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Private and Confidential

NHP PLC

1998 Report and Accounts



Corporate statement

NHP Plc is the UK's only listed property investment group specialising in the purchase of freehold or long leasehold interests in modern purpose-built care homes, which are leased back to care home operators that have an established and proven ability, reputation and performance record.

The turnover based lease developed by NHP satisfies the aspirations of both NHP and its tenants, now and in the future, enabling tenants to benefit from both NHP's experience of care home markets and its ability to 100% fund their expansion, whilst NHP achieves guaranteed minimum rents, with annual increases linked to the turnover of the care homes it has funded, enabling it to share in the success of its tenants.

The Group has four central aims, namely:

- *to invest in high quality care homes*
- *to utilise its property assets to the mutual advantage of landlord and tenant*
- *to form a close working relationship with its tenants, and*
- *to provide its tenants with additional finance for expansion of their businesses.*

The Group currently owns, or has contractual obligations to purchase, 208 care homes, with 11,175 beds, leased to 24 care home operators at a cost of approximately £387 million.

NHP's objective is to provide its Shareholders with steadily rising quarterly dividends and the opportunity for capital growth through appreciation in the value of its care home property assets.

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Financial highlights

<i>For the year ended 30 September</i>	<i>1998</i>	<i>1997</i>	<i>Increase</i>
<i>Turnover</i>	<i>£25.35m</i>	<i>£11.61m</i>	<i>118%</i>
<i>Pre-tax profits</i>	<i>£7.77m</i>	<i>£3.20m</i>	<i>143%</i>
<i>Earnings per share</i>	<i>9.18p</i>	<i>6.25p</i>	<i>47%</i>
<i>Dividends per share</i>	<i>8.40p</i>	<i>6.25p</i>	<i>34%</i>
<i>Net assets per share</i>	<i>161.55p</i>	<i>143.99p</i>	<i>12%</i>
<i>Shareholders' funds</i>	<i>£215.0m</i>	<i>£57.2m</i>	<i>276%</i>
<i>Leased beds*</i>	<i>10,292</i>	<i>4,788</i>	<i>115%</i>
<i>Investment properties at valuation</i>	<i>£401.4m</i>	<i>£173.2m</i>	<i>132%</i>
<i>Investment properties at cost</i>	<i>£349.8m</i>	<i>£155.5m</i>	<i>125%</i>

**Including 195 beds held for resale as at 30 September 1998.*

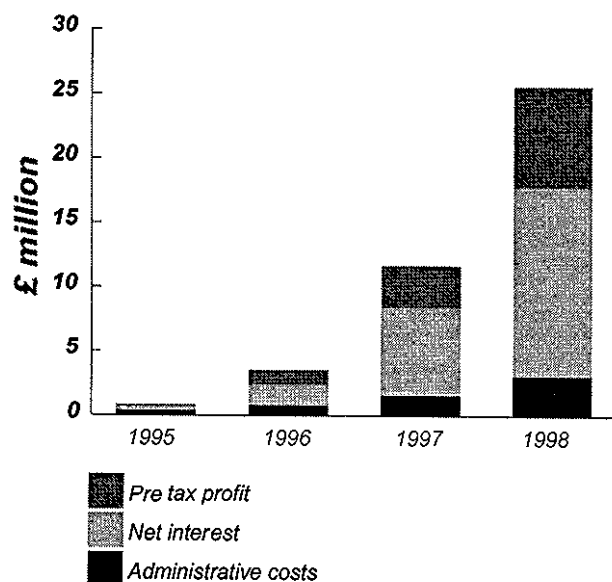


NHP Plc

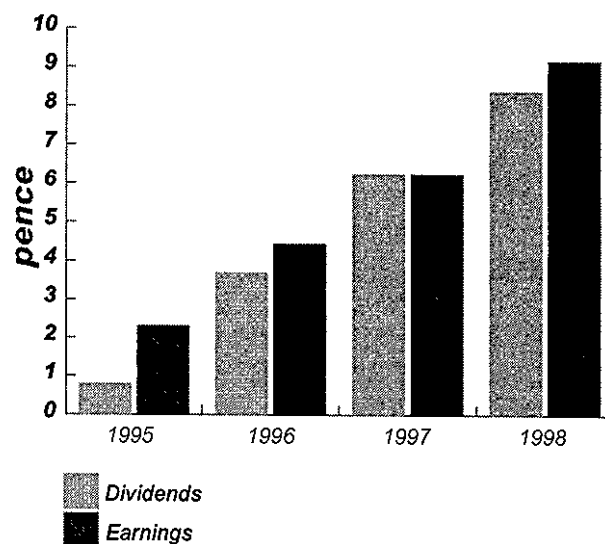
*Annual Report
& Accounts
1998*

Performance record

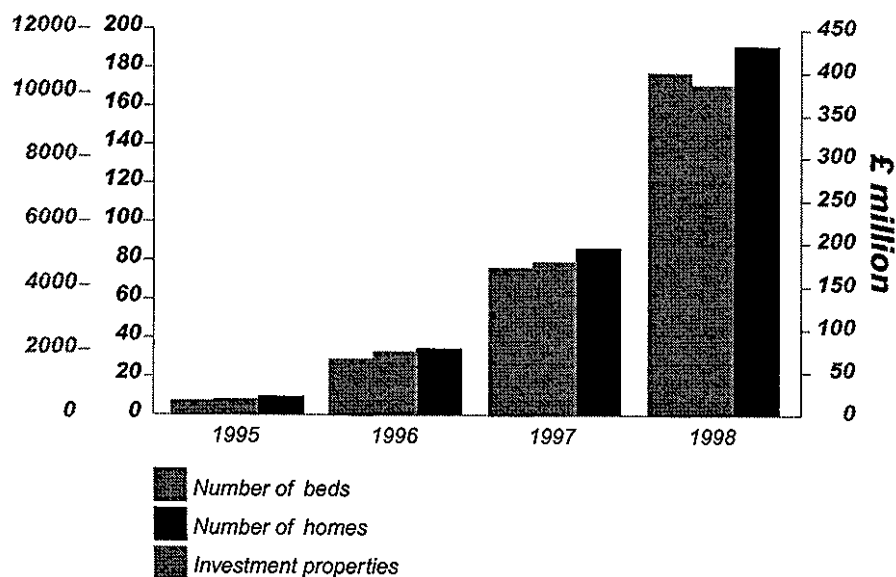
Analysis of turnover



Earnings and dividends per share



Number of beds / number of homes / investment properties at valuation



Financial summary



For the years ended 30 September	1998 £'000	1997 £'000	1996 £'000	1995* £'000
Profit and loss account				
■ Turnover	25,346	11,605	3,513	825
Administrative expenses	(3,090)	(1,545)	(776)	(365)
■ Operating profit	22,256	10,060	2,737	460
Profit on disposal of investment property	65	—	—	—
Net interest payable and similar charges	(14,552)	(6,859)	(1,595)	(320)
■ Profit on ordinary activities before taxation	7,769	3,201	1,142	140
Tax on profit on ordinary activities	(1,016)	(718)	(250)	—
■ Profit on ordinary activities after taxation	6,753	2,483	892	140
Equity minority interest	(162)	—	—	—
■ Profit for the financial period	6,591	2,483	892	140
Dividends paid and proposed	(6,627)	(2,485)	(875)	(124)
■ Retained (loss)/profit for the financial period	(£36)	(£2)	£17	£16

Statistics

■ Basic earnings per share	9.18p	6.25p	4.44p	2.32p
■ Dividends per share	8.40p	6.25p	3.70p	0.80p
■ Basic net assets per share	161.55p	143.99p	105.05p	95.52p
■ Shareholders' funds	£215.0m	£57.2m	£41.7m	£14.8m
■ Leased beds**	10,292	4,788	1,987	509
■ Number of homes***	191	86	34	9
■ Investment properties at valuation	£401.4m	£173.2m	£67.2m	£18.0m
■ Investment properties at cost	£349.8m	£155.5m	£65.0m	£17.8m

*8 months to 30 September 1995.

