



McCarthy & Stone plc

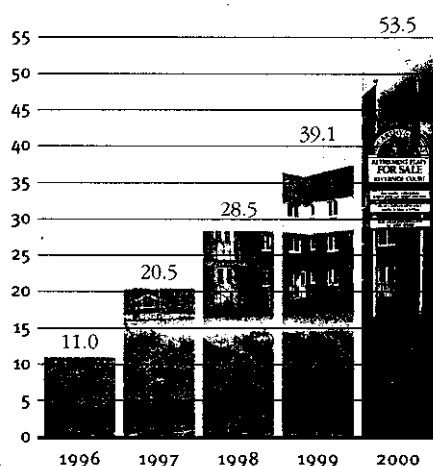


Annual Report & Accounts 31 August 2000

McCarthy & Stone is the leading developer of private retirement housing in the United Kingdom and is uniquely positioned to improve substantially its performance through the growth of the affluent 'grey market'.

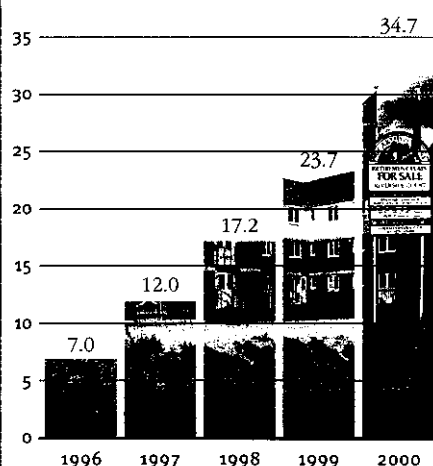
Financial Highlights

Pre-tax profit (£m)



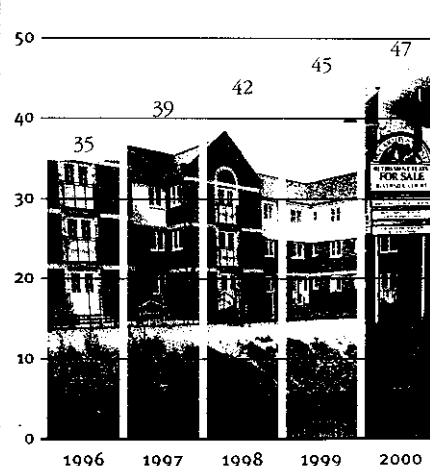
Pre-tax profits up for the sixth year running

Earnings per share (pence)



Significant earnings per share growth over the period

Gross profit margin (%)



Gross profit margin the best within the industry



George Hipson, former groundsman to Beatles' drummer Ringo Starr, has no worries about the gardening at Mayfield Court, Edinburgh. He said: "My old house was becoming too much to look after. Once I'd made up my mind to get a flat, I knew it was the right thing to do".

The benefits of a McCarthy & Stone lifestyle

At the turn of the Millennium, McCarthy & Stone retains the dominant position it has held within the UK retirement housing market since the Company began its specialisation 23 years ago, with the opening of Waverley House in New Milton.

Waverley House was Britain's first private retirement housing scheme and marked the birth of an entirely new option for the retired home-buyer, an option that is proving to be more popular with its purchasers than any other form of new housing. Scoring top marks in each measurable category within MORI's, New House Purchases – National Consumer Survey 2000 and winning 15 out of 20 categories in NOP's Homeowners Survey 2000, McCarthy & Stone now also leads the way for the entire new homes industry.

Tailor-made for the over-60's
What distinguishes McCarthy & Stone from other forms of housing is the host of features specifically designed with the older home-buyer in mind, based on feedback from our customers over 23 years.

Most developments have a lift to all floors, purpose-built laundry facilities, a recreation lounge and a twin-bedded guest suite which can be booked at very reasonable rates by friends and relatives.

Security is a priority

With a camera entry security system monitored in each flat by simply changing to a special channel on a standard television set, unwanted guests are deterred. There are also alarm contacts on all ground floor doors and windows and developments throughout the country have won awards from local police for the security-conscious design of their landscaped grounds.

In addition to technology, residents enjoy the peace of mind of knowing that there are neighbours around all the time, and that the development's house-manager is there to keep an eye on things.

Benefits that extend to the whole family

We aim to provide a lifestyle which is easy and carefree for all our purchasers. With all external maintenance and gardening chores taken care of, McCarthy & Stone customers often find they don't have to rely so much on friends and relatives to keep up their home.

And with a 24-hour emergency call system installed in every flat and throughout the shared areas of each development, customers' relatives know that help is readily available around the clock.

Location is everything

McCarthy & Stone developments are always located as close as possible to essential shops and services. So, even if they have given up driving, or might do so in the future, residents can enjoy the independence of having everything they need close at hand – further reducing the need to rely on other people.



Typical bedroom

"I am delighted that I can pass on the executive responsibilities to Keith Lovelock, Chief Executive, who will become Deputy Chairman. I am very honoured to have been asked by the Board to continue in the role of Non-Executive Chairman."

Chairman's Statement

I am delighted to report that the Group has produced another set of outstanding results. In this, my last Statement as Executive Chairman, I am proud to declare that the Group is in excellent health.

Profit before taxation was £53.5m (£39.1m), including an exceptional profit of £1.6m, an increase of 37% and earnings per share increased by 46% to 34.7p. In looking at the Group's performance and with net cash of £58.4m at the year end the Directors are very pleased to propose a final dividend of 7p which, when combined with the interim dividend of 1.7p, makes a total dividend for the year of 8.7p (6.3p), an increase of 38%. The Group's dividend cover remains very satisfactory at 4.0 times. Over the last six years, our increases in earnings per share have achieved compound growth of 40%. The Group's return on capital, on the basis of shareholders' funds at the year end, was an exceptional 32%.



*Madingley Court,
Southport*

Overview

As I stated at the half year, we started the year with significantly improved reservation and forward sales levels and reported a record half year with a very strong performance from all our Regions. As anticipated, activity levels slowed in the second half year but with a strong sales price position we were able to achieve record margins.

Throughout the year the Group has focused on its land acquisition programme and, with the benefit of the new Western and North East Regions, we were able to acquire 53 sites, representing approximately 2,500 units, which will prime our volume growth over the years ahead. The new Regions are performing well.

We have stretched our operating margins once again, moving them forward to 35% (32%). These are now comfortably the highest in the housebuilding industry. We have achieved these margins by our focus, over the years, on acquiring the right sites at the right prices, cost effective methods of construction and a careful approach to overheads. I would stress the contribution of our staff whose focus on containing costs has had a significant effect on our margins. Although we have achieved this margin growth, I have cautioned in the past about our ability to repeatedly increase margins. However,

as we move forward, we should continue to benefit from selling prices that we have sought to maximise, together with historically low land and build costs.

We have increased our staff numbers over the year as part of our programme of expansion and provided greater opportunities for those within the Group. However, we do monitor our cost base and assess, carefully, the requirement to take on any new staff. In addition, we have sought to ensure we control the fixed element of our overheads whilst allowing our incentive arrangements to provide good rewards for our staff as they participate in the success of the Group. We are thus able to provide enhanced opportunities and rewards linked to performance without unduly adding to the fixed cost structure.

We were pleased to note that in the last Budget there was no reference to the possible imposition of VAT on new housing. We have always considered that any such proposal would be complicated, discriminatory and retrospective in impact as well as inflationary, as it would add costs that would have to be passed on. We welcome, however, the Government's initiatives to assist and encourage the redevelopment of 'brown' land and the suggestion of Stamp Duty relief to assist such a process.

Planning

I have regularly commented in previous years on the many constraints imposed on our industry by the Planning regime. I cannot overstate the impact of this regime and the effect it has on the industry. We and others are obliged to establish systems and procedures to alleviate the threats to our business.

I start from the basis that Government projections and other studies demonstrate an increasing need for more suitable homes for the elderly and that this type of housing will account for a substantial proportion of the new homes required over the next twenty years. Good sites for sheltered housing are hard to find and there is a scarcity of the specialist form of housing which we provide and significant barriers to entry to that market which effectively limit the provision by others. However, despite that demonstrable and increasing need, we find such provision is threatened by many Local Planning Authorities and even by the Government where the general guidance provided is insufficiently precise to protect the interests of the elderly who wish to live in privately owned, cost effective homes of the kind that we provide.



Chairman's Statement *(continued)*

I have referred before to the 'contributions' (planning gain) requested or required of us by Local Planning Authorities to secure planning consents. In many cases these go far beyond anything which might be justified as being directly related to our specific development proposal. In addition, we notice a disquieting trend in the way in which 'Affordable Housing' provision, a new form of minority tax, is being sought from the industry in general and from our form of development in particular. This trend runs counter to the Government's aims to achieve sustainable development and to meet the special needs of the community as a whole. The thresholds, in terms of number of units and size of site that are considered suitable for the provision of affordable housing, are being steadily reduced by many Local Planning Authorities to levels far below those originally envisaged by Government guidance or are reasonably achievable. The Authorities' objectives seem to be to try to take control, directly or indirectly, of the development process to assist them to meet a broader social agenda. We note, for instance, that the new Greater London Authority is seeking as much as a 50% affordable contribution.

The Government is presiding over an inflationary cycle whilst purporting to be

concerned about the increasing cost of housing. A further twist in this process arises with the inability of "key workers" on lower incomes to afford housing and, hence, the "affordable" imprecise on housebuilders is increased to meet this need so imposing further inflationary cost pressures on housebuilders. The requirements of the planning regime have been and continue to be one of the largest inflationary constituents of house price increases.

This approach to "affordable" which, in effect, amounts to a form of taxation tends to discriminate against our higher density developments on sites which, if they were acquired by developers for lower density housing, or other forms of commercial developments, would not otherwise be caught. Despite our form of development meeting a recognised planning need, we continue to be threatened by and suffer from this minority tax. As our form of development releases under-occupied existing housing stock to the wider market and contributes to the general welfare of our elderly population, we continue to feel the special merits of our form of housing are not being systematically recognised in planning terms, despite the ageing of the population and the acknowledged need for such specialist housing.

As a Group, we have been required to put enormous resources, at great expense, into our planning and design operations and my concern increases as I see how much each planning consent costs. These charges are ultimately borne by our customers. Each planning consent achieved over the last year has taken, on average, forty-five weeks to secure from the date of the planning application. Thankfully the time taken for appeals to be heard by the Planning Inspectorate has fallen over the last few years as the Inspectorate has increased resources in response to concerns voiced by this Company and the industry as a whole.

Staff and suppliers

In this, my last report as Executive Chairman, I would like to record my sincere thanks to all our staff for their exemplary performance. We expect a great deal of our staff at all levels and it is with enormous appreciation of their whole-hearted commitment that we can look back upon the outstanding achievements of recent years. With colleagues of such calibre and enthusiasm we can set ever more challenging objectives, confident that our staff will strive to the utmost to achieve them.

Notwithstanding our successes and the commendations we have received arising

Mrs Hilary Cooper bought a retirement flat at Arkle Court near Chester on our part exchange scheme. "I first came to Arkle Court with a friend to see the Beverley Sisters open it. I was so impressed that I put a deposit down there and then. We walked into the beautiful lounge, which was so light and well furnished, and the people were so friendly. I was worried everyone would seem really old but I couldn't have been more wrong.

"There's a very good social life here and some of us are even planning to go on holiday together."

from the industry surveys on our commitment to our Customers, we cannot afford any element of complacency. We are renewing our focus on enhancing our Customer Care programmes. I must thank our suppliers and sub-contractors for all they do to help us provide a quality product for our Customers.

Directors

We were very pleased to welcome Howard Phillips as an Executive Director from 1 October 2000, with responsibility for our operations in the north of the country. The appointment reflects the Group's continued growth across the UK and the benefit of splitting the operational responsibilities for managing the expanding portfolio of Regions between Howard, Operations Director - North and Mike Jennings, Operations Director - South. Howard has twelve years' experience with the Group, ten of which as a Regional Managing Director. He will be responsible for the Scottish, North West, North East and Midlands Regions.

As I indicated, at the half year announcement, I intend to relinquish my executive responsibilities at the Annual General Meeting in December. As a co-founder of McCarthy & Stone, with over forty years of my life invested

in building the Group into one of the most profitable housebuilders in the UK. I am delighted that we are in such a strong position and I feel very proud of our achievements. I am delighted that I can pass on the executive responsibilities to Keith Lovelock, Chief Executive, who will become Deputy Chairman. I am very honoured to have been asked by the Board to continue in the role of Non-Executive Chairman.

