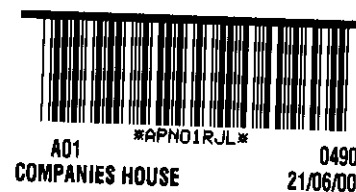


McCarthy & Stone Investment Properties No 2 Limited

Report and Accounts

31 August 1999

Registration number 3264749



**McCarthy & Stone Investment Properties No 2 Limited
Directors and Officers**

DIRECTORS

McCarthy & Stone (Group Services) Limited
McCarthy & Stone Corporate Services Limited

SECRETARY

McCarthy & Stone (Group Services) Limited

REGISTERED OFFICE

Homelife House
26-32 Oxford Road
Bournemouth

AUDITORS

Ernst & Young
Southampton
Hampshire

BANKERS

National Westminster Bank plc
Christchurch
Dorset

SOLICITORS

Travers Smith Braithwaite
Snow Hill
London

McCarthy & Stone Investment Properties No 2 Limited

Directors' Report

The directors present their report and accounts for the year ended 31 August 1999.

Business Review

The company's business is property investment. During the year the company purchased portfolio of freehold reversionary interests in blocks of retirement flats from McCarthy & Stone (Developments) Limited, a fellow subsidiary company.

Results and Dividends

The profit on ordinary activities after taxation amounted to £312,953 (1998 - £Nil). The directors do not recommend the payment of a dividend, leaving the £312,953 to be added to reserves.

Post Balance Sheet Event

On 8 November 1999 the company completed the disposal of a portfolio of its Investment Properties in freehold reversionary interests for approximately £13.4m. The directors estimate that a pre-tax profit of approximately £0.3m will arise from the disposal.

Directors And Their Interests

A list of the present directors is shown on page 1.

All the directors held office throughout the year covered by the accounts.

Year 2000 and its impact on the business

As is well known, many computer and digital storage systems process dates using only the last two digits of the year and may therefore require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and possible consequent widespread commercial disruption. This is a pervasive issue. However, the operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event there is a failure by other parties to remedy their own Year 2000 issues.

The Board established a Committee to review the impact of the Millennium on its information hardware and software systems with a view to ensuring they are compliant and also to monitoring the position of key suppliers. Based on the work of the Committee and the action taken to counter any threats, the Board believes the impact of the 'Millennium Issue' should not present a serious problem.

The cost of implementing the action plans will be absorbed in the Group's existing departmental and overhead cost structure. It is not expected that any material exceptional costs will be incurred.

McCarthy & Stone Investment Properties No 2 Limited
Directors' Report

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

This report was approved by the board on 10 November 1999.



Trevor Green
For and behalf of McCarthy & Stone (Group Services) Limited
Secretary

McCarthy & Stone Investment Properties No 2 Limited

Statement of Directors' Responsibilities

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 of the profit or loss 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

McCarthy & Stone Investment Properties No 2 Limited
Auditors' Report

Report Of The Auditors
To The Members of McCarthy & Stone Investment Properties No 2 Limited

We have audited the accounts on pages 6 to 11 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on page 8.

Respective Responsibilities of Directors and Auditors

As described on page 4, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practicing Board and by our professions ethical guidance.

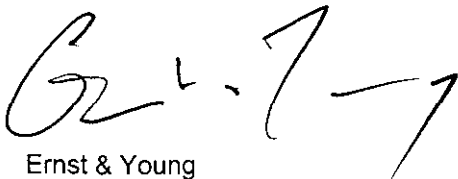
Basis of Opinion

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 amounts 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 company'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 misstatement, 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 the company's affairs as at 31 August 1999 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor

Southampton

10 November 1999

McCarthy & Stone Investment Properties No 2 Limited
Profit and Loss Account
for the year ended 31 August 1999

	Notes	1999 £	1998 £
Turnover		487,999	-
Administrative expenses		(37,188)	-
Operating Profit		<u>450,811</u>	<u>-</u>
Profit on ordinary activities before taxation		<u>450,811</u>	<u>-</u>
Taxation on profit on ordinary activities	3	(137,858)	-
Profit on ordinary activities after taxation		<u>312,953</u>	<u>-</u>
Retained Profit for year	8	<u>312,953</u>	<u>-</u>

Historical cost profit and losses

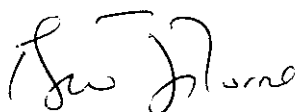
There is no material difference between the profit for this year as shown above and that based on historical costs.