**Including 195 beds held for resale as at 30 September 1998.

***Including 6 homes held for resale as at 30 September 1998.



Chairman's statement

It is with a sense of achievement that I present my fourth annual statement to accompany the Report and Accounts for the year ended 30 September 1998.

Two years ago I described the results as "spectacular". I feel sure that Shareholders will agree with me that the performance of the Group in 1998, as well as from inception, justifies this description.

Before commenting on the 1998 results I thought I would review the goals we set out in NHP's prospectus dated 3 February 1995. These were:

- **Raise £30 million equity**
- **Raise £25 million debt**
- **Acquire care homes on a 10.8% gross yield**
- **Raise long term finance via securitisation**
- **Obtain a listing for NHP shares on the London Stock Exchange**

Compared with the goals set out above, the Group has:

- **Raised £173.2 million equity**
- **Obtained £268 million debt facilities**
- **Acquired 208 care homes, all on gross yields of at least 10.8%**
- **Raised £100 million via securitisation of NHP's leases**
- **Obtained a listing on the London Stock Exchange**

We have been able to achieve these results with a relatively small team and my thanks are due to them, as well as my co-Directors, for their dedication and efforts. This could also not have been achieved without the considerable help of NHP's professional advisers and bankers.

Results and dividends

Therefore I am pleased to report that turnover for the year increased by 118% to £25.35 million (1997: £11.61 million), pre tax profits increased by 143% to £7.77 million (1997: £3.20 million), earnings per share increased by 47% to 9.18p per share



■ Dumbarton Nursing Home, Grampian.

(1997: 6.25p per share) and net assets per share increased by 12% to 161.55p per share (1997: 143.99p).

The five million Deferred Ordinary Shares, issued to the executive Directors, convert into five million Ordinary Shares immediately following Shareholders' approval of the Annual Accounts at the AGM. As a result fully diluted net assets per share at 30 September 1998 were 155.73p.

Your Board is recommending a final dividend of 2.4p per share (1997: 1.75p), making a total dividend for the year of 8.4p (1997: 6.25p), an increase of 34%. Your Board is also recommending a final dividend of 1.2p per share on the new Ordinary Shares issued in August to Shareholders who took up their entitlement under the two for three Placing and Open Offer. The new Ordinary Shares will be merged with the Ordinary Shares with effect from 11 December 1998.

The final dividends will be paid on 9 April 1999, following abolition of Advance Corporation Tax on 6 April 1999. The deferral will benefit the Company by avoiding the payment of £655,556 Advance Corporation Tax.

Total return for the year after dilution of two equity issues, detailed below, (17.56p increase



■ Cedar Court Nursing Home, Middlesex.

in net assets per share plus 8.4p net dividends per share) was 18.03% (1997: 43.02%).

Equity issues

During the year the Group raised £131.1 million (£126.0 million net of issue costs) via two Placings and Open Offers and the exercise of the Lend Lease Warrants.

In November 1997 NHP issued a Circular to Shareholders relating to a four for five Placing and Open Offer of 31,753,095 Ordinary Shares at a price of 125p per share, fully underwritten by Robert Fleming & Co. Limited. The issue raised £39.69 million, less £1.7 million (4.3%) issue costs.

In July 1998 NHP issued a further circular to Shareholders relating to a two for three Placing and Open Offer of 47,629,642 Ordinary Shares at a price of 149p per share, fully underwritten by Robert Fleming & Co. Limited.

Chairman's statement continued



■ St. Margaret's Nursing Home, Durham.

On 18 August 1998, Lend Lease exercised its Warrants over 14 million Ordinary Shares at 146.11p per share (see page 7). The total raised from the Placing and Open Offer and exercise of Warrants amounted to £91.42 million, less £3.37 million (3.7%) issue costs.

Investment

During the year the Group invested £201.28 million in 106 care homes with a total of 5,584 beds. NHP is now the second largest owner of care home beds in the UK behind BUPA. However, this only represents 1.99% of all UK care home beds and 2.90% of all privately owned beds.

Also during the year the Group invested £9.75 million in Ultima Holdings Limited 9.5% secured loan stock due 31 May 2003.

NHP also has a warrant entitling a subsidiary to subscribe for 45% of Ultima's enlarged equity at nominal cost. The investment was made to partially finance Ultima Holdings Limited's purchase of Ultima Healthcare Limited (formerly Lifestyle Care Plc) on 2 June 1998 and Eton Hall Homes Limited on 13 July 1998. Full details of the Group's investments in Ultima Holdings Limited are set out in the Financial review on page 25.

Bank facilities

During the year the Group extended its bank facilities from £63.5 million to £198 million. Further details are set out in the Financial review on pages 22 to 24.



■ Four Seasons Nursing Home, Bolton.

On 23 November 1998 the Group completed the arrangement of a £70 million term loan with Dresdner Bank AG London Branch maturing 1 June 2000, to re-finance part of NHP's portfolio of existing assets. The proceeds will be used to partially repay the Bank of Scotland revolving credit facility, giving the Group additional funds to expand its portfolio of care homes. Full details are set out in the financial review on page 23.

Partnership with Lend Lease Corporation

The Partnership formed on 27 October 1997 with a subsidiary of Lend Lease Corporation, an Australian based international property and financial services group, has invested approximately £27.4 million in 15 care homes with 4 tenants. These homes are included in the Group's totals set out in the Business review.

On 18 August 1998 Lend Lease Europe Holdings Limited exercised its Warrants over 14 million Ordinary Shares at 146.11p per share. These shares were placed at 152p per share as part of the Placing and Open Offer to Shareholders dated 22 July 1998.

Listing on the London Stock Exchange

On 18 August 1998 85,444,464 Ordinary Shares and 47,629,642 new Ordinary Shares

were admitted to the Official List and dealings commenced on that date.

Share Option Schemes

In order to attract and retain staff with the appropriate skills to maximise the performance of the Group's business, in February 1998 the Company adopted two Share Option Schemes – the NHP Plc 1998 Inland Revenue Approved Executive Share Option Scheme and the NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme. Further details of both schemes are set out in the Report of the Remuneration Committee on pages 33 and 34.

Management incentives

Prior to the Company commencing trading on 3 February 1995, an incentive scheme was established for the executive Directors by the issue to them of 5 million Deferred Ordinary Shares. Conversion of the Deferred Ordinary



■ Abergarw Nursing Home, Mid Glamorgan.

Chairman's statement continued

Shares was conditional on the Company achieving a Listing on the London Stock Exchange and achieving an asset value target of up to 145p per share by 30 September 1998. Both objectives have been achieved and the Deferred Ordinary Shares will convert into 5 million Ordinary Shares immediately following the Annual General Meeting. NHP will then have an issued share capital of 138,074,106 Ordinary Shares, of which the executive Directors will hold approximately 3.9% of the Company's enlarged share capital, including 3.62% derived from the Deferred Ordinary Shares.

Securitisation

The key strategy of your Group is to use securitised debt to lower its funding costs and provide fixed rate long-term non-recourse finance that matches the length of NHP's leases.



■ Fountain Nursing Home, Swinton.

NHP completed its first £100 million securitisation issue in April 1997.

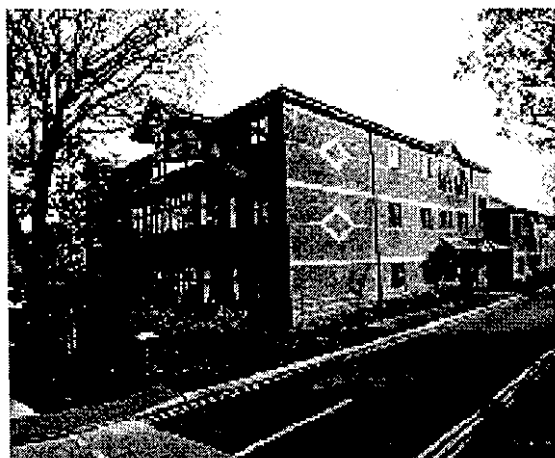
The Group is currently exploring with its advisers, Merrill Lynch and J.P. Morgan, the possibility of securitising approximately £200 million of NHP's care home leases.