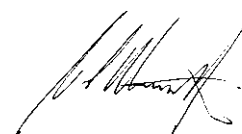
Prospects

We have completed another record trading year although there were clear signs that the market was slowing during the summer months. We were relieved at this slowdown as the strength of the housing market over the preceding eighteen months was potentially unsustainable and destabilising for the future.

As we report, we continue to enjoy low inflation and low unemployment with a sound economic environment. The increases in interest rates earlier in the year appear to have stabilised the market. I believe that, while indications from Scotland and the North remain uncertain, the outlook for the housing market remains sound.

However, in terms of this financial year, we have started the year with lower levels of finished stock and reservations carried forward from the previous year and the reservation rate continues to run slightly below that of last year. We anticipate that unit completions in the first six months will be lower than last year although margins should continue to be healthy. The visitor flow at our sales outlets is now running above last year's and that, combined with the significantly higher levels of work in progress that we are carrying, will support a stronger level of sales for the second half year.

For the full year, whilst we must remain ever vigilant in the event of detecting signals of a downturn, we intend to pursue volume growth and, with the benefit of the strong sales price performance of recent years, we can look forward with confidence.



*John McCarthy, MBE
Chairman*



Former colleagues Peter Swailes and Peter Cotton had known each other for 50 years but didn't realise they were neighbours until they met in the laundry room at Canberra Court, Gosport, Hants. Mr Cotton said: "The security at Canberra Court is marvellous. I recently went to visit my son in Canada for a month, knowing my flat would be safe."

Chief Executive's Review



Keith Lovelock

We have produced a set of outstanding results breaking all previous records. In addition to increasing, yet again, our volumes and margins we have maintained our dominant share, at approximately 70%, of the new retirement housing market.

The two new Regions which we established last year have been successful in securing land, as have our five established Regions. We are now opening a further Region, the North London Region, as well as a satellite office at Exeter. We are also about to launch our first Assisted Living development aimed at a separate niche of the retirement market to our core product. These initiatives will put us in a strong position for the future.

Retirement Housing Sales and Margins

We sold 1,536 units (1,470) an increase of 4%. Our performance in the first half year was particularly strong in a favourable market and we are also pleased with the second half year sales performance in a slower market. During the year we sold on a total of 109 sites, the same as last year and had an average of 60 active sites (63). We achieved an average selling price of £89,500 (£80,200), an increase of 12%. The uplift in average selling price was on the basis of a relatively constant mix of 2 bedroom flat sales, 32% (33%) but helped by a slightly greater proportion sold in the South East and South West, 55% (54%). The uplift in average selling price in the South East was 17% compared with more modest price rises elsewhere. As a result of our achieving significant increases in selling prices and with our land costs and build cost only rising modestly, we have been able to increase our gross margins from 45% to 47%. At the operating profit level our margins are leading the housing industry at 35% (32%).

Chief Executive's Review *(continued)*

All Regions performed well but we recognise the outstanding contribution from our South East Region, once again, which was assisted by the strong market emanating from London. The Scottish Region experienced the most difficult trading conditions where the slowdown in activity levels started noticeably earlier. This slowdown became more widespread across the rest of the country towards the end of the financial year.

We have made further progress with honing our marketing skills and deriving the best value from our Sales Progression System where we can harness the results of our national and regional advertising to greatest effect. We have been pleased to note from our regular surveys that recognition of the "McCarthy & Stone" brand has moved ahead strongly in the last two years.

Land and Stock

The Group exchanged contracts on 53 sites (35) representing 2,561 units (1,673), a very significant increase. The average cost of land units acquired rose quite sharply as we have sought to acquire, in the main, higher value schemes in higher value areas. We have continued to purchase land on our normal criteria and margin requirements. As a proportion of anticipated revenue,

based on current selling prices, the land cost represents 21% of revenue. With the prospect of more competition for brown land, particular emphasis was placed on acquiring land in the year to ensure that the Group has the resources to meet its medium term volume objectives. We achieved these objectives and were particularly pleased with the success of many of our land teams.

At 31 August 2000, finished stock and work in progress totalled 3,012 units (2,775) an increase of 8%. This provides the resources to continue to move volumes ahead next year, although the lower levels of finished stock compared to last year will constrain volume sales in the first half year compared to last year. Overall the stock level of 6,537 units (5,685), an increase of 15%, inclusive of units in land, represents over 4 years' sales at last year's sales rate.

Year end Stock (Units)				
	1998	1999	2000	Change
Finished	1,472	1,703	1,495	
Under Construction	1,177	1,072	1,517	
	2,649	2,775	3,012	
	5,394	5,685	6,537	+15%
Unit Sales	1,320	1,470	1,536	

Construction

We have strengthened our construction teams across the Regions. We delivered 1,327 units (1,698) to finished stock and ended the year with a much higher level of work in progress at 1,517 units (1,072), a 41% increase. The Group started the year with concerns over cost pressures, particularly in terms of labour, but as the year unfolded some of these pressures have abated. Build costs are currently increasing by approximately 5%, most of which is attributable to labour related costs.

Securing suitably qualified labour continues to be a difficulty and we note certain skill shortages, particularly in the Southern Counties.

The Group always monitors construction costs very carefully and I can report that we have had very few instances of build cost overruns and a greater incidence of savings being recorded against anticipated build costs.

We have continued to undertake a number of design and build contracts and we successfully and profitably completed four such contracts in the year.

Planning

We achieved 32 planning consents in the year (32). The average time to achieve a



*Lilac Court,
Brighton*

consent fell slightly to 45 weeks (53), still an unacceptably long period. Although PPG3, issued by the DETR last year, should have helped to speed up the planning process there is little evidence of this.

Our success rate at appeal was not as high as in recent years but still good by normal measures. We continue to believe that preparing our planning applications to appeal standard and our willingness to follow a planning application, should it fail, through to appeal should that be necessary, ensures a better outcome than would otherwise apply. We maintain our policy of not being prepared to compromise our objectives in the light of unreasonable requests that tend to emanate from Local Planning Authorities. During the year we secured seven consents where we were obliged to submit appeals and where the Local Planning Authorities then agreed to our proposals.

We do note that the central Government's willingness to properly staff the Inspectorate has resulted in fewer planning appeal backlogs. Nonetheless, the Group's planning costs continue to rise, reflecting the ever increasing regulatory framework within which the Group is expected to operate.

The McCarthy & Stone Brand

Once again, McCarthy & Stone claimed the industry's most prestigious award in becoming Daily Express Housebuilder of the Year 2000, within the 751-1500 unit category. Polling top marks in key areas such as, "Helpfulness of sales staff", "Meeting building deadlines" and "Condition of home on moving day", this is the second year running that our Customers have ranked us "number one" in an independent survey.

This Millennium year also saw the Company gain industry-leading results in a major Homeowners Survey conducted by National Opinion Polls (NOP), on behalf of the National Housebuilding Council (NHBC). Out of the 20 performance criteria measured, McCarthy & Stone gained top marks in 15 and came second in four more. On key questions like standard of workmanship, McCarthy & Stone was significantly ahead of the industry average with 89% satisfied customers. A key test - would you recommend your builder to a friend? - brought an overwhelming 'yes' vote and significantly higher than the average of the largest new homes builders in the UK.

The Group also achieved a 100% rating in a co-sponsored Housing Forum DETR

survey, conducted by MORI, scoring a maximum three stars in each category measured.

This year, we have made an investment in the internet portal, Vavo, (www.Vavo.com), the largest of its kind in Europe, serving the mature market which includes our Customers. This investment, which we hope to be rewarding, has assisted us in establishing an attractive and productive web-site, should offer us the opportunity to provide internet access to our residents on a cost-effective basis and will help us to increase further our overall understanding of the profile of mature consumers. These factors should assist us to provide an even better service to our Customers.

Management and staff

As we extend our commitment to profitable volume growth, we continue to strengthen our Regional teams and our core Head Office team. I am pleased to see the number of internal promotions that we have generated over the last year which ensures that our specialist skills are retained and developed for the benefit of the Group. We continue to put a greater emphasis on training. We are currently in the midst of a "Desktop 2000 project" to provide all our staff with a common hardware and

King George's Court,
Rayleigh



Chief Executive's Review *(continued)*

software platform to enable them to contribute and communicate more effectively with colleagues, other departments, suppliers and external parties. Once this platform is in place and operational it will facilitate further IT improvements across the Group.

We are also beginning a project to install an "Integrated Construction System" that will affect nearly all areas of the business in applying an integrated information technology approach to our estimating, construction, costing, purchasing and finance processes. The benefits of this will emerge over the years ahead.

Our numbers of staff continue to rise both in the operating Regions and in terms of Head Office support as we seek to increase our capacity to grow future volumes. At August 2000 we employed 674 staff, an increase of 19% on the previous year.

Strategy and achievements

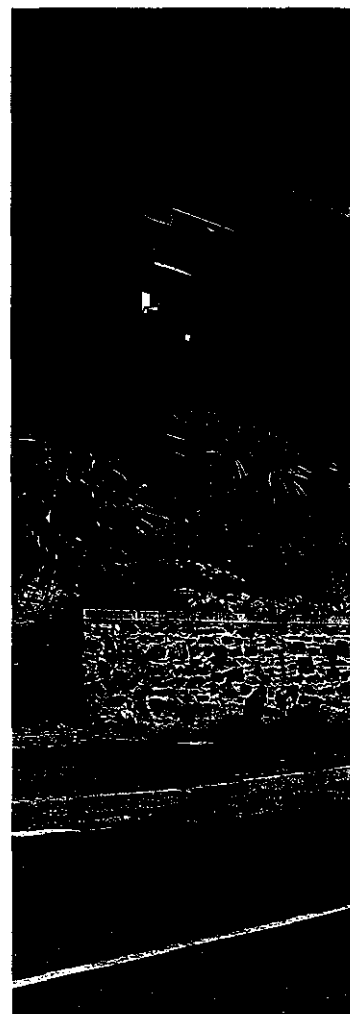
In recent years we have focused on the core skills of land buying, planning, construction and sales supported by robust systems and financing. The results have been to generate the highest margins in the industry combined with a dominant market share. As I look forward the strategic objectives continue to be:

- Focus on our core retirement sector
- Continue to enhance Customer satisfaction through product development and Customer Care programmes
- Ensure volume growth by prudent land buying and regional growth
- Safeguard our margins and ensure the necessary systems and controls on costs are in place
- Continue to strengthen our management resources and ensure the appropriate training programmes are in place

We have committed a great deal of senior management time over the last year to ensuring that our core Head Office and Regional teams have a clear vision of our strategic direction. We have reformulated "Our Future Plan" identifying our "strategic objectives" and "measures of success" and the "key drivers" that will help us to continue to succeed.

I am confident that this renewal of focus on our core business will provide a good platform for the future success of the Group.

Keith Lovelock
Chief Executive





*Lystra Court,
St Annes*

Around the Country

South West

The South West Region enjoyed another successful year, with unit sales passing the 400 mark for the first time, generating healthy revenue and profit. We also delivered a good year in terms of land acquisitions and had some notable successes on the planning front. We are well positioned for the next couple of years.

Concerns still exist with the approach of many Local Planning Authorities, which has the effect of extending the time it takes us to gain a consent. However, the latest PPG3 should, overall, be good for our type of development.

Despite some upward pressure on labour and material prices over the last twelve months, costs are under control. We are watching the current housing market carefully.

Derek Field

*Regional Managing Director
South West Region*

Midlands

The Region had an excellent year with unit sales exceeding budget and delivering the highest pre-tax profit since the Region was established.

Construction work started on six sites and these will provide new stock for sale from early next year. In addition, a Design & Build scheme was successfully completed and handed over in August with another planned for hand over in October.

The Region achieved planning approval on five sites with no appeals.

Our major focus during the period ahead will be to buy more land to sustain the Region's performance. As such, the Land Department has been reorganised and land search activity significantly increased.

Keith Johnson

*Regional Managing Director
Midlands Region*

North West

Whilst sales numbers remained constant, margins and profits increased year on year with our average price being nearly £10k higher than last year at £80,400.

Most pleasing though was a record year for land acquisition which gives the Region the opportunity for volume growth in 2001 and beyond. Planning successes mean we have some excellently located sites coming forward into sales during 2001. Subject to the performance of the housing market we are well placed.

Howard Phillips

*Regional Managing Director
North West Region*

South East

The South East Region achieved a record number of sales in the year in a market that remained very buoyant until the spring. The average selling price increased by 17% to £105,000. A combination of increased prices together with tightly controlled build costs and overheads delivered a very significant increase in profits.