Statement of total recognised gains and losses for the year ended 31 August 1999

	1999 £	1998 £
Profit on ordinary activities after taxation	312,953	-
Unrealised surplus on revaluation of properties	2,689,573	-
Total recognised gains and losses relating to year	<u>3,002,526</u>	<u>-</u>

McCarthy & Stone Investment Properties No 2 Limited
Balance Sheet
as at 31 August 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	4	12,957,854	-
		<u>12,957,854</u>	<u>-</u>
Current assets			
Debtors	5	-	2
		<u>-</u>	<u>2</u>
Creditors: amounts falling due within one year	6	(9,955,326)	-
		<u>(9,955,326)</u>	<u>2</u>
		<u>3,002,528</u>	<u>2</u>
Capital and reserves			
Called up share capital	7	2	2
Revaluation reserve	9	2,689,573	-
Profit and loss account	8	312,953	-
	10	<u>3,002,528</u>	<u>2</u>



Matthew Thorne
For and behalf of McCarthy & Stone Corporate Services Limited
Director

Approved by the board on 10 November 1999

McCarthy & Stone Investment Properties No 2 Limited
Notes to the Accounts
at 31 August 1999

1 Accounting policies

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

The company is exempt from preparing group accounts under S228 of the Companies Act as it itself is a wholly owned subsidiary. The accounts therefore present information only about the company.

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.

Cashflow Statement

No cashflow statement has been prepared for the company as it is itself a wholly owned subsidiary. A group consolidated cashflow statement is included in the accounts of the ultimate parent undertaking, McCarthy & Stone plc.

Investment Properties

Reversionary Interests

On the sale of a unit the company 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.

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 many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

2 Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. All turnover is attributable to UK markets and relates to continuing operations.

McCarthy & Stone Investment Properties No 2 Limited
Notes to the Accounts
at 31 August 1999

3 Tax on profit on ordinary activities	1999	1998
	£	£
UK corporation tax at 30% (31%)	137,858	-

4 Tangible fixed assets - Investment Properties

	Freehold Reversionary Interests	Total
	£	£
Cost or Valuation		
At 1 September 1998	-	-
Additions	-	-
Transfers from Fellow Subsidiary	10,268,281	10,268,281
Revaluations	2,689,573	2,689,573
Disposals	-	-
At 31 August 1999	12,957,854	12,957,854

Freehold reversionary interests are valued annually by the directors on the basis of open market value. The current valuation is an average of approximately 14 years ground rent. On 30 October 1998 a portfolio of freehold reversionary interests was transferred from a fellow subsidiary McCarthy & Stone (Developments) Ltd.

5 Debtors	1999	1998
	£	£
Amounts owed by parent undertaking	-	2
	-	2

6 Creditors: amounts falling due within one year	1999	1998
	£	£
Amounts owed to group undertakings and undertakings in which the company has a participating interest.	9,807,468	-
Amounts owed to parent undertakings	147,858	-
	9,955,326	-

McCarthy & Stone Investment Properties No 2 Limited
Notes to the Accounts
at 31 August 1999

7 Share capital	1999	1998
	£	£
Authorised:		
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

	1999	1998	1999	1998
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

Movement in share capital	1999	1998
	£	£
At 1 September	2	2
At 31 August	<u>2</u>	<u>2</u>

8 Profit and loss account	1999	1998
	£	£
At 1 September	-	-
Retained Profit	312,953	-
At 31 August	<u>312,953</u>	<u>-</u>

9 Revaluation Reserve	1999	1998
	£	£
At 1 September	-	-
Arising on revaluation during the year	2,689,573	-
At 31 August	<u>2,689,573</u>	<u>-</u>

10 Reconciliation of movements in shareholders' funds	1999	1998
	£	£
At 1 September	2	2
Retained Profit	312,953	-
Other recognised gains and losses	2,689,573	-
Shares issued	-	-
At 31 August	<u>3,002,528</u>	<u>2</u>

McCarthy & Stone Investment Properties No 2 Limited
Notes to the Accounts
at 31 August 1999

11 Contingent Liability

The company has given unlimited guarantees on the bank overdrafts, loans and hire purchase facilities of fellow subsidiaries. At 31 August 1999 the amount outstanding under those guarantees was £Nil (1998 - £Nil).

12 Ultimate Parent Undertaking

The company is wholly owned subsidiary undertaking of McCarthy & Stone plc, which is registered in England and Wales. The consolidated accounts of McCarthy & Stone plc are those of both the smallest and largest group of which the company is a member and for which group accounts are prepared. Copies of the group accounts can be obtained from the Company Secretary, Homelife House, 26-32 Oxford Road, Bournemouth.

13 Related Parties

The company has taken advantage, as a 100% subsidiary, of the exemption available under FRS 8 from disclosing transactions with members of the McCarthy & Stone plc Group.

14 Post Balance Sheet Event

On 8 November 1999, the company completed the disposal of its investment properties in freehold reversionary interests for approximately £13.4 million. The directors estimate that a pre-tax profit of approximately £0.3 million will arise from the disposal.