable to the issue of loans are capitalised and amortised over the period of the debt.

Derivative financial instruments
The Group has historically used derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

Share-based payments
Certain Directors and senior managers within the Group are party to a management incentive scheme. The terms of this scheme stipulate that amounts will become payable to the participants if certain future conditions are satisfied. This agreement is accounted for partly as a cash-settled and partly an equity-settled share-based payment scheme.

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.

The cost of cash-settled transactions is measured at fair value. Fair value is estimated initially at the grant date and at each balance sheet date thereafter until the awards are settled. Market-based conditions are taken into account when determining fair value.

2. Operating profit

a. Turnover

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

b. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £m	2013 £m
Operating profit (before exceptional items)	**70.6**	40.7
Depreciation charge	**1.3**	0.8
Amortisation of brand	**2.0**	2.1
Amortisation of goodwill	**2.5**	2.4
(Increase) in stocks (net of land creditor)	**(45.2)**	(78.2)
Decrease/(increase) in debtors	**0.9**	(4.2)
Increase in creditors (excluding exceptionals and land creditor)	**5.9**	7.2
Cash flow on exceptional items	**(2.5)**	(0.9)
Net cash inflow/(outflow) from operating activities (after exceptional items)	**35.5**	(30.1)

The movement in stocks and creditors has been calculated net of the movement on land creditors as the impact on working capital is neutral. The Directors believe that this presentational format presents a fairer representation of the Group's working capital movements and the associated underlying cash flows. Land creditors at 31 August 2014 totalled £222.9 million (2013: £157.6 million).

c. Operating profit is stated after charging

		2014 £m	2013 £m
Depreciation of owned assets		**1.3**	0.8
Amortisation of goodwill		**2.5**	2.4
Amortisation of brand		**2.0**	2.1
Operating lease rentals:	land and buildings	**1.2**	1.0
	plant and machinery	**1.8**	1.6
Auditor's remuneration:	audit services	**0.1**	0.1
	non-audit services	**0.1**	0.2

	2014 £m	2013 £m
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor and their associates for other services to the Group	**–**	–
The audit of the Company's subsidiaries pursuant to legislation	**–**	–
Total audit fees	**0.1**	0.1
Tax services	**0.1**	0.2
Project assurance	**–**	–
Total non-audit fees	**0.1**	0.2

d. Other operating income comprises

	2014 £m	2013 £m
Net rental income	**0.4**	0.7
Other income	**3.9**	3.6
Non-core business revenue	**2.9**	1.2
Land sales	**0.7**	–
	7.9	5.5

2. Operating profit continued
e. Adjusted operating profit

	2014 £m	2013 £m
Operating profit before exceptional items	**70.6**	40.7
Amortisation of goodwill	**2.5**	2.4
Amortisation of brand	**2.0**	2.1
Adjusted operating profit	**75.1**	45.2
Adjusted operating margin	**19.4%**	14.5%

The above adjusted operating profit includes the £8.1 million impact of a change in cost capitalisation estimation technique which was applied from 1 September 2013. The adjusted operating profit excluding this impact would be £67.0 million with an associated adjusted operating margin of 17.3%.

f. Adjusted profit before taxation

	2014 £m	2013 £m
Profit before taxation before exceptional items	**58.7**	8.0
Amortisation of goodwill	**2.5**	2.4
Amortisation of brand	**2.0**	2.1
Adjusted profit on ordinary activities before taxation	**63.2**	12.5

The above adjusted profit on ordinary activities before taxation includes the £8.1 million impact of a change in cost capitalisation estimation technique which was applied from 1 September 2013. The adjusted profit on ordinary activities before taxation excluding this impact would be £55.1 million.

3. Employees
The average monthly number of employees, including Executive Directors, during the year ended 31 August 2014 was 942 (2013: 899). The total number of persons employed by the Group at 31 August 2014 was 900 (2013: 941).

	2014	2013
Average monthly number of employees, including Executive Directors, during the period:		
Office and management	**779**	748
Construction	**163**	151
	942	899

	2014 £m	2013 £m
The aggregate payroll cost, including Directors, was as follows:		
Wages and salaries	**46.7**	40.4
Social security costs	**5.4**	5.1
Other pension costs	**1.7**	1.4
	53.8	46.9

4. Directors' emoluments

	2014 £m	2013 £m
Emoluments (excluding pension contributions)	**1.5**	1.5
Company contributions to Group personal pension schemes	**–**	–
	1.5	1.5
Highest paid Director:		
Emoluments (excluding pension contributions)	**0.4**	0.7
Company contributions to Group personal pension schemes	**–**	–
	0.4	0.7

	2014	2013
Number of Directors in Group personal pension schemes	**1**	1

The emoluments disclosed above include £0.1 million (2013: £0.2 million) sums payable to third parties for Directors' services.