Despite the highly competitive land market and inherent planning difficulties, the Region had a very successful year in securing land exchanges.



Whilst there are varied signals emerging for the South East market, the outlook for the Region is encouraging. There is no finished stock that is over 15 months old and it is anticipated that substantial levels of new stock will be released for sale in the next financial year.

Mike French

*Regional Managing Director
South East Region*

North East

The North East Region contributed to Group profits in its first year and exceeded its targets in both turnover and sales. Emphasis is being placed upon securing increasing levels of stock for the coming years and securing more land.

The planning system continues to frustrate our objectives and we are already engaged in the Region's first appeal. I am pleased to report that we are now building on our first site and have several planning applications underway. Despite some uncertainty in the market, the forward level of enquiries for each site is positive and the Region looks forward to capitalising on these encouraging signs.

Trevor Thompson

*Regional Managing Director
North East Region*

Western

The Region recorded a successful year and established itself in offices in Bristol. Land purchases were ahead of budget creating good potential for the future and further acquisitions have been identified.

Planning applications have been made on two sites where we now encounter the uncertainties of the current planning system, while our first construction start has been made on a development in Swansea. The Region has recorded good sales levels on its site in Bristol, which is now more than two thirds sold.

We look forward to securing the future of the Region.

Steve Phillips

*Regional Managing Director
Western Region*

Scotland

The Region opened three new sales outlets during the year at Falkirk, North Berwick and Phase II of Paisley - Phase I being last year's success story. The Scottish market during the year was less buoyant than the rest of the country and our sales targets presented a challenge.

Our area of operations has been further extended with land being acquired in Inverness, a previously un-tapped market with good potential.

With additional land and design resources in place, further expansion is now the challenge for the forthcoming year.

Steve Wiseman

*Regional Managing Director
Scottish Region*

Assisted Living

Construction commenced on the first Assisted Living development at Saxon Court, Bicester in February 2000 following a three month archaeological investigation which revealed evidence of a 5th Century Saxon timber structure. We launched the development in October and are on programme for first occupations in February 2001.

The land target was achieved with exchanges in the year at Bingley, West Yorkshire and Crawley, West Sussex.

The Division has also secured a further six Design and Build contracts for completion in 2000/2001.

With the growth of the Division, new staff joined in the Land, Surveying and Sales and Marketing Departments.

Paul Trofimov

*Managing Director
Assisted Living Division*

Regional Managing Directors

Top row left to right

Nere Phillips, Western

Paul Trofinor, Assisted Living

Keith Johnson, Midlands

Mike French, South East

Trevor Thompson, North East

Bottom row left to right

Sterc Wiseman, Scotland

Derek Field, South West

Howard Phillips, North West

McCarthy & Stone plc



Councillor Pat Cole, Mayor of Alton (right), with guests at the official opening of Willow Court, Alton.

Financial Review



Matthew Thorne

The Report & Accounts have been prepared in accordance with accepted accounting principles and in line with standards issued by the Accounting Standards Board.

With the exception of accounting for other tangible fixed assets which has been amended in the light of the introduction of FRS15, the Group has adopted the same accounting policies as last year, which are set out on pages 50 to 51, in drawing up the financial statements.

Capital Structure and Treasury Policy

During the year the Company issued 1,481,715 Ordinary shares of 20p for a cash consideration of £1,917,686 as a result of the exercise of Executive Share Options and allotment of shares transferred under the SAYE Share Scheme.

The Group has outstanding £22.2m 8.75% Redeemable Preference Shares redeemable in 2003. It also has outstanding £13m of 7% Loan Stock. The Loan Stock was convertible up until February 1999 at an equivalent price of 207p per Ordinary Share at which point the conversion rights lapsed. From April 1999 to March 2004, the

Loan Stock is redeemable at the option of the Company. In January 2000, the Company purchased for cancellation £1.4million of Redeemable Preference Shares at an effective price of approximately 101p.

In June 1997, the Group put in place committed bank borrowing facilities totalling £36million with four UK based banks. The facilities were unsecured and ran until 31 December 2001. In view of its cash positive position and its financial strength, the Group cancelled these facilities in February 2000 and set in place unsecured facilities totalling £10million with two UK based banks for one year.

The Group has had no interest rate swaps or other hedging instruments in place during the year.

Profit & loss account

Turnover

Turnover was £147m (£123m). The increase of 20% was due to a 4% increase in unit completions 1,536 (1,470) and a higher average sales price of £89,500 (£80,200), an increase of 12%. Design & Build turnover was £8.3m (£5.1m).



Sybil and Edward Lock celebrated 60 years of marriage in the residents' lounge at Rivendell Court, the McCarthy & Stone development in Hall Green, Birmingham. "We've made so many friends and wanted to share it with them. We're very happy at Rivendell Court - it suits us perfectly."

Finance Review (continued)

Administration Costs

Administration costs rose by 13% to £21.1m (£18.7m). The increase principally reflects higher staffing costs. Year end staff numbers increased by 19% to 674 at 31 August 2000 (564) which reflected the increasing number of construction sites and building up the staffing levels at the recently established Regions.

Other Income

Other income amounted to £2.2m (£2.6m). The income from the Group's freehold reversionary interest and rental income amounted to £0.8m, a slight reduction compared to £1.1m for the preceding year reflecting the sale of the portfolio of investment properties in November 1999. Other income also includes supplier rebates.

Profit on Disposal of Investment Properties

In November 1999, the Group sold a portfolio of investment properties for £19.1m which generated an exceptional profit of £1.6m.

Financing

Net interest receivable amounted to £0.9m compared to a charge of £0.5m in the previous year. The finance income reflects interest earned on deposits of £3.2m less loan stock interest of £0.9m and finance lease costs of £1.4m. The level of interest receivable demonstrates the strength of the Group's net cash position throughout the year.

Margins

The gross margin was higher at 47% (45%), principally due to higher average selling prices with land and build cost increases being contained. The operating profit of £51.0m on turnover of £147m gave an operating margin of 35% (32%).

Taxation

The taxation charge for the year of £16.4m (£13.3m) reflected an effective tax charge of 30.7% which compares with a standard rate of 30% for the period. The Group has very little tax shelter and incurs certain costs which are disallowed for tax purposes.

Earnings per Share

Basic earnings per share were 34.7p (23.7p) an increase of 46%. Pre-exceptional "Headline Earnings" were 33.2p, excluding the profit on the sale of the investment portfolio.

Dividends

The cost of the preference dividend was £2.0m. The final ordinary dividend proposed in respect of the year is 7.0p which when combined with an interim dividend of 1.7p makes a total dividend of 8.7p an increase of 38%. The full cost of the dividend is £8.9m and the ordinary dividend is covered 4.0 x by earnings per share. The Company has traditionally weighted the dividend payment towards the second half of the financial year to reflect the higher levels of sales and profits that arise towards the end of the Group's financial year. The Board's policy is to increase dividends progressively as earnings improve whilst maintaining a prudent level of ordinary dividend cover.

Review of the Balance Sheet

Shareholder's funds grew by £26.0m over the year to £164.5m as a result of retained profits and the issue of new shares, offset by the repurchase of preference shares. Fixed assets stood

Redwood Court,
Ewell

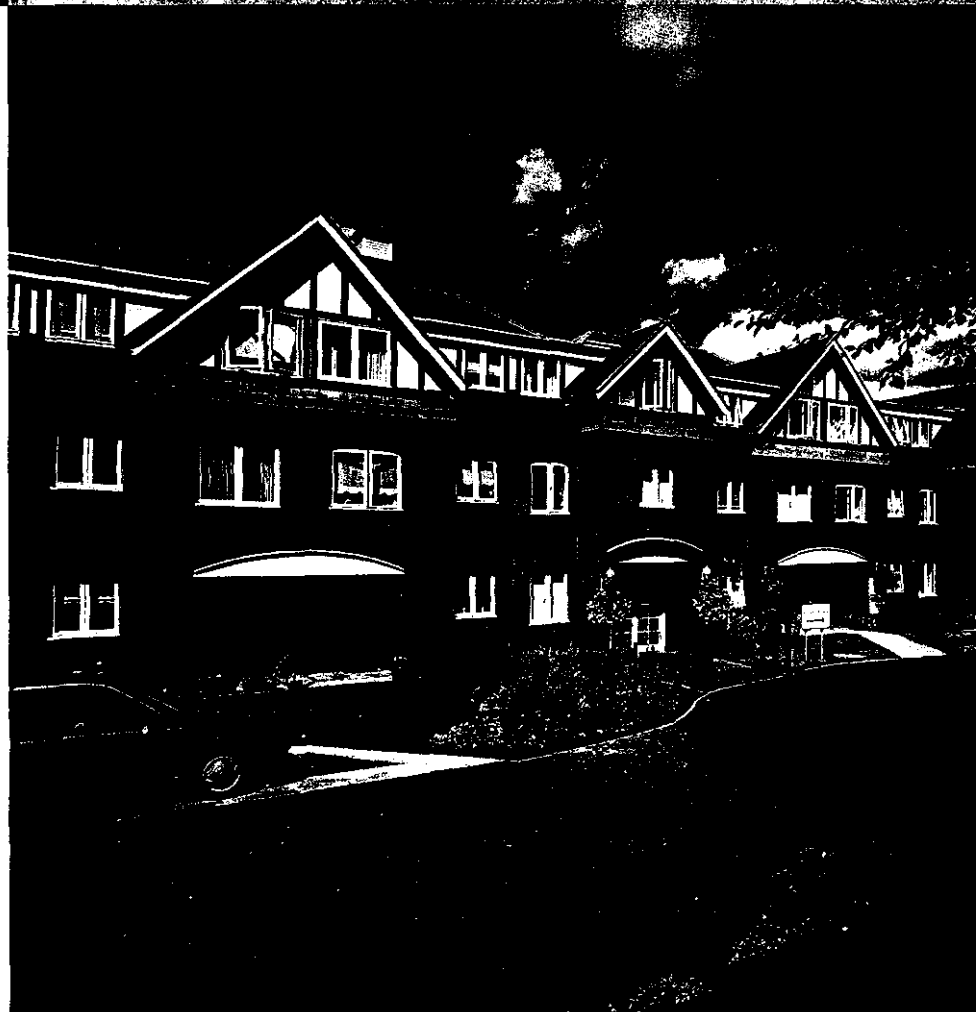


“Work in progress and land stocks at the year end increased reflecting the Group’s commitment to volume growth in the future. The Group continued to ensure it was not involved in part exchange during the year.”

at £27.3m (£32.4m). The principal movements in fixed assets arose from the sale of the investment property portfolio with a book value of £17.5m and the addition of £9.2m arising from the creation of new ground rent and rental income portfolios. The sale of the investment property portfolio for £19.1m at a profit of £1.6m gave comfort to the multiples attributable to the ground rent interest and rental income stream in England and Wales. In addition, the Group made an investment of £2.5m, to acquire an effective interest of 5 per cent, in an unlisted company, Vavo Services Limited, an internet portal serving the mature market.

Work in progress and land stocks at the year end increased reflecting the Group’s commitment to volume growth in the future. The Group continued to ensure it was not involved in part exchange during the year.

Stocks			
	1998	1999	2000
Land	30.1	33.1	63.7
WIP	24.2	21.1	30.3
Finished Stock	61.6	72.3	65.6
Part Exchange	3.2	-	-
Total	119.1	126.5	159.6



Goodrich Court, Ross on Wye

Finance Review (continued)

Land Creditor

At the year end the land creditor was £36.9m (£22.1m). The land creditor reflects land sites bought subject to securing planning or on deferred terms.

Debtors

Debtors due after one year stood at £15.1m (£16.4m). The principal constituents were £5.7m of shared equity interests (£6.4m) and £9.4m of secured mortgages (£10m). The reduction of shared equity and secured mortgages of £1.3m (£2.1m) generated positive cashflow. The Group has not offered shared equity since 1992 and secured mortgages since 1995. Other debtors including trade debtors amounted to £3.7m (£2.7m).

Finance Lease

The finance lease obligation of £15.2m reflects the sale and leaseback that the Group undertook on its Head Office in 1989. The original sale and leaseback was undertaken with a swap which locked in the finance cost until October 2004 at an effective rate of 11.3%. The Group has the option to repurchase the property in October 2004 for £15m which sum might be impacted by tax changes which have retrospective effect in relation to certain finance leases.