Since April 1997 long-term bond yields have fallen substantially and indicative pricing for such an issue today would be between 6.5% and 7% compared to 8.35%, after amortisation of issue costs, in April 1997.



■ Linlithgow Nursing Home, Grampian.

Over the past few months there has been turmoil in all bond markets. NHP has substantial capacity within the committed credit lines available to it, and can afford to wait to launch a securitisation issue until investors' appetite for such issues returns, priced at competitive rates. We believe that such a window of opportunity could occur in the first quarter of 1999.



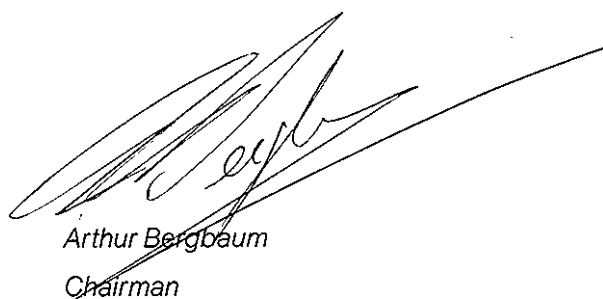
■ Cavendish House Nursing Home, Wirral.

Future prospects

The Group continues to make small investments in specialist health care buildings but we do not expect such assets to form a significant proportion of the portfolio. We continue to investigate European markets and during the year formed NHP Europa S.A. in Spain with a view to entering into a joint venture with a Spanish financial institution to provide purchase and lease back finance to Spanish operators.

We are also investigating markets in France, Germany and the Benelux countries. Overseas investment is unlikely to represent more than 10% of NHP's overall portfolio in the short-term but should provide good medium to longer term growth as the UK market slows. The demographics and long term care bed provision statistics are more compelling in many European markets than in the UK.

Demand for the specialist form of finance provided by the Group is currently running in excess of £20 million per month. Gross investment yields of 10.8% are being achieved and are not under pressure. Your Board is therefore confident that, with the resources available to it, the prospects of the Group remain excellent.



Arthur Bergbaum
Chairman

24 November 1998

Business review

The Group's property investment portfolio

Further substantial progress in the development of the Group's property investment portfolio was achieved during the year ended 30 September 1998 and in the period since. During the year the Group invested £197.51 million (1997: £90.51 million) in 100 care homes (1997: 52) with a total of 5,389 beds (1997: 2,801), and also purchased for resale a further 6 care homes with a total of 195 beds for a total cost of £3.77 million.



■ Maypole Nursing Home, Southampton.

On 22 June 1998 Associated Nursing Services Plc exercised their option to buy-back Collingwood Court, an 80 bed home previously operated by them, for a consideration of £3.55 million. Collingwood Court formed part of a portfolio of care homes whose leases

were securitised into Care Homes No.1 Limited in April 1997. The proceeds, together with the balance on the Further Drawings Fund, were utilised to acquire the leases of two homes, in substitution, in July 1998 for £4.56 million.

At 30 September 1998 the Group's property investment portfolio comprised 185 care homes (1997: 86) with a total of 10,097 beds (1997: 4,788) leased to 22 tenants (1997: 13 tenants) for a cost of £349.78 million, including acquisition costs (1997: £155.47 million). In addition, the Group held for resale a further 6 care homes with a total of 195 beds, acquired at a cost of £3.77 million, including acquisition costs. Since 30 September 1998 the Group has acquired from 6 tenants a further 15 care homes, with a total of 744 beds, for a cost of £26.85 million (including acquisition costs).

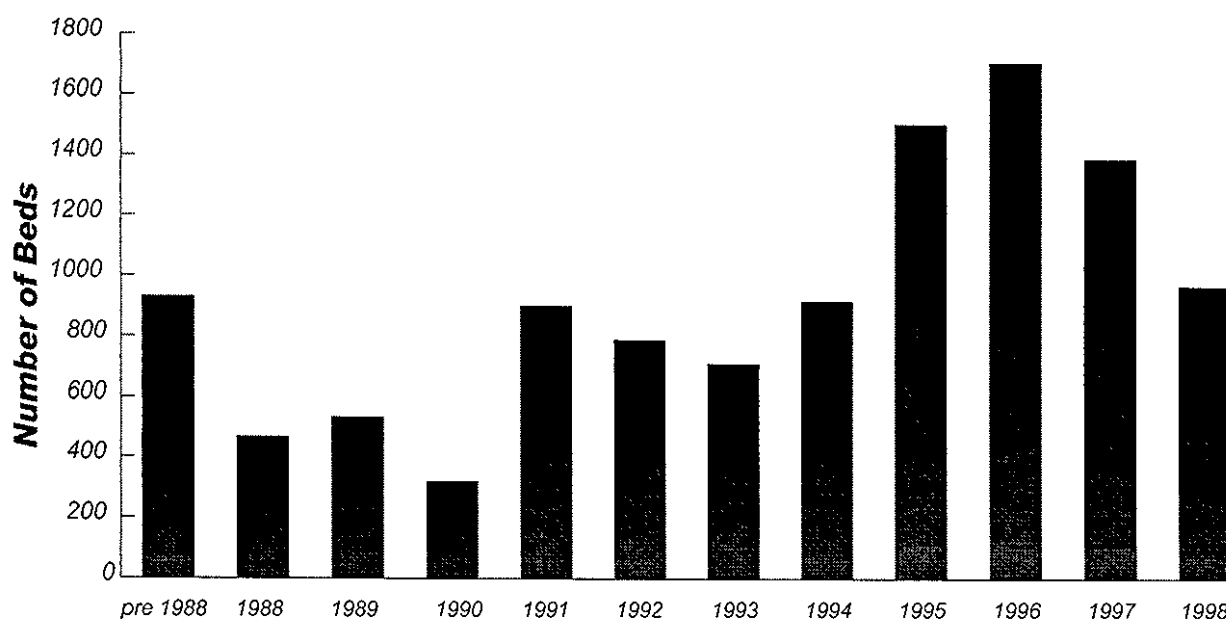
At 24 November 1998, the Group's investment in care home properties amounted to £376.63 million (including acquisition costs) and comprised 200 care homes with a total of 10,841 beds leased to 24 tenants. In addition, the Group held for resale a further 6 care homes with a total of 195 beds acquired at a cost of £3.77 million (including acquisition costs), and had entered into conditional contracts which include, inter alia, the purchase of a further 2 care homes and

139 beds, for an aggregate consideration of £6.63 million (including acquisition costs). Of these beds 76.81 % are in England, 8.70 % are in Scotland, 5.93 % are in Northern Ireland and 8.56 % are in Wales.

The care homes being acquired by the Group continue to be of a consistently high quality. At 30 September 1998 over 86% of all beds were in single rooms, with approximately 67% of all beds having en suite facilities. As will be seen from the accompanying chart, approximately 65% of beds have been built in the last five years. Full details of the Group's current property investment portfolio are set out on pages 17 to 19 and page 21.



■ Avon Park Nursing Home, Bath.



■ NHP Plc portfolio. Age analysis by year of construction as at 24 November 1998.