5. Net interest payable and similar charges

	2014 £m	2013 £m
Loans and overdrafts	**12.5**	8.4
PIK notes	**–**	17.2
Interest rate swap payments	**–**	7.9
Interest payable	**12.5**	33.5
Refinancing transaction costs	**–**	8.6
Refinancing issue costs	**1.9**	–
Interest receivable	**(0.4)**	(0.7)
Unwinding of discount on long-term receivables	**(0.6)**	(0.1)
Net interest payable	**13.4**	41.3

6. Tax on profit/(loss) on ordinary activities
a. Analysis of tax credit for the period

	2014 £m	2013 £m
Current tax:		
UK corporation tax on profit for the period	**11.7**	–
Adjustments in respect of previous periods	**–**	(0.1)
Deferred tax:		
Origination and reversal of timing differences	**0.3**	(1.3)
Adjustments in respect of previous periods	**0.1**	0.1
Tax on profit/(loss) on ordinary activities	**12.1**	(1.3)

b. Factors affecting tax credit for the current period

	2014 £m	2013 £m
Profit/(loss) on ordinary activities before taxation	**54.7**	(11.8)
Anticipated tax (credit)/charge based on profit before tax at 22.17% (2013: 23.58%)	**12.1**	(2.8)
Effects of:		
Expenses not deductible for tax purposes	**0.3**	1.8
Income not taxable for tax purposes	**(0.5)**	(0.6)
(Decrease)/increase in unutilised losses and movement in short-term timing differences	**(0.1)**	1.4
(Decelerated)/accelerated capital allowances	**(0.1)**	0.2
Adjustments in respect of previous periods	**–**	(0.1)
Current tax charge/(credit) for the year	**11.7**	(0.1)

The UK corporation tax rate decreased from 23% to 21% from 1 April 2014. The Finance Act 2013, which provides for a further reduction in the main rate of corporation tax from 21% to 20% from 1 April 2015, was substantively enacted on 2 July 2013. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

c. Deferred tax movements

	2014 £m	2013 £m
At 1 September	**2.0**	0.8
(Debit)/credit for the year	**(0.3)**	1.3
Adjustments in respect of previous periods	**(0.1)**	(0.1)
At 31 August (included in debtors)	**1.6**	2.0

6. Tax on profit/(loss) on ordinary activities continued
d. Deferred tax reflected in the Group accounts

	Provided 2014 £m	Provided 2013 £m
Capital allowances lower than depreciation	**0.2**	0.3
Short-term timing differences	**1.4**	1.3
Losses	**–**	0.4
Deferred tax asset provided in the accounts	**1.6**	2.0

Deferred tax has not been provided on capital losses carried forward of £1.6 million as there is insufficient evidence that there will be taxable gains in the future against which these losses can be utilised.

7. Intangible fixed assets
Group

	Goodwill £m	Brand £m	Total £m
Cost:			
At 1 September 2013	50.0	41.4	91.4
At 31 August 2014	**50.0**	**41.4**	**91.4**
Amortisation:			
At 1 September 2013	(10.7)	(9.0)	(19.7)
Charge for the year	(2.5)	(2.0)	(4.5)
At 31 August 2014	**(13.2)**	**(11.0)**	**(24.2)**
Net book value at 31 August 2014	**36.8**	**30.4**	**67.2**
Net book value at 31 August 2013	39.3	32.4	71.7

The fair value of the brand was calculated by discounting to present value the cash flows from intra-Group royalty receipts at an appropriate discount rate. The values attributed to the royalties are turnover-based and represent the monies that the Group would expect to achieve should the McCarthy & Stone brand be sold at arm's length to a third party.

The Parent Company had no intangible fixed assets at 31 August 2014 (2013: £nil).

8. Tangible fixed assets
Group
a. Investment properties at valuation

	Long leasehold equity interests in sold flats £m	Other long leasehold interest (shops) £m	Total £m
At 31 August 2013	0.6	0.2	0.8
Redemptions	(0.2)	–	(0.2)
At 31 August 2014	**0.4**	**0.2**	**0.6**

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

The investment properties are valued based on prices achieved on recent sales of similar properties and are subject to annual review by the Directors and Executive Leadership Team which include suitably qualified Chartered Surveyors and Chartered Accountants. The revaluation exercise led to no change in the valuation. These properties have not been depreciated.