Cash Balance

At 31 August 2000, the Group held cash balances of £58.4m (£39.9m). This increase in cash balances of £18.5m was assisted by the £19.1m sale of the property investment portfolio. Taking into account the outstanding 7% Loan Stock of £13m and the finance lease obligation of £15.2m but not taking account of the redeemable preference shares of £22.2m the Group had a positive net cash position of £30.2m with no gearing.

Return on Capital

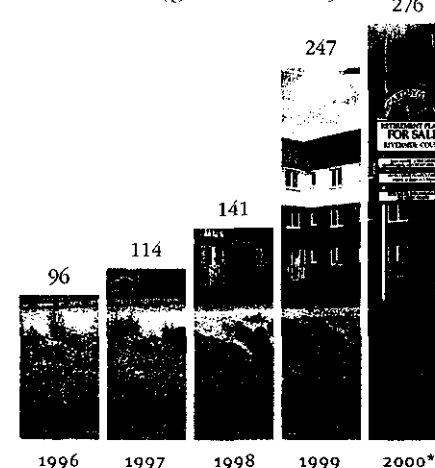
The pre-tax return of £53.5m on year end shareholder's funds of £164.5m including £22.2m relating to preference shares is 32% compared to 28% for the previous year. The return on capital continues to be one of the highest returns in the housebuilding industry.

Cashflow

The Group operated with positive cash balances for the whole of the year. The cashflow can be summarised as follows.

	£m
Operating profit	51.0
Depreciation	0.9
Value attributed to investment properties	(9.1)
Movement in stocks/debtors/creditors	(16.0)
Inflow from operating activities	26.8
Net interest received	0.5
Tax paid	(15.0)
Net realisation of assets	15.4
Issue of ordinary shares	0.9
Redemption of Preference Shares	(1.4)
	27.2
Preference dividends	(2.0)
Ordinary dividends	(6.7)
Increase in cash resources	18.5

Share Price (31 December)



* 8 November 2000



Riverside Court, Halstead

Financial Controls

The Group's principal trading operations each have a Finance Director who reports to the Regional Board and directly to the Group's Finance Function. Annual budgets and long term plans are set for each operation. Reports at various levels are then made weekly, monthly and quarterly in accordance with standard requirements. Variances are identified and investigated thoroughly. Consolidated reports are presented regularly to the Main Board. Each trading discipline and operation has its own internal procedures and controls which comply with the Group policies and guidelines. The Group's internal financial controls are regularly reviewed by periodic internal audits and a process of 'control self-assessment'.

Derivatives and Other Financial Instruments

The Group's principal financial instruments comprise Loan Stock, Preference Shares, Finance Leases, Cash and Short term Deposits. The Group has no derivative products. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments, such as, trade debtors and trade creditors that arise directly from its operations.

It is and has been throughout the period under review, the Group's policy that no trading in financial instruments should be undertaken.

The main potential risk arising from the Group's financial instruments is interest rate risk. Foreign currency risk is extremely limited. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies remained unchanged during the year. The Group also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the period is detailed in note 20.

Interest Rate Risk

The Group has been cash positive throughout the year. Its borrowings consist of loan stock and finance leases at fixed interest rates.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loan facilities and loan stock. Short term flexibility may be achieved by overdraft facilities. As indicated the Group's cash positive position throughout the year has minimised concern over liquidity risk.

Foreign Currency Risk

The Group's residual operation in Spain is immaterial. The former French operation was put into liquidation in the previous financial period. The Group considers that there is little currency risk in these respects.

Going concern

After making enquiries the Directors have a reasonable expectation that the Group has adequate resources for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts. The Group maintains a strong balance sheet. I am glad to report the Group continues to be in a very strong financial position.

Matthew Thorne
Group Finance Director

PLC Board

JS McCarthy MBE FCIQB
Chairman



John McCarthy, 60, started work in the building industry in 1955 and co-founded the Company in 1963. He was awarded an MBE in 1984 for services to the elderly. He has represented the Industry on a number of key working parties and study groups. In February 1997 he took on the responsibility of investigating retirement housing concepts in other developed economies. He becomes Non-Executive Chairman following the AGM in December 2000.

K Lovelock FRICS FCIQB
Chief Executive



Keith Lovelock, 60, joined the Group in 1986 having worked previously with Rush & Tomkins, Wimpey and Federated Housing. He has obtained considerable overseas experience. He was appointed a Main Board Director in 1989, became Chief Executive in 1993 and becomes Deputy Chairman in December 2000.

MWJ Thorne MA FCA
Group Finance Director



Matthew Thorne, 48, joined the Board in 1993. He qualified with Price Waterhouse and worked in corporate finance with County Natwest Limited. He was formerly Investment Director of Beazer plc and Finance Director of Ricardo Group plc. He is currently a Non-Executive Director of UMECO plc.

MJ Jennings BSc MCIQB
Operations Director - South



Mike Jennings, 53, has worked over a period of 27 years for McLean and Tarmac Housing Division (in the UK and the US) and after a spell at Redrow Homes, joined McCarthy & Stone as Operations Director. He is responsible for the South West, South East, Western, North London Regions and the Assisted Living Division.

HPS Phillips BSc
MBA FRICS
Operations Director - North



Howard Phillips, 40, joined the board on 1st October 2000. He has twelve years' experience with McCarthy & Stone, ten of which as Regional Managing Director, having previously worked as Regional Manager for a Housing Association Group in the North of England. He will be responsible for the Scottish, North West, North East and Midlands Regions.

SEK Purser FCA
Senior Non-Executive



Simon Purser, 53, has a background in corporate finance. He was a Director of County Natwest Limited, 1984-1989 and Chief Executive of Buckland Corporate Finance Limited, 1990-1996. He is now a financial consultant and a Non-Executive Director of Holmes Place plc. He joined the Board in 1990 and is Chairman of the Audit and a member of the Remuneration Committees. He has been nominated as the Senior Non-Executive Director.

Rt Hon Sir George Young Bt, MP
Non-Executive



Sir George Young, 59, is the Member of Parliament for North West Hampshire. He was Shadow Leader of the House of Commons and Opposition Spokesman on Constitutional Affairs until resigning his position on the Shadow Front Bench in September 2000. He was Minister of State of the Department of the Environment from 1990-1994, responsible for Housing and Planning. He was also Secretary of State for Transport from 1995-1997.

TL Green LLB
Company Secretary



Trevor Green, 53, qualified as a solicitor in private practice with Eversheds in Birmingham. He joined the Tarmac Group in 1975, being appointed Head of Legal Services to the Tarmac Housing Division in 1979. He joined the Company in 1988 as Head of Legal Services and was appointed Company Secretary the following year.

Directors' Report

The directors of McCarthy & Stone plc present their annual report to shareholders, together with the audited accounts for the year ended 31 August 2000.

Principal activity and review of the business

The Group is engaged principally in developing, designing, constructing and selling retirement flats. Reviews of the Group's business during the year, together with comments on the future development of the Group, are contained in the Reviews on pages 4 to 21.

Results and dividends

The Group profit before tax for the financial year amounted to £53.5 million (£39.1 million) an increase of 37%. The Group incurred a tax charge of £16.4 million this year (£13.3 million). The directors recommend a final ordinary dividend of 7.0 pence per share making 8.7 pence for the year (6.3 pence). The ordinary dividend amounts to £8.9 million which when combined with the preference dividend of £2.0 million leaves a profit of £26.2 million to be added to reserves (£17.5 million). The ordinary dividend, subject to approval by shareholders, will be paid on 20 December 2000 to those on the register at 24 November 2000.

Directors and their interests

The present directors are shown on pages 22 and 23 together with their biographical details. All the directors held office throughout the year covered by the accounts, with the exception of H P S Phillips who was appointed after the year end on 1 October 2000. H P S Phillips, being the first opportunity since appointment, seeks election at the forthcoming Annual General Meeting. J S McCarthy, who has a rolling service contract with the company terminable on three years notice, and M W J Thorne, who has a rolling service contract with the company terminable on two years notice, retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The interests of the directors and their immediate families in the Ordinary share capital and 8.75% cumulative redeemable preference shares 2003 ("Preference Shares") of the Company were: -

		At 31 August 2000		31 August 1999	
		Shares Fully Paid	Share Options	Shares Fully Paid	Share Options
J S McCarthy	Ordinary Shares	16,683,435	130,000	16,683,435	878,193
		312,961(a)	-	312,961(a)	-
	Preference Shares	-	-	100,000	-
K Lovelock	Ordinary Shares	290,850	640,159	276,107	554,902
	Preference Shares	35,000	-	20,000	-
M W J Thorne	Ordinary Shares	337,642	433,264	337,642	415,180
M J Jennings	Ordinary Shares	20,000	239,484	20,000	139,484
S E K Purser	Ordinary Shares	25,000	-	25,000	-
G Young		-	-	-	-

(a) These shares were held by J S McCarthy as trustee of a family trust.

Details of share options issued, exercised or lapsed during the year are given in the Report on Directors' Remuneration on page 30.

At 31 August 2000 J S McCarthy held as trustee £122,049 (£122,049) nominal 7 per cent unsecured loan stock 1999/2004 ("loan stock"). No other director held any interest in the loan stock at such dates.

There have been no changes in directors' interests between 31 August 2000 and 8 November 2000.

Significant shareholders

The directors have been notified of the under-mentioned material interests comprising 3% or more of the issued ordinary share capital as at the date of this report.

Scottish Widows Investment Partnership Ltd	10.96%
Fidelity Investments	5.03%
W F Stone	4.91%
Standard Life Investments Ltd	3.13%
Abbey Life Assurance Company	3.02%

No other person other than the directors and their immediate families has reported a holding of 3% or more in the issued ordinary share capital.

Shareholder discount

Until 29 February 2000 the Group offered the discount of £1,000 to shareholders who purchased a McCarthy & Stone property in Britain. The discount was available to any shareholder with at least 500 shares held for more than one year at completion of the home purchase.

Directors' Report

Auditors	Ernst & Young have expressed their willingness to continue in office and a resolution proposing their re-appointment as auditors and to authorise the directors to fix their remuneration will be submitted at the Annual General Meeting.
Charitable and political contributions	During the year contributions within the UK to charities or equivalent organisations through corporate giving or as part of the activity of UK operating companies amounted to £4,375 (£3,735). The Company's policy is to consider requests for support of registered charities or special events that are directly related to the Company's market, against a pre-determined budget. In addition, the involvement of staff in local charitable events is encouraged. There were no political contributions during the year.
Environment	<p>The Group is committed to an approach to our business which is environmentally sensitive. Substantially all of the land the Group builds upon is 'brown' redevelopment land and thus it is recycling an existing resource to produce new housing stock. This is distinct from the pressure from mainstream housebuilders to release 'green field' sites for development. The type of development undertaken by the Group releases larger existing homes to housing stock. It reduces pressure on local Health and Social Services resources and by virtue of its location leads to lower car ownership and low traffic generation.</p> <p>In the design of its developments the Group endeavours to ensure that the design is compatible with the local townscape and that exterior finishing materials are sympathetic to the locality. Developments are designed to high energy efficiency and with the costs of future maintenance in mind. The construction process is standardised, so far as the requirements of the individual site will allow, to ensure the efficient use of materials with the minimum of waste.</p> <p>The Group is required on occasion to rectify existing environmental problems prior to development. This is done in a controlled manner having regard to the health and safety of all concerned and with the benefit of specialist advice.</p>
Supplier payment policy	<p>The Group recognises the major contribution that its suppliers and sub-contractors make to the success of its construction operations. The Group believes that the adherence to fair payment terms is important to the maintenance of good relations with suppliers and to the ultimate benefit of the Group. It is, therefore, Group policy to agree terms of payment in advance, to ensure suppliers are made aware of those terms and to abide by such terms. Unless other terms have been agreed the Group will usually ensure that all creditors, where the goods or works have been of a satisfactory quantity and quality, are paid by the end of the month following the month in which the invoice is received.</p> <p>The amounts owed by the Group to its trade suppliers and sub-contractors at 31 August 2000 represented 27 days worth of the amounts invoiced during the year. Trade creditors include retentions held against subcontract work which are not contractually due for payment until up to 12 months after the work was completed.</p>
Employment responsibilities	<p>We are committed to promoting policies to ensure that those who are employed by the Group's businesses are treated with equality regardless of status, sex, age, colour, race or ethnic origin. 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 to continue where possible the employment of that person and to provide equal opportunities for the career development of employees with disabilities.</p> <p>There is an ongoing commitment to the training and development of the Group's employees, and there is a positive approach to all matters concerning Health & Safety at work. The Group regards compliance with statutory requirements as a minimum standard, and a copy of the Group's formal Health & Safety Policy Statement is available at all Group construction sites in the UK. During the year the Group has taken on a full time Health and Safety Officer working in liaison with the Group's external safety advisers.</p> <p>The Group's ability to achieve its commercial objectives and to meet the needs of its customers in a profitable and competitive manner depends on the contribution of employees throughout the Group. Employees are encouraged to develop their contribution to the business wherever they work. In many areas ongoing programmes, focused on quality and customer service, provide an opportunity for employees to be involved in making improvements. Financial participation is further encouraged through share schemes which provide employees with a direct stake in the growth and prosperity of the business and the Group plans the introduction of an All Employee Share Option Scheme (AESOP) as from 1 January 2001. In addition the Group communicates with its employees about its objectives, progress and activities through a variety of channels including, 'Signpost', a quarterly in-house magazine.</p>

By order of the Board

8 November 2000

T L Green LLB, Secretary

Corporate Governance

Statement by the directors on compliance with the Code of Best Practice

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the code provisions set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel.

The Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year with the exception of the following:

The non-executive directors have not been appointed for specified terms (provision A6.1). However, the Articles of Association specify that directors must retire by rotation every three years, so each term of appointment is for a limited period only. The re-appointment of non-executive directors is not automatic. In December 1999 the Articles of Association were changed so that the Chairman is now subject to re-election (provision A6.2). The Remuneration Committee recognises that some service contracts currently have termination periods in excess of the recommended one year maximum (provision B1.7). The service contracts of executive directors are periodically reviewed in line with best practice in industry. The Chairman, who will cease to be executive following the AGM on 19 December 2000, is a member of the Remuneration Committee (provision B2.2). However, the Chairman has no involvement in the setting of his own remuneration package. The Audit Committee only comprised 2 non-executive directors during the year following the retirement of Sir J M Fox, and the Chairman is a member of the Audit Committee (provision D3.1). The Board considers that the Committee has maintained the appropriate balance in the year by virtue of a majority of independent non-executive directors.

The Turnbull Report contains guidance on the wider aspects of internal control relating to operational and compliance controls and risk management (provision D2.1). The guidance is not mandatory for the current period, and accordingly the Board has followed the transitional arrangements and continued to review and report only on the effectiveness of the Group's system of International Financial Controls. The Board has established processes and procedures necessary to comply with the Turnbull Report for the financial year commencing 1 September 2000.

The workings of the Board and its Committees

The Board

During the year, the Board comprised four executive directors and two independent non-executive directors, following the resignation of Sir J M Fox on 12 October 1999. J S McCarthy has announced his intention to retire as Executive Chairman following the AGM, although he will retain the role of Non-Executive Chairman. K Lovelock will become Deputy Chairman whilst retaining the role of Chief Executive. H P S Phillips was appointed to the Board as Operations Director - North on 1 October 2000. The Board is responsible to the shareholders for the proper management of the Group.

Directors are subject to re-election every three years and subject to election at the first opportunity after their appointment. The names of directors submitted for election or re-election can be found in the Directors Report on page 24 and biographies of all directors can be found on pages 22 and 23. A statement of the directors' responsibilities in respect of the accounts is set out on page 31 and a statement on going concern is given on page 21.

The Board has a formal schedule of matters specifically reserved to it for decision. All directors have access to the advice and services of the Company Secretary, T L Green, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition the Board may take independent professional advice as required.

The Board normally meets once a month, reviewing trading performance, ensuring adequate funding and setting and monitoring strategy. To enable the Board to discharge its duties all directors receive appropriate and timely information. Briefing papers are distributed to all directors in advance of Board meetings. In addition to the Board and the Remuneration and Audit Committees, an Executive Committee meets regularly to take the key decisions relating to the Group's development activities.

The following Committees deal with specific aspects of the group's affairs:

Remuneration Committee

On 12 October 1999 Sir J M Fox resigned as Chairman of the Remuneration Committee and Sir G Young was appointed as Chairman in his place. The Committee also comprised J S McCarthy and S E K Purser. The Committee reviews senior appointments throughout the Group and determines the terms and conditions of employment of senior executives. Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the report on director's remuneration on pages 28 to 30.

Corporate Governance

Audit Committee

The Audit Committee is chaired by S E K Purser and during the year also comprised Sir G Young and J S McCarthy. Sir J M Fox was also a member of the Committee until his resignation on 12 October 1999. The Committee provides a forum for reporting by the Group's external and internal auditors. Meetings are also attended, by invitation, by the Chief Executive and the Finance Director.

The Audit Committee is responsible for reviewing a wide range of financial matters including the half year and annual accounts before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the financial information reported to the shareholders. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature and scope of the audit with the external auditors.

Relations with shareholders

Communications with shareholders are given high priority. The operating and financial reviews on pages 4 to 21 include a detailed review of the business and future developments. Presentations are given to the Company's institutional shareholders after the Company's preliminary announcement of the year end results and at the half year. In addition the Company has established a web-site with financial and investor information in relation to the Company. The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairmen of the Audit and Remuneration Committees intend to be available at Annual General Meetings to answer questions.

Internal financial controls

The Board is responsible for ensuring that the Group maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against mis-statement or loss.

The Group's key internal financial control and monitoring procedures include the following:

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the Group's affairs.

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks. The internal audit work focuses on these areas.

Each year the Board approves the annual budget and rolling three year workflow plan. Each month detailed monthly reports of trading results, balance sheets and cashflows are produced. These are subject to regular review and follow up by management of variances from budgets.

Key financial risks are controlled through the use of clearly laid down authorisation levels and proper segregation of accounting duties.

Authorisation of all land purchases, construction starts and other key phases of the development cycle of every site are considered by an Executive Committee chaired by the Chief Executive or a PLC Operations Director and comprising experts from the key professional disciplines.

Staff are made aware of the need for good internal controls through appropriate policy and procedure statements. The operation and effectiveness of controls is monitored by a process of control self assessment.

Group internal audit carries out a number of reviews of compliance with internal financial controls and procedures. These reports are reviewed by the Audit Committee prior to the issue of the annual report. The Audit Committee also considers and determines relevant action in respect of any control issues raised by the external auditors.

The Audit Committee has reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts and reported its findings to the Board.

Report on Directors' Remuneration

Remuneration policy

The remuneration of the executive directors is determined by the Remuneration Committee and the remuneration of the other most senior executives in the Group is also reviewed by the Committee. The objective of the Committee is to ensure the Group attracts, motivates and retains high quality management. The remuneration package is intended to include a significant proportion of performance related remuneration set against challenging objectives. The Remuneration Committee is responsible for determining executive directors' remuneration, which is reviewed annually. Remuneration for directors includes annual salary, benefits, personal pension plans, participation in the Executive Share Option Scheme and Savings Related Share Option (SAYE) Schemes (see note 17) and an annual bonus scheme. The remuneration policy is designed to ensure that executive directors' remuneration packages reflect their duties and responsibilities and are sufficient to attract, retain and motivate personnel of the highest quality. In determining individual salaries as well as overall remuneration packages, the Committee has regard to levels adopted by other comparator companies in terms of the performance, size of the company and complexity of its business.

The Committee will approve grants of share options under the Company Share Option Plan approved at the Extraordinary General Meeting held on 5 October 2000, as it has approved grants under the Executive Share Option Schemes of 1996 and 1986, now lapsed. The Group's policy is to grant options to senior executives so as to retain and motivate them in the shareholders' interests.

Basic salary and benefits

The salary and benefits are reviewed annually. Benefits principally comprise of a car, permanent health insurance, private health care and life cover.

Performance related bonuses

Performance related payments were paid to Executive Directors under the one year scheme approved by the Remuneration Committee, linked to specific targets in the performance of the Group's profit before tax against budget.

Pensions

Each of the executive directors has one or more personal pension plans. The Company makes set contributions to these plans at a rate of 25% of salary up to the age of 55, and at 30% of salary thereafter. In addition the Company agreed in 1997 to pay an additional £200,000 to K Lovelock's pension plan over a period of 4 years and during this year a total of £50,000 was paid under this arrangement. FURBS arrangements have been established in previous years for the benefit of M W J Thorne and M J Jennings as the amounts exceeded the cap on personal pension contributions. The cost shown is the total of the contributions payable by the Company for the year.

Non-executive fees

Non-executive directors' fees comply with the limits set out in the Articles of Association and are set at levels which fairly represent the responsibilities of and time spent by non-executive directors on company affairs. Regard is also had to the level of fees payable to non-executive directors in other comparable companies. Non-executive directors' fees are determined by the Board as a whole. Directors do not participate in discussions and decisions relating to their own remuneration. Non-executive directors do not participate in pension or bonus schemes.

Service contracts

J S McCarthy has a service contract with the company terminable by the company on three years notice. K Lovelock and M W J Thorne have service contracts with the company terminable by the company on two years notice. M J Jennings and H P S Phillips have a service contract terminable by the company on one years notice.

The Remuneration Committee is mindful of the fact that the termination periods on some of the directors' service contracts are greater than one year. The service contracts terms are historic and the Remuneration Committee will consider this point in all future contract negotiations.

Non-executive directors do not have service contracts and have not been appointed for specified terms. However, the Articles of Association specify that directors must retire by rotation every three years, so each term of appointment is for a limited period only. The re-appointment of non-executive directors is not automatic.

The consent of the Board is required for all external appointments where it may give rise to conflicts of interest. Where an appointment is accepted, it must be undertaken in the director's own time. The director is therefore normally permitted to retain any remuneration earned from the appointment.

Report on Directors' Remuneration

Remuneration by director

£'000	Salary & Fees	Annual Bonus	Benefits	2000 Total	1999 Total	2000 Pension	1999 Pension	2000 Pension Rate
Executive Directors:								
J S McCarthy	381	332	49	762	692	114	98	30%
K Lovelock	296	259	14	569	506	139	150	47%
M W J Thorne	184	159	11	354	329	46	40	25%
M J Jennings	192	168	11	371	319	48	38	25%
Non-Executive Directors:								
S E K Purser	25	-	-	25	25	-	-	-
J M Fox	23	-	-	23	22	-	-	-
G Young	25	-	-	25	10	-	-	-
	1,126	918	85	2,129	1,903	347	326	

Share option schemes

The Company believes that share ownership by executive directors and senior executives can strengthen the link between their personal interests and those of the shareholders. The Company operates an approved and an unapproved executive share option scheme.

The approved scheme is used to allocate the first £30,000 of options to executives, with the associated potential income tax benefit. All grants in excess of this Inland Revenue limit are made under the unapproved scheme. Grants to executive directors and senior executives are approved on a discretionary basis by the Committee.

Approved options are normally exercisable after 3 years and within 10 years of the date of grant (or after 3 years and within 7 years of the date of grant for an unapproved option). Options are granted at prevailing market prices at the time of grant.

The options granted before 1996 were under the original Executive Share Option Scheme which did not contain any performance criteria. Options granted under the Executive Share Option Scheme 1996 (consisting of grants made on or after 27 November 1996) are subject to a performance condition. These options only become exercisable if the Company's share price growth over a three year period exceeds the increase in the Retail Price Index by at least 6% over that period.

At the Extraordinary General Meeting held on 5 October 2000 approval was given to the establishment of a new Company Share Option Plan. Annual grants of options under the Plan will be up to one to two times salary in normal circumstances. These options only become exercisable if the Company's earnings per share growth over a three year period exceeds the increase in the Retail Price Index by at least 3%, 5% or 7%, depending on the grant to salary ratio, or such higher percentage as the Committee may set.