Business review continued

The geographical spread of 11,036 existing and 139 beds under contract at 24 November 1998 is set out below:

Area	Number of beds	%	Cost £'000	%	Minimum annual rent £'000	%
England	8,583	76.81	304,576	78.70	31,948	78.62
Wales	957	8.56	28,678	7.41	3,025	7.45
Scotland	972	8.70	33,600	8.68	3,531	8.69
Northern Ireland	663	5.93	20,175	5.21	2,130	5.24
	11,175	100.00	387,029	100.00	40,634	100.0

The split by operator/tenant of the 11,036 existing and 139 beds under contract at 24 November 1998 is set out below:

Operator/tenant	Number of beds	%	Cost £'000	%	Minimum annual rent £'000	%
Subsidiaries of Advantage Healthcare Group Limited	373	3.34	12,705	3.28	1,333	3.28
Subsidiary of Associated Nursing Services Plc	68	0.61	2,671	0.69	282	0.69
Subsidiaries of Ashbourne Plc	934	8.35	29,034	7.50	3,089	7.60
Subsidiary of Ashmore Consulting Limited	32	0.29	932	0.24	97	0.24
Subsidiary of Care Estates Limited	135	1.21	6,405	1.66	670	1.65
Subsidiary of Britannia Healthcare Limited	309	2.77	10,000	2.58	1,039	2.56
Subsidiary of Care Management Group Limited	60	0.54	4,184	1.08	438	1.08
Subsidiary of Craegmoor Healthcare Company Limited	270	2.42	10,518	2.72	1,119	2.75
Subsidiary of Eastwood Care Homes (Ilkeston) Limited	64	0.57	3,413	0.88	356	0.88
Subsidiaries of Eranew Limited	292	2.61	8,588	2.22	901	2.22
Grampian Care Limited and Subsidiary	800	7.16	28,226	7.29	2,966	7.30
Subsidiary of Americare Limited	150	1.34	5,343	1.38	558	1.37
Subsidiary of Healthcare Investments Limited	239	2.14	8,500	2.20	886	2.18
Highfield Group Limited	232	2.08	7,260	1.88	764	1.88
Subsidiary of Hillcroft Holdings Limited	66	0.59	2,028	0.52	212	0.52
Loughbray Limited	309	2.77	10,701	2.77	1,124	2.77
Subsidiary of Palladium Healthcare Limited	150	1.34	5,118	1.32	535	1.32
Subsidiary of Puretruce Limited	387	3.46	11,397	2.95	1,193	2.93
Subsidiary of Somerford Health Care Limited	418	3.74	15,415	3.98	1,614	3.97
Subsidiary of Southern Cross Healthcare Limited	1,898	16.98	67,810	17.52	7,135	17.56
Subsidiaries of Tamaris Plc	730	6.53	22,621	5.85	2,393	5.89
Subsidiary of Trinity Care Plc	105	0.94	3,371	0.87	356	0.88
Subsidiaries of Ultima Holdings Limited	1,998	17.88	72,265	18.67	7,555	18.59
Subsidiary of Union Healthcare Group Limited	1,156	10.34	38,524	9.95	4,019	9.89
	11,175	100.00	387,029	100.00	40,634	100.00

At 30 September 1998, no single tenant accounted for more than 20% by number of beds or in terms of original cost of the properties acquired. The aggregate contracted minimum annual rent on the portfolio at 30 September 1998 was £37.75 million (1997: £17.48 million), and the aggregate contracted minimum annual rent on the current portfolio is £40.63 million. The average occupancy of the Group's mature care homes in September 1998 was 91% (1997: 89.1%) with average weekly fees per bed of £320 (1997: £308).

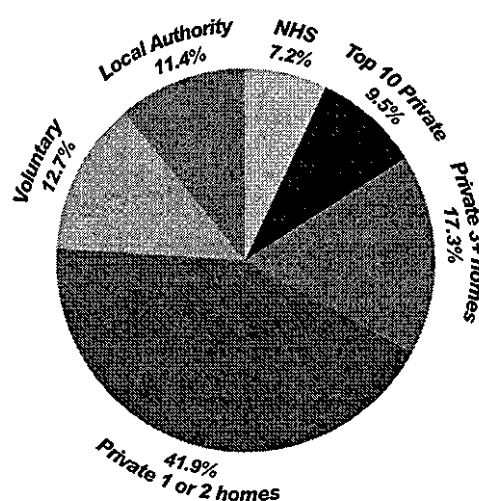
Valuation

The Group's valuers, DTZ Debenham Thorpe, carried out a valuation of the Group's property investment portfolio as at 30 September 1998. They valued 185 care homes, with a total of 10,097 beds, at £401.38 million. This showed a £51.6 million revaluation surplus over £349.78 million book cost. The valuation is based on individual investment yields of between 8.75% and 9.00% of the pavement rents. Taking into account turnover rent supplements, which have been calculated with reference to the reported fees and occupancy levels over the period a home has been owned, with particular attention being paid to the performance over the last three months of the year, the overall investment yield on the portfolio, based on the pavement rent of £37.11 million, was 8.73%.

When this is adjusted to take account of purchaser's costs the yield is 9.15%. The 8.73% yield compares with a yield of 9.14% at 30 September 1997. The improvement in yield over the year reflects falling investment yields in general, and property investment yields in particular, and allows for a 2% rise in stamp duty during the year.

The care home industry

Figures released in Laing and Buisson's "Care of Elderly People Market Survey 1998", sponsored by NHP, showed that in April 1998 the total number of long term care beds had fallen 2 ½% from their peak in April 1996 to a total of 561,700. Of these beds 18% were in the public sector, 13% in the voluntary sector and 69% in the private sector, see chart.



■ 561,700 UK long term care beds (April 1998).

Business review continued

The survey also showed that average occupancy of private sector nursing homes had fallen consistently from 94.6% in August 1992 to a low of 84% in February 1997, but had recovered to 85.4% in March 1998.

The key statistic was the difference between purpose built nursing homes and non-purpose built. The average occupancy for purpose built nursing homes was 89%, compared with 85% for non-purpose built homes, giving an overall average of 85.4%. This is the first time that statistical information has been produced to support NHP's policy of purchasing purpose built care homes, and supports NHP's belief that the long term care sector has turned the corner and is improving. This improvement is specifically focused on purpose built care homes and is where NHP's business is concentrated.



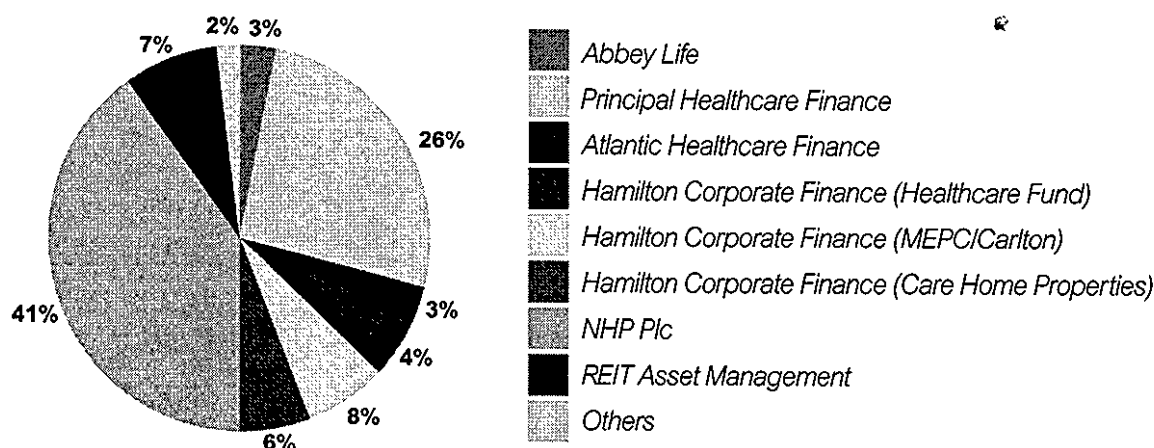
■ Birchwood Grange Nursing Home, Kenton.

The sale and lease back market

NHP remains the UK's only listed property investment group specialising in the purchase of freehold or long leasehold interests in modern purpose built care homes, which are leased back to established care home



■ Avonmead Nursing Home, Wiltshire.



■ Analysis of total sale and lease back market of approximately £950 million at November 1998.

operators. NHP's main competitors remain Principal Healthcare Finance Limited and funds managed by Hamilton Corporate Finance for MEPC Plc, United Bank of Kuwait and the Kuwait Finance House. Over the past year Atlantic Healthcare Finance Limited, owned by Westminster Healthcare Holdings Plc, Health Care REIT Inc. and Retirement Housing Corporation of America entered the market and have written £26.5 million of leases for Tamaris Plc and Westminster Healthcare Holdings Plc. In addition REIT Asset Management, in conjunction with Appollo Real Estate Fund I Pelham Partners, have written 29 leases with Ashbourne Nursing Homes Limited (a subsidiary of Sun Healthcare Inc. of America) for £67.3 million.

million, of which NHP is the largest provider with £385.6 million (41%) of transactions concluded. The Group continues to experience an increasing demand for the specialist form of funding it provides. The Directors believe that the demand for sale and lease back finance in the UK is currently in excess of £300 million per annum.