8. Tangible fixed assets continued

b. Property, plant and equipment

	Land and Buildings		Fixtures fittings and equipment £m	Assets in course of construction £m	Total £m
	Freehold £m	Long leasehold £m			
Cost:					
At 1 September 2013	–	0.1	5.9	0.7	6.7
Additions	–	–	1.1	2.5	3.6
Transfers	–	–	3.2	(3.2)	–
Disposals	–	(0.1)	(0.4)	–	(0.5)
At 31 August 2014	**–**	**–**	**9.8**	**–**	**9.8**
Depreciation:					
At 1 September 2013	–	0.1	3.2	–	3.3
Charge for the year	–	–	1.3	–	1.3
Disposals	–	(0.1)	(0.4)	–	(0.5)
At 31 August 2014	**–**	**–**	**4.1**	**–**	**4.1**
Net book value at 31 August 2014	**–**	**–**	**5.7**	**–**	**5.7**
Net book value at 31 August 2013	–	–	2.7	0.7	3.4

The Parent Company had no tangible fixed assets at 31 August 2014 (2013: £nil).

9. Investments

Group

Investment in joint ventures

The Group has a 50% share of the 1,000 issued £1 ordinary shares in each of Kindle Housing UK (Worthing) Limited and Kindle Housing UK (Christchurch) Limited and the two issued £1 ordinary shares in Kindle Housing UK (Exeter) Limited, which rent affordable housing to local key worker employees. The Group also has a 50% share of the two issued £1 ordinary shares of Kindle Housing Limited, which manages affordable housing on a shared equity basis. These companies are all registered in England and Wales.

The Group accounts for its interests in these companies using the equity method of accounting.

The share of the assets, liabilities, income and expenses of the jointly controlled entities at 31 August 2014 is set out below:

	2014 £m	2013 £m
Share of the joint ventures' balance sheet:		
Non-current assets	**1.2**	1.1
Net current assets	**–**	–
Provision for impairment	**(0.3)**	–
Share of gross assets	**0.9**	1.1
Non-current liabilities	**(0.6)**	(0.6)
Share of gross liabilities	**(0.6)**	(0.6)
Share of net assets	**0.3**	0.5

	2014 £m	2013 £m
Share of the joint ventures' income and expenses:		
Turnover	**0.1**	0.1
Cost of sales	**(0.1)**	(0.1)
Share of operating profit in joint ventures	**–**	–

9. Investments continued
Parent

	£m
Shares in unlisted subsidiary undertakings	
Cost:	
At 31 August 2013 and 31 August 2014	419.7
Provision:	
At 31 August 2013 and 31 August 2014	–
Net book value at 31 August 2013 and 31 August 2014	**419.7**

The principal active companies in the Group during the period were:

Company	% Holding ordinary shares	Nature of business	Incorporated and operating in
McCarthy & Stone (Developments) Limited	90	Holding company	England
McCarthy & Stone Retirement Lifestyles Limited	100	Developer	England
McCarthy & Stone (Equity Interests) Limited	100	Property investment	England
McCarthy & Stone (Home Equity Interests) Limited	100	Property investment	England
McCarthy & Stone Investment Properties No. 23 Limited	100	Property investment	England
McCarthy & Stone (Total Care Living) Limited	100	Property investment	England
McCarthy & Stone (Alnwick) Limited	100	Property investment	England
McCarthy & Stone (Extra Care Living) Limited	100	Property investment	England
McCarthy & Stone Total Care Management Limited	100	Property investment	England
McCarthy & Stone Rental Interests No. 1 Limited	100	Property investment	England
McCarthy & Stone Management Services Limited	100	Development management	England
McCarthy & Stone Lifestyle Services Limited	100	Holding company	England
McCarthy & Stone Financial Services Limited	100	Financial services	England
Keyworker Properties Limited	100	Property investment	England
McCarthy & Stone Estates Limited	100	Property resale	England
YourLife Management Services Limited	50	Development management	England

Each of the above shareholdings gives the immediate parent company 100% voting rights, with the exception of YourLife Management Services Limited, where the parent has 50% voting rights, but a majority share of Directorships on the Board of YourLife Management Services Limited.

10. Stocks
Group

	2014 £m	2013 £m
Land for development	**314.8**	234.8
Sites in the course of construction	**191.6**	130.7
Finished stock	**188.4**	218.8
	694.8	584.3
Land for development is further analysed as follows:		
Exchanged land with planning	**47.3**	37.9
Completed land with planning	**88.8**	72.1
Unconditional land without planning	**3.2**	3.1
Conditional land without planning	**175.5**	121.7
	314.8	234.8

From 1 September 2013, the Group revised its calculation of directly attributable overheads which are capitalised and held as stock. These costs now include an increased proportion of design, construction, commercial and planning costs.