Report on Directors' Remuneration

An analysis of the interest of the directors in options on the Company's Ordinary Shares is as follows:-

	Exercise Price (p)	31.08.99	Granted in year	Exercised in year	31.08.00	Option Period	
J S McCarthy	43.0	69,108		69,108	-	01/95-01/02	a
	59.8	433,410		433,410	-	01/98-01/05	a
	94.5	55,000		55,000	-	11/99-11/03	a
	128.5	290,675		290,675	-	04/00-04/04	a
	134.5	30,000			30,000	11/01-11/05	a
	221.0	-	100,000		130,000	12/02-12/06	a
K Lovelock	46.8	14,743		14,743	-	07/00-01/01	b
	66.5	51,000			51,000	01/99-01/06	a
	94.5	45,000			45,000	11/99-11/03	a
	128.5	365,894			365,894	04/00-04/04	a
	134.5	52,696			52,696	11/01-11/05	a
	134.5	22,304			22,304	11/01-11/08	a
	178.0	3,265			3,265	07/02-01/03	b
	221.0	-	100,000		100,000	12/02-12/06	a
M W J Thorne	46.8	14,743		14,743	-	07/00-01/01	b
	66.5	34,000		34,000	-	01/99-01/06	a
	94.5	35,000		35,000	-	11/99-11/03	a
	128.5	298,172			298,172	04/00-04/04	a
	134.5	7,696			7,696	11/01-11/05	a
	134.5	22,304			22,304	11/01-11/08	a
	178.0	3,265			3,265	07/02-01/03	b
	221.0	-	100,000		100,000	12/02-12/06	a
	212.0	-	1,827		1,827	07/03-01/04	b
M J Jennings	134.5	125,000			125,000	11/01-11/05	a
	116.5	14,484			14,484	01/04-07/04	b
	221.0	-	100,000		100,000	12/02-12/06	a

(a) Executive Share Option Scheme

(b) SAYE Share Option Scheme

The mid price of the ordinary shares at 1 September 1999 and 31 August 2000 was 243p and 256p respectively and the range during the year was 188.5p to 283.5p.

Gains on exercise of share options based on mid market price on date of exercise (or same day sale price if lower):-

	2000	1999
	£'000	£'000
J S McCarthy	1,453	-
K Lovelock	29	134
M W J Thorne	155	85
	1,637	219

Statement of Directors' Responsibility and Auditors' Report

Statement of directors' responsibilities in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Auditors

To the members of McCarthy & Stone plc

We have audited the accounts on pages 32 to 49, which have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on page 50 to 51.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the Corporate Governance statement on page 26 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the listing rules, and report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the accounts.

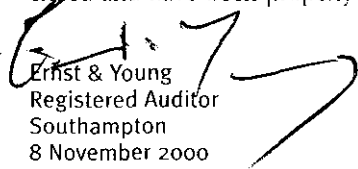
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amount and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 August 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
Southampton
8 November 2000

Group profit and loss account

for the year ended 31 August 2000

	<i>Note</i>	2000 £m	1999 £m
Turnover		147.0	123.4
Cost of sales		77.1	67.7
Gross profit		69.9	55.7
Administrative expenses	1	(21.1)	(18.7)
Other operating income	1	2.2	2.6
Operating profit	1	51.0	39.6
Profit on disposal of investment properties		1.6	-
Profit on ordinary activities before interest and taxation		52.6	39.6
Net interest receivable /(payable)	3	0.9	(0.5)
Profit on ordinary activities before taxation		53.5	39.1
Taxation	4	(16.4)	(13.3)
Profit for the financial year		37.1	25.8
Non-equity share dividends	5	(2.0)	(2.0)
Equity share dividends	5	(8.9)	(6.3)
Retained profit for the year		26.2	17.5
Earnings per ordinary share (pence)			
Basic	6	34.7p	23.7p
Pre-exceptional headline earnings	6	33.2p	23.7p
Diluted	6	34.4p	22.9p

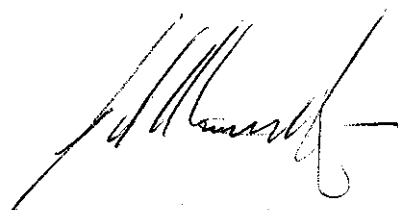
Statement of total recognised gains and losses

	2000 £m	1999 £m
Profit for the financial year	37.1	25.8
Revaluation of investment properties	-	3.6
Tax charge arising on disposal of revalued investment properties	(1.2)	-
Total recognised gains and losses relating to the year	35.9	29.4
Prior year adjustment	(0.7)	-
Total gains and losses recognised since last annual report	35.2	29.4

Balance sheets

31 August 2000

	Notes	Group		Parent	
		2000	1999 Restated	2000	1999
		£m	£m	£m	£m
Fixed assets					
Tangible assets: investment properties	7	14.7	23.1	-	-
other	7	9.4	8.9	0.7	0.4
Investments	8	3.2	0.4	80.9	77.5
		27.3	32.4	81.6	77.9
Current assets					
Stocks	9	159.6	126.5	-	-
Debtors: amounts due after one year	10	15.1	16.4	-	-
within one year	11	3.7	2.7	37.1	31.5
Cash at bank and in hand	12	58.4	39.9	52.8	35.8
		236.8	185.5	89.9	67.3
Creditors amounts falling due within one year:	13	72.8	52.6	49.3	33.4
Net current assets		164.0	132.9	40.6	33.9
Total assets less current liabilities		191.3	165.3	122.2	111.8
Creditors amounts falling due after more than one year:					
Unsecured loan stock	14	13.0	13.0	13.0	13.0
Lease and hire purchase contracts	15	13.8	13.8	-	-
Net assets		164.5	138.5	109.2	98.8
Capital and reserves	17				
Equity interests		20.5	20.3	20.5	20.3
Non-equity interests		22.2	23.6	22.2	23.6
Called up share capital		42.7	43.9	42.7	43.9
Share premium account		40.1	38.5	40.1	38.5
Capital redemption reserve		1.4	-	1.4	-
Revaluation reserve		0.1	4.5	0.1	0.1
Profit and loss account		80.2	51.6	24.9	16.3
Shareholders' funds		164.5	138.5	109.2	98.8



Approved by the Board
J S McCarthy
Chairman
8 November 2000

Group cash flow statement

for the year ended 31 August 2000

		2000		1999	
	Notes	£m	£m	£m	£m
Operating activities					
Net cash inflow from operating activities	1		26.8		37.9
Returns on investments and servicing of finance					
Interest received		2.8		1.9	
Interest paid		(0.9)		(1.0)	
Interest element of finance lease payments		(1.4)		(1.0)	
Non-equity dividends paid		(2.0)		(2.0)	
Net cash outflow from returns on investments and servicing of finance			(1.5)		(2.1)
Taxation					
UK corporation tax paid		(15.0)		(13.3)	
Net tax paid			(15.0)		(13.3)
Capital expenditure and financial investments					
Sale of fixed assets		-		0.1	
Purchase of fixed assets		(1.4)		(0.7)	
Receipt from sale of investments	8	0.2		0.1	
Receipt from sale of investment properties		19.1		-	
Purchase of other investment		(2.5)		-	
Net cash inflow/(outflow) from capital and investments			15.4		(0.5)
			25.7		22.0
Equity dividends paid					
			(6.7)		(4.9)
			19.0		17.1
Management of liquid resources					
			(21.0)		5.0
Financing					
Issue of ordinary share capital		0.9		0.1	
Long term debt repaid		-		(1.8)	
Redemption of preference dividends		(1.4)		-	
			(0.5)		(1.7)
Increase/(decrease) in cash			(2.5)		20.4

Notes to the accounts

a) Operating profit

a) Reconciliation of operating profit to net cash inflow from operating activities

	2000	1999
	£m	£m
Operating profit	51.0	39.6
Depreciation charge	0.9	0.9
Value attributed in year to interests in investment properties	(9.1)	(7.6)
Increase in stocks	(33.1)	(7.4)
Decrease in debtors	0.7	2.6
Increase in creditors	16.4	9.8
Net cash inflow from operating activities	26.8	37.9

b) Administrative expenses are stated after charging

	2000	1999
	£m	£m
Depreciation of		
- owned assets	0.6	0.6
- assets held under finance leases	0.3	0.3
Operating lease rentals - land and buildings	0.3	0.3
- plant and motor vehicles	1.3	1.3
Auditors' remuneration - audit services	0.1	0.1

c) Other operating income comprises

	2000	1999
	£m	£m
Other income	1.4	1.5
Net rental income	0.8	1.1
	2.2	2.6

Notes to the accounts

2. Staff

The average number of employees including directors during the year was made up as follows:

	2000 Number	1999 Number
UK	612	540
Overseas	-	-
	612	540

The total number of persons employed by the group at 31 August 2000 was 674 (564).

	2000 £m	1999 £m
The aggregate payroll cost including directors was as follows:		
Wages and salaries	16.0	13.9
Social security costs	1.6	1.2
Other pension costs	0.6	0.6
	18.2	15.7

Details of directors' emoluments in aggregate and for each director, pensions and share options are included in the Report on Directors' Remuneration on pages 28 to 30.

	2000 £m	1999 £m
Interest payable:		
Loan stock interest	(0.9)	(1.0)
Finance charges payable under finance leases and hire purchase contracts	(1.4)	(1.4)
	(2.3)	(2.4)
Interest receivable	3.2	1.9
	0.9	(0.5)

	2000 £m	1999 £m
Based on the taxable profit for the year		
UK corporation tax at 30% (30.6%)	16.4	13.3
	16.4	13.3

The tax liability arising on the profit on disposal of investment properties is £1.6 million of which £1.2 million has been recorded in the statement of total recognised gains and losses and £0.4 million in the profit and loss account.

Notes to the accounts

5. Dividends

	2000	1999
	£m	£m
Non-equity cumulative redeemable preference shares dividend:		
- paid	1.7	1.7
- accrued at 31 August	0.3	0.3
	2.0	2.0
Equity dividends on ordinary shares:		
- interim paid (1.7 pence)	1.7	1.3
- final proposed (7.0 pence)	7.2	5.0
	8.9	6.3

6. Earnings per ordinary share

Earnings per ordinary share is based on earnings, after deducting the cumulative preference dividend for the period of £2.0 million, of £35.1 million (£23.8 million) and on 101.2 million ordinary shares, being the weighted average number of ordinary shares in issue during the year (100.3 million). This weighted average number of ordinary shares excludes those shares held by the Qualifying Employee Share Trust (See Note 17).

Pre-exceptional headline earnings per share is based upon the headline earnings figure stated in accordance with the Institute of Investment Manager and Research Statement of Practice No. 1, "The Definition of Headline Earnings". Pre-exceptional headline earnings have been calculated after the deduction of £1.6m exceptional profit (£nil).

Computation of earnings

	2000	1999
	£m	£m
Profit for financial period	37.1	25.8
Paid and accrued cumulative preference dividend	(2.0)	(2.0)
Basic earnings	35.1	23.8
Add back net interest on convertible loan stock	-	0.3
Diluted earnings	35.1	24.1

Computation of weighted average number of shares outstanding

	2000	1999
	m	m
Basic weighted average number of shares outstanding in period	101.2	100.3
Adjustments for:		
Share options	0.9	1.3
Loan stock	-	3.5
Diluted weighted average number of shares outstanding in period	102.1	105.1

Notes to the accounts

7. Tangible fixed assets
Groupa) Investment properties
at valuation

	Freehold reversionary interests	Long leasehold interests in rented flats	Long leasehold equity interests in sold flats	Other long leasehold (shops)	Total
	£m	£m	£m	£m	£m
At 1 September 1999	13.3	7.6	1.9	0.3	23.1
Additions	6.3	2.9	-	-	9.2
Disposals	(12.9)	(4.6)	(0.1)	-	(17.6)
At 31 August 2000	6.7	5.9	1.8	0.3	14.7

Freehold reversionary interests and long leasehold interests in rented flats are valued annually by the directors on the basis of open market value. The current valuation is an average of approximately 14 years' rent for freehold reversionary interests and 14 years' rent for long leasehold interests.

Long leasehold equity interests in sold flats represent equity interests arising from a sales incentive in 283 (318) flats. These interests are secured by legal charges on those units.

b) Other

	Land and buildings Freehold	Long leasehold	Fixtures, fittings & equipment	Total
	£m	£m	£m	£m
Cost or valuation:				
At 1 September 1999 (as previously reported)	0.5	10.0	6.0	16.5
Reversal of revaluation (prior year adjustment)	-	(0.9)	-	(0.9)
At 1 September 1999 (as restated at cost)	0.5	9.1	6.0	15.6
Additions	-	-	1.4	1.4
Disposals	-	-	-	-
At 31 August 2000	0.5	9.1	7.4	17.0
Depreciation:				
At 1 September 1999 (as previously reported)	0.1	2.2	4.6	6.9
Reversal of revaluation (prior year adjustment)	-	(0.2)	-	(0.2)
At 1 September 1999 (as restated)	0.1	2.0	4.6	6.7
Provided during the year	-	0.3	0.6	0.9
Disposals	-	-	-	-
At 31 August 2000	0.1	2.3	5.2	7.6
Net book value at 31 August 2000	0.4	6.8	2.2	9.4
Net book value at 1 September 1999 (as restated)	0.4	7.1	1.4	8.9

The net book value of long leasehold land and buildings at 31 August 2000 is in respect of the Group's head office Homelife House which is held under a finance lease. None of the fixtures, fittings and equipment are held under hire purchase contracts.