Richard Ellert
Chief Executive
24 November 1998

Since NHP commenced trading in February 1995 the sale and lease back market in care homes has grown to approximately £950

England and Wales
Homes and locations as at 24 November 1998



England and Wales

Homes and locations as at 24 November 1998



Home	Location	Beds	Operator/tenant	Constructed
England		76.81%		
● Ash Grange Nursing Home	Bloxwich	45	Subsidiary of Advantage Healthcare Group	1995
● Avala Park Nursing Home	Morpeth	40	Subsidiary of Advantage Healthcare Group	1990/1993
● Crown Meadow Nursing Home	Dudley	35	Subsidiary of Advantage Healthcare Group	1992
● Dingle Meadow Nursing Home	Warley	48	Subsidiary of Advantage Healthcare Group	1994
● Romford Grange Nursing Home	Romford	51	Subsidiary of Advantage Healthcare Group	1991
● Stoneleigh Nursing Home	Stanley Co. Durham	37	Subsidiary of Advantage Healthcare Group	1989
● Tall Trees*	Bexhill-on-Sea	6	Subsidiary of Advantage Healthcare Group	1955
● The Beeches Nursing Home	Dudley	30	Subsidiary of Advantage Healthcare Group	1989/1990
● Tollesby Hall Nursing Home	Middlesbrough	40	Subsidiary of Advantage Healthcare Group	1992
● Trafalgar*	Bexhill-on-Sea	6	Subsidiary of Advantage Healthcare Group	1925
● Trinity House Nursing Home	Cradley Heath	35	Subsidiary of Advantage Healthcare Group	1991
● The Orchards Nursing Home	Birmingham	72	Subsidiary of Americare Limited	1998
● White Gates Nursing Home	Laleham-on-Thames	38	Subsidiary of Americare Limited	1993
● Avonmead Nursing Home	Devizes	45	Loughbray Limited	1995
● Oak Tree Nursing Home	Yate	80	Loughbray Limited	1998
● Kingsmead Nursing Home	Swindon	43	Loughbray Limited	1995
● Ladymead Nursing Home	Swindon	40	Loughbray Limited	1995
● Stanshawes Nursing Home	Yate	48	Loughbray Limited	1995
● Acres Nook Nursing Home	Kidsgrove	69	Subsidiary of Ashbourne Plc	1994/1996
● Brindley Court Nursing Home	Stoke-on-Trent	52	Subsidiary of Ashbourne Plc	1995/1996
● Clayton Manor Nursing Home	Congleton	78	Subsidiary of Ashbourne Plc	1995
● County Homes Nursing Home	Wirral	90	Subsidiary of Ashbourne Plc	1991
● Overdene House Nursing Home	Winsford	70	Subsidiary of Ashbourne Plc	1995
● Silverwood Nursing Home	Rotherham	60	Subsidiary of Ashbourne Plc	1996
● St George's Park Nursing Home	Telford	65	Subsidiary of Ashbourne Plc	1996
● White Gables Nursing Home	Lincoln	54	Subsidiary of Ashbourne Plc	1988/1991
● Willow Court Nursing Home	Lincoln	42	Subsidiary of Ashbourne Plc	1993
● Jonathon Grange Nursing Home	Ashton-under-Lyne	32	Subsidiary of Ashmore Consulting Limited	1992
● Maypole Nursing Home	Southampton	68	Subsidiary of Associated Nursing Services Plc	1997
● Carr Gate Nursing Home	Wakefield	68	Subsidiary of Britannia Healthcare Limited	1985
● Castle Park Nursing Home	Derby	40	Subsidiary of Britannia Healthcare Limited	1996
● Fountains Nursing Home	Swinton	105	Subsidiary of Britannia Healthcare Limited	1993
● Heritage House Nursing Home	Stalybridge	46	Subsidiary of Britannia Healthcare Limited	1988
● Tudor Manor Nursing Home	Blackpool	50	Subsidiary of Britannia Healthcare Limited	1969
● Abbeygate Retirement Home	Winchester	30	Subsidiary of Care Estates Limited	1916
● Avon Park Care Centre	Bath	105	Subsidiary of Care Estates Limited	1916
● Albion Road*	Sutton, Surrey	6	Subsidiary of Care Management Group Limited	1935
● Brickfield Road*	Croydon	6	Subsidiary of Care Management Group Limited	1960
● Cheam Road*	Sutton, Surrey	5	Subsidiary of Care Management Group Limited	1905
● Cowley House*	Maidenhead	19	Subsidiary of Care Management Group Limited	1970
● Manor Green Road*	Epsom	5	Subsidiary of Care Management Group Limited	1935
● Shardeloes*	Ashstead	6	Subsidiary of Care Management Group Limited	1935
● Smitham Downs Road*	Purley	7	Subsidiary of Care Management Group Limited	1910
● The Green*	Sutton, Surrey	6	Subsidiary of Care Management Group Limited	1885
● Eden Court Nursing Home	Bradford	45	Subsidiary of Craegmoor Healthcare Company Limited	1992
● Oaks Nursing Home	New Eltham	113	Subsidiary of Craegmoor Healthcare Company Limited	1992
● Riverside Court Nursing Home	Knottingley	60	Subsidiary of Craegmoor Healthcare Company Limited	1995
● Richmond Heights Nursing Home	Sheffield	52	Subsidiary of Craegmoor Healthcare Company Limited	1995
● The Arkwright Centre	Wellingborough	64	Subsidiary of Eastwood Care Homes (Ilkestone) Limited	1974
● Northview Lodge Nursing Home	Sunderland	56	Subsidiary of Eranew Limited managed by Tamaris Plc	1996
● Oaklands Nursing Home	Bishop Auckland	50	Subsidiary of Eranew Limited managed by Tamaris Plc	1990
● St Helen's Nursing Home	Bishop Auckland	40	Subsidiary of Eranew Limited managed by Tamaris Plc	1989
● Washington Lodge Nursing Home	Washington	66	Subsidiary of Eranew Limited managed by Tamaris Plc	1996
● Callands Nursing Home	Warrington	120	Subsidiary of Healthcare Investments managed by Highfield Group Limited	1995
● Newlands Nursing Home	Stockport	59	Subsidiary of Healthcare Investments managed by Highfield Group Limited	1985
● Summerhill Mansion Nursing Home	Salford	60	Subsidiary of Healthcare Investments managed by Highfield Group Limited	1900
● St. Margarets Nursing Home	Durham	60	Highfield Group Limited	1996
● Hillcroft Nursing Home	Carnworth, Lancaster	66	Subsidiary of Hillcroft Holdings Limited	1991
● Avalon Nursing Home	Mansfield	40	Subsidiary of Palladium Healthcare Limited managed by Ancyra Healthcare Limited	1993
● Hollybeck Nursing Home	Mansfield	40	Subsidiary of Palladium Healthcare Limited managed by Ancyra Healthcare Limited	1991
● Swallownest Nursing Home	Sheffield	70	Subsidiary of Palladium Healthcare Limited managed by Ancyra Healthcare Limited	1988/1992