This has resulted in a net positive impact on the Profit and Loss Account of £8.1 million. These costs would previously have been expensed as incurred.

10. Stocks continued

The table below details the impact of this change on the primary financial statements for the year ended 31 August 2014.

	2014 Pre revised estimation technique before exceptional items £m	Impact of revised estimation technique £m	2014 Post revised estimation technique before exceptional items £m	2013 Before exceptional items £m
Turnover	387.8	–	387.8	310.8
Cost of sales	(292.4)	8.6	(283.8)	(244.2)
Gross profit	95.4	8.6	104.0	66.6
Gross margin	*24.6%*	–	*26.8%*	*21.4%*
Administrative expenses	(37.4)	(0.5)	(37.9)	(29.1)
Other operating income	7.9	–	7.9	5.5
Other operating expenses	(3.4)	–	(3.4)	(2.3)
Operating profit	62.5	8.1	70.6	40.7
Current assets – stocks	686.7	8.1	694.8	584.3

11. Debtors: amounts falling due within one year

	Notes	Group 2014 £m	Parent 2014 £m	Group 2013 £m	Parent 2013 £m
Trade debtors		1.4	–	0.4	–
Other debtors and prepayments		7.5	0.5	7.0	–
Corporation tax		–	–	2.0	–
Deferred taxation	6	0.6	–	0.9	–
Amounts owed by subsidiary undertakings		–	14.8	–	–
		9.5	15.3	10.3	–

12. Debtors: amounts falling due after one year

Group

	Notes	2014 £m	2013 £m
Secured mortgages		3.7	4.4
Shared equity receivables		24.3	21.9
Deferred taxation	6	1.0	1.1
		29.0	27.4

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

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

Notes to the Financial Statements continued

For the year ended 31 August 2014

13. Creditors: amounts falling due within one year

	Group 2014 £m	Parent 2014 £m	Group 2013 £m	Parent 2013 £m
Trade creditors	11.1	–	12.7	–
Conditional land creditors	216.4	–	143.5	–
Unconditional land creditors	6.5	–	14.1	–
UK corporation tax	5.9	–	–	–
Other taxes and social security costs	1.3	–	1.1	–
Unamortised issue costs	–	–	(0.4)	–
Other creditors	42.6	–	34.4	39.9
	283.8	–	205.4	39.9

Conditional land creditors relate to the unpaid purchase consideration due on sites acquired that are conditional on satisfying certain contractual conditions. In circumstances where these conditions are not satisfied the land creditor payment will not become due.

Other creditors include amounts of £nil (2013: £0.3 million) in respect of Directors.

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

Group

	2014 £m	2013 £m
Other loans	160.0	160.0
Unamortised issue costs	–	(1.5)
	160.0	158.5

The Group's loans are analysed as follows:

	Nominal interest rate	Year of maturity	Outstanding at 31 August 2014 £m	Outstanding at 31 August 2013 £m
Loan facility	Libor + 7.25%	2018	160.0	160.0
			160.0	160.0

The Group has £160.0 million (2013: £160.0 million) of loans in the form of term debt facilities. These are non-amortising, with a five-year term, repayable in August 2018. The nominal interest rate rises to Libor + 8.25% from February 2015.

Loans are secured on the fixed and floating assets of the Group.

15. Analysis and reconciliation of net debt

Group

	31 August 2013 £m	Cash flow £m	31 August 2014 £m
Cash	96.9	14.2	111.1
Loan facility	(160.0)	–	(160.0)
Total debt (excluding cash)	(160.0)	–	(160.0)
Net debt	(63.1)	14.2	(48.9)

	2014 £m	2013 £m
Increase/(decrease) in cash	14.2	(39.0)
Cash flow arising from change in debt	–	133.6
Change in net debt resulting from cash flow	14.2	94.6
Other non-cash movement	–	201.8
Net debt at 1 September	(63.1)	(359.5)
Net debt at 31 August	(48.9)	(63.1)

16. Operating lease commitments

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

	Land and buildings 2014 £m	**Other 2014 £m**	Land and buildings 2013 £m	Other 2013 £m
Operating leases expiring:				
In less than one year	**0.1**	**0.7**	0.1	0.4
In two to five years	**0.1**	**1.2**	–	1.6
In more than five years	**0.5**	**0.1**	0.5	–
	0.7	**2.0**	0.6	2.0

17. Share capital and reserves

	Authorised No. '000	Authorised £'000	Allotted, called up and fully paid No. '000	Allotted, called up and fully paid £'000
Equity share capital				
Ordinary shares of 20p each				
At 31 August 2013	No limit	No limit	1,905,550	381,110
At 31 August 2014	**No limit**	**No limit**	**1,905,550**	**381,110**