Parent

The parent's fixed assets of £0.7 million comprise fixtures and fittings and there were £0.6 million of additions, no disposals, and £0.3 million of depreciation charged in the year.

Notes to the accounts

8. Investments

Group:

	Investment in unlisted company	Investment in own shares	Total
	£m	£m	£m
Investment in own shares			
At 1 September 1999	-	0.4	0.4
Additions	2.5	0.5	3.0
Disposals	-	(0.2)	(0.2)
At 31 August 2000	2.5	0.7	3.2

The investment in unlisted company represents the cost of 25% of the convertible preference shares of Vavo Services Ltd. These have the right to convert into approximately 5% of the ordinary equity of the company.

The investment in own shares represents the realisable value of shares held by a Qualifying Employee Share Trust (QUEST) (See Note 17). McCarthy & Stone (QUEST) Limited holds 562,085 ordinary shares in McCarthy & Stone Plc with a market value of £1.4 million at 31 August 2000.

The disposals of investment in own shares represent the exercise of share options within McCarthy & Stone (QUEST) Limited.

Parent:

	2000	1999
	£m	£m
Listed on London Stock Exchange	0.7	0.4
Shares in unlisted subsidiary undertakings	77.7	77.1
Investment in unlisted company	2.5	-
	80.9	77.5

Listed investments relate to investment in own shares as disclosed above under Group investments. Investment in unlisted company relates to Vavo Services Ltd, as disclosed above under Group investment.

Parent:

	Cost	Provision	Net book value
	£m	£m	£m
Shares in unlisted subsidiary undertakings			
At 31 August 1999	77.1	-	77.1
Additions	0.6	-	0.6
Disposals	-	-	-
At 31 August 2000	77.7	-	77.7

Notes to the accounts

The principal trading companies in the group are:

Company	% Holding ordinary shares	Nature of business	Incorporated & operating in
United Kingdom			
McCarthy & Stone (Developments) Limited	100	Developer	England
Priordrive Property Management No.2 Limited	100	Landlord	England
*McCarthy & Stone Investment Properties No.3 Limited	100	Landlord	England
Priordrive Property Management No.3 Limited	100	Landlord	England

* Held by a subsidiary undertaking.

9. Stocks

	2000	1999
	£m	£m
UK:		
Land for development	63.7	33.1
Sites in the course of construction	30.3	21.1
Finished stock	65.6	72.0
	159.6	126.2
Spain:		
Finished stock	-	0.3
	159.6	126.5

10. Debtors: amounts due after one year

	Group		Parent	
	2000	1999	2000	1999
	£m	£m	£m	£m
Secured mortgages	9.4	10.0	-	-
Shared equity	5.7	6.4	-	-
	15.1	16.4	-	-

Secured mortgages represent amounts outstanding on the purchase of certain of the Group's units under a sales incentive discontinued in 1995, together with interest thereon. The amounts are secured by mortgages repayable on subsequent sale of the unit.

The Group's shared equity interests arose from a sales incentive discontinued in 1992 under which the Group receives a proportion of the resale proceeds of certain units 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 accounts

11. Debtors: amounts due in less than one year

	Group		Parent	
	2000	1999	2000	1999
	£m	£m	£m	£m
Trade debtors	1.5	1.3	-	-
Amount owed by subsidiary undertakings	-	-	36.6	31.3
Other debtors and prepayments	2.2	1.4	0.5	0.2
	3.7	2.7	37.1	31.5

12. Cash and borrowings

Reconciliation of net cashflow to movement in net funds/(debt)

	2000		1999	
	£m	£m	£m	£m
Movement in cash in the period	(2.5)		20.4	
Increase in capital element of finance leases	-		(0.4)	
Management of liquid resources	21.0		(5.0)	
Long term debt repaid	-		1.8	
Change in net funds		18.5		16.8
Net funds/(debt) at 1 September		11.7		(5.1)
Net funds at 31 August		30.2		11.7

Analysis of change in net funds

	At 1 September 1999	Cashflow	Capital element of finance leases	At 31 August 2000
	£m	£m	£m	£m
Cash	33.9	(2.5)	-	31.4
Short term deposits	6.0	21.0	-	27.0
Cash at bank and in hand	39.9	18.5	-	58.4
Finance leases	(15.2)	-	-	(15.2)
Loan stock	(13.0)	-	-	(13.0)
Net funds	11.7	18.5	-	30.2

Notes to the accounts

13. Creditors:
amounts falling
due within
one year

	<i>Notes</i>	Group		Parent	
		2000	1999	2000	1999
		£m	£m	£m	£m
Obligations under finance leases and hire purchase contracts	15	1.4	1.4	-	-
Trade creditors		5.2	4.6	0.2	0.5
Other creditors and accruals		11.2	10.0	2.3	2.2
Land creditors on contractual terms		36.9	22.1	-	-
Amount owed to subsidiary undertakings		-	-	38.7	24.3
Corporation taxation		10.2	8.8	0.2	0.2
Other taxes and social security costs		0.4	0.4	0.4	0.9
Preference dividend payable		0.3	0.3	0.3	0.3
Ordinary dividend payable		7.2	5.0	7.2	5.0
		72.8	52.6	49.3	33.4

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

	<i>Notes</i>	Group		Parent	
		2000	1999	2000	1999
		£m	£m	£m	£m
Unsecured loan stock		13.0	13.0	13.0	13.0
Lease and-hire purchase contracts	15	13.8	13.8	-	-
		26.8	26.8	13.0	13.0

The loan stock is redeemable at the company's option at any time from April 1999 to March 2004 at par. The final date for redemption is 31 March 2004.

Notes to the accounts

15. Capital & leasing commitments

a) Finance leases and hire purchase contracts

	Notes	Group	
		2000	1999
		£m	£m
Minimum future payments due under non cancellable finance leases:			
Within one year		1.4	1.4
Two - five years		19.7	21.1
		21.1	22.5
Less:			
Finance charges allocated to future periods		(5.9)	(7.3)
		15.2	15.2
Due within one year	13	1.4	1.4
Due after one year	14	13.8	13.8
		15.2	15.2

Finance leases represent a lease relating to the Group's head office, Homelife House, Bournemouth which is included within long leasehold land and buildings at a restated net book value of £6.8 million (£7.1 million). The Group has been advised by its lessor that the lease of Homelife House might be impacted by the changes in tax treatment of finance leases retrospectively introduced in the Finance Act 1997. The Group, its lessor and its advisors are attempting to quantify the impact of these changes on the Group. The Group has an option to repurchase the building in September 2004 for £15 million. However, this amount may be adjusted to reflect changes in the tax treatment.

b) Capital commitments

There were no capital commitments at 31 August 2000 (*Nil*).

c) Financial commitments

The group has annual commitments under operating leases as follows:

	Land & buildings		Other	
	2000	1999	2000	1999
	£m	£m	£m	£m
Operating leases expiring:				
Less than one year	-	-	0.2	0.4
Two - five years	0.1	-	0.9	0.7
More than five years	0.3	0.3	-	-

16. Deferred tax

Group

There is no provided or unprovided deferred tax liability arising on the Group. A potential deferred tax asset which is not recognised in these accounts of £1.7 million (£1.7 million) exists at 31 August 2000.

Parent

There is no provided or unprovided deferred tax liability arising on the Company. A potential deferred tax asset which is not recognised in these accounts of £0.5 million (£0.3 million) exists at 31 August 2000.

Notes to the accounts

17. Capital and reserves
share capital

	2000	1999
	£m	£m
Authorised		
143,000,000 ordinary shares of 20p each	28.6	28.6
22,200,422 8.75% cumulative redeemable preference shares 2003 of £1 each	22.2	23.6
	50.8	52.2

	2000	1999	2000	1999
	No'000	No'000	£m	£m
Allotted, called-up and fully paid				
Equity interests				
Ordinary shares of 20p each	102,623	101,141	20.5	20.3
Non-equity interests				
8.75% cumulative redeemable preference shares 2003 of £1 each	22,200	23,630	22.2	23.6
			42.7	43.9

Cumulative redeemable preference shares

Preference shareholders are not entitled to vote upon any resolution (other than a resolution for winding up the Company, reducing its share capital, altering the borrowings limits set out in the articles or on a resolution varying or abrogating any of the special rights attached to the preference shares) unless at the date of the notice convening the meeting the dividend is six months in arrears, or the shares have not been redeemed on or after the due date.

On winding up, the available assets of the company will be applied in repaying to the preference shareholders the amount paid up on the shares, a premium (if any) not exceeding three times the nominal value of the shares ascertained by reference to the middle market price of the shares for a six month period prior to winding up together with any unpaid dividends due.

During the year the company redeemed £1.4m of preference shares at £1.01 per share.

The company is required to redeem at par all outstanding preference shares on 1 October 2003 together with an amount equal to any accrued but unpaid fixed dividends.

Qualifying Employee Share Trust (QUEST)

In 1998 the company created a QUEST. A total of 906,338 ordinary shares were issued to the QUEST at that time. During the year a further 388,030 shares were issued to the QUEST. A total of 396,126 shares were transferred to option holders upon exercise from the QUEST for a total consideration of £210,830 (£161,006). The QUEST has waived its right to all but a nominal dividend.

Notes to the accounts

Share options

The grant of all options is made by the Remuneration Committee.

In granting executive share options the Remuneration Committee has regard to both the participants level of responsibility within the Group and to individual and company performance. All the options issued prior to 31 August 1996 were under the original Executive Share Scheme approved in 1986 which did not contain any performance criteria. Options granted under the Executive Share Option Scheme 1996 (consisting of grants made on or after 27 November 1996) are subject to a performance condition. These options only become exercisable if the Company's share price growth over a three year period exceeds the increase in the Retail Price Index by at least 6% over that period. Under both schemes the option price is the market price the day before an offer is made; there is no discount. Options are capable of exercise after 3 years and within 10 years of the date of grant (or after 3 years and within 7 years of the date of grant for an un-approved option). In total 22 executives held various options as at 31 August 2000.

On 5 October 2000 the Company in General Meeting approved the establishment of a new executive share option scheme, the McCarthy & Stone plc Company Share Option Plan (the "Plan"). The Plan will permit annual grants of options to individuals up to a limit of one to two times salary in normal circumstances. Such options will only be exercisable if the Company's earnings per share growth over the three years from the date of grant exceeds the increase in the Retail Price Index by 3%, 5% or 7% or such higher percentage as the Remuneration Committee may decide, (the appropriate performance level depending upon the grant to salary ratio), otherwise they will lapse. The option price will be the market price the day before an offer is made. Options will be capable of exercise, subject to the performance condition, after three years and within ten years of the date of grant.

Under the 'Savings Related Share Option (SAYE) Scheme', eligible employees can enter into an Inland Revenue approved savings contract with a bank or building society for a period of 3, 5 or 7 years, whereby shares may be acquired with payments made under the contract. The option price is the average market price over a three day period shortly before an offer to subscribe, discounted by a maximum of 20%. Options are capable of exercise after 3, 5 or 7 years as appropriate. There are 196 employees in the SAYE.

The rules of the Executive Share Option Schemes and the SAYE include provision for the early exercise of options in certain circumstances.

Options to subscribe for ordinary shares of 20p, including those noted in directors' interests (see page 30), are as follows:

	Date options granted	Option price per share (pence)	Number of options	Option period
Executive share option	03/01/92	43.0	8,542	01/95 - 01/02
	10/06/92	67.0	5,148	06/95 - 06/02
	11/01/94	41.0	17,503	01/97 - 01/04
	12/01/95	59.8	48,000	01/98 - 01/05
	11/01/96	66.5	57,700	01/99 - 01/06
	27/11/96	94.5	45,000	11/99 - 11/03
	19/12/96	92.0	33,000	12/99 - 12/06
	19/12/96	92.0	3,000	12/99 - 12/03
	23/04/97	128.5	664,066	04/00 - 04/04
	18/12/97	120.0	25,000	12/00 - 12/07
	26/11/98	134.5	177,715	11/01 - 11/08
	26/11/98	134.5	248,285	11/01 - 11/05
	13/12/99	221.0	17,308	12/02 - 12/06
	13/12/99	221.0	536,692	12/02 - 12/09

Notes to the accounts

	Date options granted	Option price per share (pence)	Number of options	Option period
SAYE	02/06/95	46.8	4,423	07/00 - 01/01
	04/06/99	78.0	34,055	07/01 - 01/02
	04/06/99	78.0	13,000	07/03 - 01/04
	23/05/97	105.5	7,391	07/00 - 01/01
	23/05/97	105.5	31,392	07/02 - 01/03
	23/05/97	105.5	9,610	07/04 - 01/05
	11/12/98	116.5	112,402	01/02 - 07/02
	11/12/98	116.5	102,242	01/04 - 07/04
	11/12/98	116.5	26,497	01/06 - 07/06
	08/06/99	178.0	78,560	07/02 - 01/03
	08/06/99	178.0	57,634	07/04 - 01/05
	08/06/99	178.0	7,430	07/06 - 01/07
	12/05/00	212.0	95,631	07/03 - 01/04
	12/05/00	212.0	48,695	07/05 - 01/06
	12/05/00	212.0	6,065	07/06 - 01/08

During the year 1,093,685 shares were issued and allotted under the Group's executive share option scheme, the total consideration received was £906,868.22.