England and Wales

Homes and locations as at 24 November 1998

Home	Location	Beds	Operator/tenant	Constructed
England continued				
● Larchwood Nursing Home	Braintree	64	Subsidiary of Somerford Health Care Limited	1998
● Beechcroft Nursing Home	Runcorn	67	Subsidiary of Somerford Health Care Limited	1988/1994
● Elmwood Nursing Home	Croydon	60	Subsidiary of Somerford Health Care Limited	1998
● Ashbourne Lodge Care Home	Sunderland	40	Subsidiary of Somerford Health Care Limited	1997
● Ashton Grange Care Home	Sunderland	40	Subsidiary of Somerford Health Care Limited	1997
● Victoria House Care Home	Stockton-on-Tees	70	Subsidiary of Somerford Health Care Limited	1997
● Windsor Court Care Home	Goole	77	Subsidiary of Somerford Health Care Limited	1997
● Adelaide Nursing Home	Bexleyheath	77	Subsidiary of Southern Cross Healthcare Limited	1997
● Alexander Nursing Home	Lewisham	78	Subsidiary of Southern Cross Healthcare Limited	1996
● Aspen Court Nursing Home	Tower Hamlets	75	Subsidiary of Southern Cross Healthcare Limited	1998
● Bowood Court Nursing Home	Redditch	93	Subsidiary of Southern Cross Healthcare Limited	1998
● Catherine House Nursing Home	Frome	66	Subsidiary of Southern Cross Healthcare Limited	1997
● Daneside Court & Mews Nursing Home	Northwich	98	Subsidiary of Southern Cross Healthcare Limited	1998
● Elvy Court Nursing Home	Sittingbourne	56	Subsidiary of Southern Cross Healthcare Limited	1997
● Ferndale Court and Mews Nursing Home	Widnes	91	Subsidiary of Southern Cross Healthcare Limited	1997
● Four Seasons Nursing Home	Bolton	120	Subsidiary of Southern Cross Healthcare Limited	1997
● Glenmoor House Nursing Home	Corby	59	Subsidiary of Southern Cross Healthcare Limited	1997
● Hodge Hill Nursing Home	Birmingham	54	Subsidiary of Southern Cross Healthcare Limited	1998
● Lucas Court Nursing Home	Moulton	60	Subsidiary of Southern Cross Healthcare Limited	1996
● Maple Court Nursing Home	Stafford	81	Subsidiary of Southern Cross Healthcare Limited	1996
● Oaklands Nursing Home	Laindon	55	Subsidiary of Southern Cross Healthcare Limited	1996
● Oak Tree Mews Nursing Home	Moreton in the Marsh	20	Subsidiary of Southern Cross Healthcare Limited	1998
● Orchard Mews Nursing Home	Newcastle	41	Subsidiary of Southern Cross Healthcare Limited	1997
● Priory Court Nursing Home	Stamford, Lincs	62	Subsidiary of Southern Cross Healthcare Limited	1998
● Pychley Court Nursing Home	Brixworth	40	Subsidiary of Southern Cross Healthcare Limited	1993
● The Lady Astor Nursing Home	Slough	72	Subsidiary of Southern Cross Healthcare Limited	1998
● The Beeches Nursing Home	Nottingham	54	Subsidiary of Southern Cross Healthcare Limited	1995
● Tower Bridge Road Nursing Home	London	128	Subsidiary of Southern Cross Healthcare Limited	1997
● Victoria Gardens Residential Home	Coventry	28	Subsidiary of Southern Cross Healthcare Limited	1992
● Victoria Manor Residential Home	Coventry	30	Subsidiary of Southern Cross Healthcare Limited	1990
● Victoria Mews Residential Home	Coventry	30	Subsidiary of Southern Cross Healthcare Limited	1997
● Victoria Park Residential Home	Coventry	32	Subsidiary of Southern Cross Healthcare Limited	1987
● Blackwell Vale Nursing Home	Carlisle	70	Subsidiary of Tamaris Plc	1990
● Millbrow Nursing Home	Widnes	52	Subsidiary of Tamaris Plc	1992
● Stanton Lodge Nursing Home	Whitley Bay	72	Subsidiary of Tamaris Plc	1994
● West View Lodge Nursing Home	Hartlepool	76	Subsidiary of Tamaris Plc	1995/1996
● Willoughby Nursing Home	Boston, Lincs	52	Subsidiary of Tamaris Plc	1991
● Chandlers Ford Christian Nursing Home	Chandlers Ford, Hants	45	Subsidiary of Trinity Care Plc	1995
● Stoneyford Christian Nursing Home	Nottingham	60	Subsidiary of Trinity Care Plc	1989/1992
● Aberford Hall Nursing Home	Roundhay, Leeds	42	Subsidiary of Ultima Holdings Limited	1991/1992
● Alexander Court Nursing Home	Sheffield	60	Subsidiary of Ultima Holdings Limited	1993/1994
● Ascot Lodge Nursing Home	Sheffield	50	Subsidiary of Ultima Holdings Limited	1995
● Ash Grove Nursing Home	Hounslow	50	Subsidiary of Ultima Holdings Limited	1997
● Aston House Nursing Home	Hayes	48	Subsidiary of Ultima Holdings Limited	1994
● Avalon Park Nursing Home	Oldham	60	Subsidiary of Ultima Holdings Limited	1995
● Barton House Nursing Home	Luton	45	Subsidiary of Ultima Holdings Limited	1995
● Birchwood Grange Nursing Home	Harrow	150	Subsidiary of Ultima Holdings Limited	1996
● Blenheim Nursing Home	Sheffield	42	Subsidiary of Ultima Holdings Limited	1990
● Blenheim Court Nursing Home	Sheffield	45	Subsidiary of Ultima Holdings Limited	1987
● The Brandling Residential Home	Newcastle-upon-Tyne	29	Subsidiary of Ultima Holdings Limited	1987
● Brandon House Nursing Home	Coventry	40	Subsidiary of Ultima Holdings Limited	1993
● Cedar Court Nursing Home	Harefield, Middlesex	42	Subsidiary of Ultima Holdings Limited	1997
● Clarendon Hall Nursing Home	Grimsby	56	Subsidiary of Ultima Holdings Limited	1990
● Dale Park Nursing Home	Southport	62	Subsidiary of Ultima Holdings Limited	1991
● Harley Grange Nursing Home	Leicester	34	Subsidiary of Ultima Holdings Limited	1992
● Harley House Nursing Home	Leicester	33	Subsidiary of Ultima Holdings Limited	1972
● Hartisca Nursing Home	Burley, Leeds	26	Subsidiary of Ultima Holdings Limited	1989
● Kings Park Nursing Home	Ashton-under-Lyne	44	Subsidiary of Ultima Holdings Limited	1993
● Lyndon Hall Nursing Home	West Bromwich	80	Subsidiary of Ultima Holdings Limited	1996
● Pendle Nursing Home	Manchester	42	Subsidiary of Ultima Holdings Limited	1990
● Reindeer House Residential Home	Retford	29	Subsidiary of Ultima Holdings Limited	1987
● Snapethorpe Hall Nursing Home	Wakefield	62	Subsidiary of Ultima Holdings Limited	1996
● St Benets Nursing Home	Leicester	33	Subsidiary of Ultima Holdings Limited	1972
● Ascot House Nursing Home	Crewe	48	Subsidiary of Ultima Holdings Limited	1991/1993
● Windsor House Nursing Home	Crewe	42	Subsidiary of Ultima Holdings Limited	1991/1993