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

	Called up share capital £m	Share premium £m	Profit and loss account £m	Total £m
Group:				
At 31 August 2013	381.1	56.4	(6.1)	431.4
Share-based payments	–	–	0.1	0.1
Profit for the financial year	–	–	42.5	42.5
At 31 August 2014	**381.1**	**56.4**	**36.5**	**474.0**
Company:				
At 31 August 2013	381.1	56.4	(2.5)	435.0
At 31 August 2014	**381.1**	**56.4**	**(2.5)**	**435.0**

The Group received no capital contributions during the year ended 31 August 2014 (2013: £0.5 million).

19. Minority interests

	Total £m
At 1 September 2013	–
Share of profit on ordinary activities after taxation	0.1
Share issue in subsidiary undertaking	0.3
At 31 August 2014	**0.4**

20. Contingent liabilities

The Group has given unlimited guarantees in relation to the bank overdraft, loan and hire purchase liabilities of its subsidiary undertakings. At 31 August 2014, the amount outstanding under those facilities was £160.0 million (2013: £160.0 million).

21. Pensions

A defined contribution money purchase pension arrangement is operated for employees in the UK to which the Group makes a contribution under specified circumstances. The Group's pension cost for the period was £1.7 million (2013: £1.4 million). The unpaid contributions outstanding at 31 August 2014 were £nil (2013: £nil).

22. Related parties

The Group and Company have taken advantage of the exemption available under FRS8 paragraph 3(c) from disclosing the transactions between members of the McCarthy & Stone Limited group of companies.

23. Share-based payments

Directors and selected employees entered into a Management Incentive Plan in the period. The Management Incentive Plan entitles the participants to a cash bonus and shares if certain future conditions are met. The split of cash and equity will be based on a hurdle mechanism which accrues from a predetermined starting equity value compounded at a set rate of interest per annum. The cash payment will be a percentage of the final valuation above the starting equity value but below the hurdle. The shares will entitle the participants to a percentage of the total value created above the hurdle.

Equity-settled share-based payment

The cost of equity-settled transactions with the participants is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the expected vesting period. The number of shares issued to the participants was 19,150 and the fair value of the shares at the grant date is measured at £1.3 million based on management's most recent valuation. Therefore the Group recognised a cost of £0.1 million in the Profit and Loss Account in relation to the equity-settled share-based payment.

Cash-settled share-based payment

The fair value of the cash payment under the Management Incentive Plan has been valued at £2.9 million at 31 August 2014 based on the Directors' best estimate of possible expected outcomes. Therefore the Group recognised a total cost of £0.2 million in relation to the cash-settled share-based payment during the year ended 31 August 2014.

24. Ultimate parent undertaking and controlling party

McCarthy & Stone Limited, which is registered in England and Wales, is considered to be the Group's ultimate parent undertaking and controlling party. There is no ultimate controlling party of McCarthy & Stone Limited.

General Company Information

McCarthy & Stone Limited is registered in England and Wales, registered number 6622199.

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Cautionary statement regarding forward-looking statements

Some of the information in this document may contain projections or other forward-looking statements regarding future events or the future financial performance of McCarthy & Stone Limited and its subsidiaries (the Group). You can identify forward-looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could", "may" or "might", the negative of such terms or other similar expressions. McCarthy & Stone Limited (the Company) wishes to caution you that these statements are only predictions and that actual events or results may differ materially. The Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Group, including among others, general economic conditions, the competitive environment as well as many other risks specifically related to the Group and its operations. Past performance of the Group cannot be relied on as a guide to future performance.

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Glossary of Financial Terms

Revenue	Turnover including revenue from the sale of freehold reversionary interests.
Operating profit	References in the Strategic Report to operating profit relate to adjusted operating profit before exceptional items and amortisation of intangibles, as shown in note 2e to the financial statements.
Operating margin	References in the Strategic Report to operating margin relate to adjusted operating margin before exceptional items and amortisation of intangibles, as shown in note 2e to the financial statements.
Profit before tax	References in the Strategic Report to profit before tax relate to adjusted profit before tax before exceptional items and amortisation of intangibles, as shown in note 2f to the financial statements.
Net average selling price	Turnover from unit sales/units sold.
Tangible net asset value	Net assets excluding intangible assets.
Tangible gross asset value	Tangible net asset value excluding net debt.
Return on average capital employed	Operating profit/average tangible gross asset value.
Gearing	Net debt/net assets.

Notes


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