Movement in
shareholders funds
Group

	Called up share capital	Share premium account	Capital redemption reserve	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 1 September 1998 (as previously reported)	43.8	38.4	-	1.6	34.1	117.9
Revaluation reversal (prior year adjustment)	-	-	-	(0.7)	-	(0.7)
At 1 September 1998 (restated)	43.8	38.4	-	0.9	34.1	117.2
Retained profit for the year	-	-	-	-	17.5	17.5
Revaluation of investment properties	-	-	-	3.6	-	3.6
Share options exercised	0.1	0.1	-	-	-	0.2
At 31 August 1999	43.9	38.5	-	4.5	51.6	138.5
Retained profit for the year	-	-	-	-	26.2	26.2
Realisation of revalued Investment properties	-	-	-	(4.4)	4.4	-
Repurchase of preference shares	(1.4)	-	1.4	-	(1.4)	(1.4)
Issue of shares to Quest	0.1	0.9	-	-	(0.6)	0.4
Share options exercised	0.1	0.7	-	-	-	0.8
At 31 August 2000	42.7	40.1	1.4	0.1	80.2	164.5

Notes to the accounts

Parent

	Called up share capital	Share premium account	Capital redemption reserve	Revaluation reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 1 September 1999	43.9	38.5	-	0.1	16.3	98.8
Profit for year	-	-	-	-	21.5	21.5
Non-equity share dividend	-	-	-	-	(2.0)	(2.0)
Equity share dividend	-	-	-	-	(8.9)	(8.9)
Repurchase of preference shares	(1.4)	-	1.4	-	(1.4)	(1.4)
Issue of shares to Quest	0.1	0.9	-	-	(0.6)	0.4
Share options issued	0.1	0.7	-	-	-	0.8
At 31 August 2000	42.7	40.1	1.4	0.1	24.9	109.2

Profit on ordinary activities after taxation

The profit dealt with in the accounts of the parent company was £21.5 million (£19.7 million).

18. Contingent liabilities - Parent

The parent has given unlimited guarantees of the bank overdraft, loan and hire purchase facilities of its subsidiaries. The amounts outstanding at 31 August 2000 were £15.2 million (£15.2 million).

19. Pensions

Since 1 September 1991, a defined contribution money purchase pension arrangement has been operated for employees in the UK to which the Group makes a contribution under specified circumstances. All contributions are paid to individual policies effected by employees with independent insurance companies in funds separate from the Group's finances. The Group's pension cost for the year was £0.6 million (£0.6 million) (See Note 2). The unpaid contributions outstanding at the year end are £Nil (£Nil).

20. Derivatives and other financial instruments

An explanation of the group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the group in its activities can be found on pages 17 to 21. The disclosures below exclude short term debtors and creditors as they do not give rise to significant financial risks.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the group as at 31 August was as follows:

Financial liabilities	2000	1999
	£m	£m
Sterling fixed rate	28.2	28.2
	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
Sterling fixed rate	9.3	3.8

Interest rate risk profile of non-equity shares

The company has in issue £22.2 million of cumulative redeemable preference shares with a fixed coupon of 8.75%. The shares are denominated in sterling and have an average period until redemption of 3 years.

Notes to the accounts

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the group as at 31 August was as follows:

Financial assets	2000	1999
	£m	£m
Cash		
Sterling floating rate	58.2	39.7
Other floating rate	0.2	0.2
	58.4	39.9
Debtors		
Sterling fixed rate	9.4	10.0
Sterling on which no interest is earned	5.7	6.4
	15.1	16.4
Total financial assets	73.5	56.3

Floating rate assets comprise cash deposits on money market deposits at call, monthly and 3 monthly rates. The debtors comprise secured mortgages and shared equity interests, further details of which can be found in note 10. Interest is receivable at rates between 7% and 10%. The maturity of these debtors is dependent on the resale of the underlying property.

Currency exposures

As explained on page 21, the group's currency exposure is limited. There were no material net gains or losses recognised in the profit and loss account or statement of recognised gains and losses this year. There are no material currency exposures at 31 August 2000 that will give rise to gains or losses to be recognised in the profit and loss account.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 August was as follows:

	2000	1999
	£m	£m
In more than two years but not more than five	28.2	28.2
	28.2	28.2

Borrowing facilities

The group had committed unsecured UK sterling bank borrowing facilities of £36 million available until December 2001, together with a £5 million overdraft facility. These facilities were cancelled in February 2000. In March 2000 unsecured facilities for £10m were put in place for a 1 year term. At 31 August 2000 the net drawings under these facilities were £nil (£nil). During the year the group made drawings under the bank borrowing facility of £nil (£nil).

Notes to the accounts

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets, financial liabilities and non-equity shares as at 31 August 2000.

	Book value	Fair value
	£m	£m
Long term debtors	15.1	15.1
Cash and short term deposits	58.4	58.4
Loan stock	(13.0)	(12.0)
Finance leases	(15.2)	(15.2)
Non-equity shares	(22.2)	(22.1)

Market values have been used to determine the fair value of listed non-equity shares and the loan stock.

Accounting Policies

The following accounting policies have been used in dealing with items which are considered material in relation to the Group accounts.

Basis of accounting

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 1985 have been invoked. See 'Investment properties' below. A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act, 1985.

Turnover and profit by source and destination are primarily derived from one continuing activity, the UK housing business and thus no segmental disclosure has been made.

Basis of consolidation

All subsidiaries prepare their accounts to 31 August and their results are included in the Group accounts in full except where a subsidiary or business has been acquired or disposed of during the year, in which case its results are included or excluded from the date control passes.

Goodwill

Goodwill represents the difference between the value of a business or company acquired, as represented by the consideration paid, and the fair value of the net assets acquired. The amount so arising is capitalised, classified as an asset on the balance sheet, and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill arising on acquisitions prior to 31 August 1998 were set off directly against reserves, but have been reinstated as a prior year adjustment in accordance with the requirements of FRS10.

Turnover

This represents the invoiced value of sales (net of discounts) excluding value added tax and inter-company transactions.

Turnover and profit on sales are taken upon legal completion.

Stocks

Stocks are valued at the lower of average cost and estimated net realisable value. The cost of work in progress and finished stock comprises the actual cost of land purchases, which are accounted for from the date of contract exchange, actual building costs and production overheads. Net realisable value is based on estimated selling price less net book cost and further costs expected to be incurred to completion and disposal.

Investment properties

Investment properties are valued on the following bases:

(i) Reversionary interests

On the sale of a unit the Group includes in its fixed assets the freehold or leasehold reversionary interest at a multiple of the ground rent receivable, which approximates to current market value, with a corresponding credit to cost of sales.

(ii) Other investment properties

Equity interests arising from a sales incentive scheme are included in investment properties assets at the value of the equity interest.

(iii) Rental properties

On the sale of the first unit in a development the Group includes in its fixed assets its rental interests at a multiple of the rent receivable with a corresponding credit to cost of sales.

Accounting Policies

In accordance with Statement of Standard Accounting Practice 19 investment properties are normally revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve; no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that this policy of not providing depreciation is necessary in order for the accounts to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been shown cannot be separately identified or quantified.

Other investments

Other investments are recorded at cost. Provision is made against the carrying value of other investments when the directors consider that there has been a permanent diminution in value.

Other tangible fixed assets

Following the introduction of FRS15 the Group has reviewed its accounting policy and opted to restate all long leasehold land and buildings within fixed assets at historic cost. This has led to the reversal of £0.7m of revaluation reserve and the restatement of prior year comparatives. As a result the net book value of tangible fixed assets has been decreased by £0.7m. There is no material effect on the profit and loss account in the current period or prior periods.

Freehold land is not depreciated. Freehold buildings are depreciated over fifty years. Leasehold land and buildings are depreciated over fifty years or the remaining life of the lease, if lower.

Fixtures, fittings and equipment are written off in equal annual installments in order to write off their cost over their estimated useful lives of between 3 and 10 years.

Taxation

The charge for taxation is based upon the result for the year and takes into account deferred taxation, calculated on the liability method, which is provided to the extent that the directors consider a liability will become payable within the foreseeable future.

Foreign currencies

Assets and liabilities in foreign currencies and the results of overseas subsidiaries are translated at the rate of exchange ruling at the year end. Gains and losses arising from the retranslation to closing rates of exchange of the Group's net investments in overseas subsidiaries are recorded as movements on reserves.

All other exchange differences are dealt with through the profit and loss account.

Leased assets and hire purchase contracts

Assets used by the Group which have been funded through finance leases and hire purchase contracts are capitalised and the resulting future obligations are included in creditors. All other leases are operating leases and the rental charges are taken to profit and loss account on a straight line basis over the life of the lease.

Pension schemes

The company and its UK subsidiaries operate a defined contribution pension scheme. The amount charged to the profit and loss account represents contributions payable to the individual policies effected by employees with independent insurance companies in funds separate from the company's finances.

Group Financial Summary

Five year record

	Notes	1996	1997	1998	1999	2000
Financial highlights						
Unit sales		906	1,218	1,320	1,470	1,536
Turnover	£m	61.0	88.3	107.1	123.4	147.0
Pre-tax profit	£m	11.0	20.5	28.5	39.1	53.5
Profit after taxation	£m	8.9	13.9	19.2	25.8	37.1
Shareholders funds	£m	94.8	103.6	117.9	138.5	164.5
Net (borrowings)/funds	£m	(24.7)	(14.6)	(5.1)	11.7	30.2
Basic earnings per ordinary share	pence	7.0	12.0	17.2	23.7	34.7
Dividend per ordinary share	pence	2.3	3.0	4.5	6.3	8.7
Net assets per ordinary share	1 pence	72.1	80.0	94.3	113.6	138.7
Principal ratios						
Gearing %	2	26%	14%	4%	-	-
Dividend cover		3.0	4.0	3.8	3.8	4.0
Interest cover		9.5	11.8	24.8	79.2	-
Gross profit margin		35%	39%	42%	45%	47%
Operating profit margin		20%	23%	28%	32%	35%
Pre-tax return on shareholders' funds		11.6%	19.8%	24.2%	28.1%	32.5%
Unit stock levels						
Finished stock	units	1,470	1,613	1,472	1,703	1,495
Under construction	units	573	788	1,177	1,072	1,517
		2,043	2,401	2,649	2,775	3,012
Land bank	units	2,659	2,790	2,745	2,910	3,525
		4,702	5,191	5,394	5,685	6,537

Notes

1. Net assets per ordinary share excludes preference shareholders' interests and ordinary shares held by McCarthy & Stone (Quest) Limited.
2. Gearing is calculated as total net borrowings including cash at bank, loan stock and finance leases as a percentage of total net assets.

Additional Shareholder Information

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T L Green

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Royal Bank of Scotland plc
HSBC plc

Principal Solicitors

Travers Smith Braithwaite

Stockbrokers & Financial Advisors

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Telephone: 020 7567 8000

Auditors

Ernst & Young
Southampton

Financial Calendar

2000

20 November	Ordinary Shares Quoted 'Ex-dividend'
24 November	Record date for Ordinary Shares
27 November	Preference Shares Quoted 'Ex-dividend'
1 December	Record date for Preference Dividends
19 December	Annual General Meeting
20 December	Final Dividend of 7.0 pence paid

2001

2 January	Preference Dividend paid
28 February	End of First Half of Financial Year
April	2000/01 Interim Results Announced
4 June	Record date for Preference Dividend
June	Interim Dividend paid
1 July	Preference Dividend paid
31 August	Year End
November	Preliminary Results Announcement for 2000/01