Home	Location	Beds	Operator/tenant	Constructed
England continued				
● Ashton View Nursing Home	Aston-in-Makerfield	72	Subsidiary of Ultima Holdings Limited	1995
● Balmoral House Nursing Home	Manchester	48	Subsidiary of Ultima Holdings Limited	1996
● Buckingham House Nursing Home	Manchester	48	Subsidiary of Ultima Holdings Limited	1996
● Cavendish House Nursing Home	Wallasey	48	Subsidiary of Ultima Holdings Limited	1996
● Victoria House Nursing Home	Northwich	48	Subsidiary of Ultima Holdings Limited	1996/1997
● Clarence House Nursing Home	Northwich	48	Subsidiary of Ultima Holdings Limited	1996/1997
● Delamere House Nursing Home	St Helens	48	Subsidiary of Ultima Holdings Limited	1993
● Grosvenor House Nursing Home	Wigan	48	Subsidiary of Ultima Holdings Limited	1994
● Westminster House Nursing Home	Wigan	48	Subsidiary of Ultima Holdings Limited	1994
● Kensington House Nursing Home	Bolton	48	Subsidiary of Ultima Holdings Limited	1991
● Mayfair House Nursing Home	Leigh	48	Subsidiary of Ultima Holdings Limited	1997
● Northmoor Nursing Home	Manchester	56	Subsidiary of Ultima Holdings Limited	1994
● Richmond House Nursing Home	Leigh	48	Subsidiary of Ultima Holdings Limited	1993
● Trafalgar House Nursing Home	Manchester	48	Subsidiary of Ultima Holdings Limited	1996
● Abbey Lodge Nursing Home	Alfreton	41	Subsidiary of Union Healthcare Group Limited	1993
● Abbots Court Nursing Home	Durham	69	Subsidiary of Union Healthcare Group Limited	1989
● Ashington/Moorhouse Farm Nursing Home	Ashington	90	Subsidiary of Union Healthcare Group Limited	1997
● Beauvale Nursing Home	Nottingham	35	Subsidiary of Union Healthcare Group Limited	1989
● Bellevue Nursing Home	Wolverhampton	77	Subsidiary of Union Healthcare Group Limited	1992
● Berry Hill Park Nursing Home	Mansfield	64	Subsidiary of Union Healthcare Group Limited	1996
● Heburn Court Nursing Home	Newcastle	68	Subsidiary of Union Healthcare Group Limited	1994
● Hinckley Nursing Home	Leicester	37	Subsidiary of Union Healthcare Group Limited	1880
● Kilburn Nursing Home	Derby	50	Subsidiary of Union Healthcare Group Limited	1935
● Kings Thorpe Nursing Home	Nottingham	49	Subsidiary of Union Healthcare Group Limited	1995
● Queens Park Nursing Home	Leicester	40	Subsidiary of Union Healthcare Group Limited	1996
● Springwater Lodge Nursing Home	Calverton	50	Subsidiary of Union Healthcare Group Limited	1990
● St. Augustines Nursing Home	Nottingham	40	Subsidiary of Union Healthcare Group Limited	1991
● Stoke Lodge Nursing Home	Coventry	39	Subsidiary of Union Healthcare Group Limited	1994
● The Rowans Nursing Home	Coalville	60	Subsidiary of Union Healthcare Group Limited	1994
● Throckley Nursing/Residential Home	Newcastle	50	Subsidiary of Union Healthcare Group Limited	1995
● Victoria Park Nursing Home	Ilkeston, Derby	39	Subsidiary of Union Healthcare Group Limited	1925
● Wigston and Magna Nursing Home	Leicester	96	Subsidiary of Union Healthcare Group Limited	1993
● Woodcross Nursing Home	Wolverhampton	66	Subsidiary of Union Healthcare Group Limited	1985
● Woodcross Mental Home	Wolverhampton	56	Subsidiary of Union Healthcare Group Limited	1988
● Wymswold Nursing Home	Loughborough	40	Subsidiary of Union Healthcare Group Limited	1991
		8,583		

*Mental Health (Challenging Behaviour) Home

Home	Location	Beds	Operator/tenant	Constructed
Wales		8,56%		
● Meadowlands Nursing Home	Aberdare	53	Loughbray Limited	1995
● Llys Newydd Nursing Home	Ammanford	40	Subsidiary of Americare Limited	1993
● Blackmill Nursing Home	Bridgend	60	Subsidiary of Ashbourne Plc	1994
● Mountleigh/Bryngwyn Nursing Homes	Newbridge	72	Subsidiary of Ashbourne Plc	1992/1995
● St Dunstons Nursing Home	Pontypool	47	Subsidiary of Ashbourne Plc	1989/1995
● Aberpennar Court Nursing Home	Mountain Ash	50	Subsidiary of Puretruce Limited	1995
● Abermill Hall House Nursing Home	Caerphilly	48	Subsidiary of Puretruce Limited	1992/1994
● Bay Bridge Nursing Home	Cardiff	53	Subsidiary of Puretruce Limited	1996
● Glanffrwyd Nursing Home	Bridgend	51	Subsidiary of Puretruce Limited	1997
● Llys-y-Coed Nursing Home	Llanelli	51	Subsidiary of Puretruce Limited	1997
● Parklands Nursing Home	Bedwas	40	Subsidiary of Puretruce Limited	1995
● Silverdale Nursing Home	Caerphilly	50	Subsidiary of Puretruce Limited	1993
● The Rookery Nursing Home	Ebbw Vale	44	Subsidiary of Puretruce Limited	under construction
● Abergarw Nursing Home	Bridgend	52	Subsidiary of Southern Cross Healthcare Limited	1996
● Peniel Green Nursing Home	Swansea	39	Subsidiary of Southern Cross Healthcare Limited	1990
● Plas Cwm Carw Nursing Home	Port Talbot	70	Subsidiary of Southern Cross Healthcare Limited	1997
● South Mead Grange/Lodge Nursing Homes	Bridgend	67	Subsidiary of Southern Cross Healthcare Limited	1992/1995
● St Martins Court Nursing Home	Swansea	70	Subsidiary of Southern Cross Healthcare Limited	1992
		957		

Scotland and Northern Ireland
Homes and locations as at 24 November 1998



Statement on corporate governance



Application of the principles of corporate governance

During the year the Company complied with all the applicable provisions of the Cadbury Code of Best Practice set out in the Report of the Committee on the Financial Aspects of Corporate Governance. This statement describes how the relevant principles of governance are applied by the NHP Group.

Board composition

The Board meets regularly throughout the year, usually once a month. The Board has a formal agenda and is responsible for overall Group strategy, acquisition and divestment policy, approval of property purchases and major financing arrangements, and consideration of major financial matters.

The Board currently consists of the Chairman, Chief Executive, two other executive Directors and four non-executive Directors. The roles of Chairman and Chief Executive are separate and clearly defined. The Chairman is primarily responsible for the operation of the Board and the Chief Executive is responsible for the creation and implementation of the business strategy and policies approved at Board meetings.

Three of the four non-executive Directors are independent. D. F. Benson is an influential member of the Board of Meditrust Corporation, which owns 19.99% of NHP. Sir Colin Walker was nominated as the Group's representative, in accordance with the Loan Stock Agreement, and appointed to the Boards of Eton Hall Homes Limited and Eton Hall Leased Homes Limited as a non-executive Director. Ultima Holdings Limited acquired the Eton Hall Group on 13 July 1998 and as the Group's representative Sir Colin Walker has been appointed a non-executive Director of Ultima Holdings Limited. In the Directors'

opinion the appointment of Sir Colin Walker to these Board positions does not impair his independence.

The Directors' respective biographies appear on pages 28 to 30 and they demonstrate a range of commercial and financial experience necessary for the successful direction of the Group.

The Directors have access both to the Company Secretary and to independent professional advice if required. On 1 October 1998 D. F. Francis – Finance Director and Company Secretary – resigned from his position as Company Secretary of all Group companies and the Board appointed A. J. Kilmartin as Company Secretary.

Appointments to the Board

The Chief Executive and the Chairman of the Remuneration Committee are responsible for finding and selecting suitable candidates for appointment as Directors. Board approval is required before an appointment can be made. Non-executive Directors retire every three years and reappointment is not automatic.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee. Reports are given by the Chairmen of these committees to the Board.

Audit Committee

The Audit Committee, under the Chairmanship of D. G. Hargrave, comprises the Chairman, three other non-executive Directors, namely C. H. W. Robson, Sir Colin Walker and D. F. Benson, and meets at least once a quarter. The Group's auditors attend for part or the whole of each meeting and have direct access to the members of the Committee. The Committee monitors, inter-alia, the adequacy of the Group's internal controls, accounting policies and

Statement on corporate governance continued

financial reporting and provides a forum through which the external auditors and the Group's Finance Director report to the non-executive Directors.

Remuneration Committee

The Remuneration Committee under the Chairmanship of Sir Colin Walker, comprises the Chairman and three other non-executive Directors, namely C. H. W Robson, D. G. Hargrave and D. F. Benson. The committee meets as required, but at least twice a year. It measures the performance of the full time executive Directors in order to review their basic salaries and short and long term incentives. Independent advice is taken where appropriate. It also reviews other relevant contractual issues relating to the executive Directors' conditions of employment, including the terms under which they are appointed and their services terminated.

Internal control

The Directors acknowledge their responsibilities for the Group's system of internal financial control. The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the internal financial control systems from information provided by the executive Directors. No system of internal financial control can provide absolute assurance against material misstatement or loss. The structure of internal financial controls operating within the Group is designed to provide reasonable assurance that proper accounting records are maintained, that the assets of the Group are safeguarded and that the financial information used for reporting and external publication is reliable and accurate.

An annual budget is prepared by the executive Directors and reviewed by the Board in the light of the overall business objectives. The executive Directors produce monthly summaries of key issues and financial results measured against the approved

budget. As part of this process, a forecast for the full year is updated regularly. These monthly reports are distributed to the members of the Board in advance of each month's meeting. The Group's published quarterly financial information is based on a standardised reporting process.

Significant transactions and contracts, including those relating to property, and all financing arrangements, are approved by the Board. The execution of contracts and any movement of the Group's funds require the authorisation of two executive directors.

In anticipation of the requirements to implement the Combined Code for accounting periods ending after 31 December 1998 the Board has, as part of its overall responsibility for internal control, commissioned an independent risk assessment, using external professional advisers, which will formally document operational and compliance controls and risk management. The Board intends to take appropriate action and to conduct reviews of this assessment on a regular basis.

Auditors

The Company's auditors, Deloitte & Touche, have reviewed the Directors' statement on the Group's compliance with the Combined Code in so far as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review. Their report appears on page 39.

*D. G. Hargrave
Chairman
Audit Committee
24 November 1998*

Statement of Directors' responsibilities



Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors confirm that they have met the above requirements.

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

A handwritten signature in black ink, appearing to read 'A. R. Kilmartin', with a long, sweeping horizontal stroke extending to the right.

On behalf of the Board
A. R. Kilmartin
Company Secretary
24 November 1998

Auditors' report to the members of NHP Plc

We have audited the financial statements on pages 40 to 58 which have been prepared under the accounting policies set out on pages 45 and 46. We have also audited the information which is specified by the London Stock Exchange to be audited in respect of Directors' remuneration, share options, long-term incentive schemes and pension contributions and which is set out in the report to Shareholders by the Remuneration Committee on pages 33 and 34.

Respective responsibilities of Directors and Auditors

As described on page 37 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

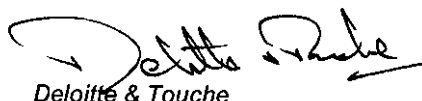
Basis of opinion

We conducted our audit in accordance with Accounting 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 30 September 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
24 November 1998

Review report by the auditors to NHP Plc on corporate governance matters



In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 35 and 36 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures or on the ability of the Group and the Company to continue in operational existence.

Opinion

With respect to the Directors' statement on internal financial control on page 36, and going concern on

page 26, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on pages 35 and 36 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

A handwritten signature in black ink, appearing to be 'Deloitte & Touche', written over the printed name.

Deloitte & Touche

Chartered Accountants

Hill House

1 Little New Street

London EC4A 3TR

24 November 1998


Consolidated balance sheet



As at 30 September 1998	Note	1998 £'000	1997 £'000
Tangible fixed assets			
Land and buildings (at valuation)	10	401,380	173,220
Other tangible fixed assets	10	270	193
Total tangible fixed assets		401,650	173,413
Investments	11	26,970	17,127
Total fixed assets		428,620	190,540
Current assets			
Debtors	12	2,003	567
Properties held for resale (at cost)	10	3,773	—
Short term investment	13	8,050	10,500
Cash at bank and in hand		586	2,053
		14,412	13,120
Creditors			
Amounts falling due within one year	14	(12,090)	(16,577)
Net current assets/(liabilities)		2,322	(3,457)
Total assets less current liabilities		430,942	187,083
Creditors			
Amounts falling due after more than one year	16	(210,805)	(129,881)
Equity minority interest		(5,112)	—
Net assets		£215,025	£57,202
Capital and reserves			
Called up share capital	17	1,381	447
Share premium account	18	157,073	31,970
Special reserve	18	7,000	7,000
Revaluation reserve	18	49,282	17,754
Profit and loss account	18	289	31
Total Shareholders' funds		£215,025	£57,202
Shareholders' funds attributable to:			
Equity interests		214,975	57,152
Non-equity interests		50	50
		£215,025	£57,202
Net assets per Ordinary Share			
Basic	19	161.55p	143.99p
Fully diluted	19	155.73p	127.99p
Gearing			
Consolidated	20	88.05%	201.95%
Excluding non-recourse borrowings	20	58.73%	108.32%

These financial statements were approved by the Board of Directors on 24 November 1998.

Signed on behalf of the Board of Directors.


R. J. Ellert
Chief Executive


D. F. Francis
Finance Director

Scotland and Northern Ireland

Homes and locations as at 24 November 1998



Home	Location	Beds	Operator/tenant	Constructed
Scotland		8.70%		
● Ballumbie Grampian Nursing Home	Dundee	60	Grampian Care Limited	1996
● Dundee Grampian Nursing Home	Dundee	60	Grampian Care Limited	1996
● Arbroath Grampian Nursing Home	Arbroath	60	Grampian Care Limited	1991
● Falkirk Grampian Nursing Home	Falkirk	60	Grampian Care Limited	1994
● Forfar Grampian Nursing Home	Forfar	60	Grampian Care Limited	1992
● Paisley Grampian Nursing Home	Paisley	60	Grampian Care Limited	1994
● St Mirren Grampian Nursing Home	Paisley	60	Grampian Care Limited	1996
● Aberdeen Grampian Nursing Home	Aberdeen	60	Subsidiary of Grampian Care Limited	1997
● Dumbarton Grampian Nursing Home	Dumbarton	60	Subsidiary of Grampian Care Limited	1997
● Greenock Grampian Nursing Home	Greenock	60	Subsidiary of Grampian Care Limited	1997
● Linlithgow Grampian Nursing Home	Linlithgow	80	Subsidiary of Grampian Care Limited	1997
● Barleystone Park Grampian Nursing Home	Falkirk	60	Subsidiary of Grampian Care Limited	1997
● Tranent Grampian Nursing Home	East Lothian	60	Subsidiary of Grampian Care Limited	1998
● Balfarg Nursing/Residential Home	Glenrothes	52	Highfield Group Limited	1991/1994
● Drummohr Nursing Home	Wallyford	60	Highfield Group Limited	1996/1997
● Fairview Nursing Home	Bannockburn	60	Highfield Group Limited	1996
		972		

Home	Location	Beds	Operator/tenant	Constructed
Northern Ireland		5.93%		
● Bramblewood Nursing Home	Bangor	39	Subsidiary of Ashbourne Plc	1991/1993
● Marina Nursing Home	Co. Londonderry	42	Subsidiary of Ashbourne Plc	1988/1989
● Montague Nursing Home	Co. Londonderry	54	Subsidiary of Ashbourne Plc	1988/1996
● Rockfield Nursing Home	Co. Down	40	Subsidiary of Ashbourne Plc	1991/1993
● Sushma I Private Nursing Home	Antrim	40	Subsidiary of Eranew Limited managed by Tamaris Plc	1991
● Sushma II Private Nursing Home	Antrim	40	Subsidiary of Eranew Limited managed by Tamaris Plc	1993
● Bethany Nursing Home	Belfast	40	Subsidiary of Tamaris Plc	1992/1995
● Cedarhurst Lodge Nursing Home	Belfast	69	Subsidiary of Tamaris Plc	1994
● Chestnut Lodge Nursing Home	County Armagh	42	Subsidiary of Tamaris Plc	1989/1993
● Edgewater Lodge Nursing Home	Donaghadee	77	Subsidiary of Tamaris Plc	1995/1996
● Lisnisky Nursing Home	County Armagh	63	Subsidiary of Tamaris Plc	1989/1992
● Rosevale Lodge Nursing Home	County Antrim	66	Subsidiary of Tamaris Plc	1995/1996
● Saintfield Lodge Nursing Home	Belfast	51	Subsidiary of Tamaris Plc	1994
		663		

Financial review

The following review highlights the key elements of the Group's financial performance for the year ended 30 September 1998 and expands on the information set out in the accounts and the notes thereto.

Group performance since inception

A summary of the Group's financial performance, since it commenced trading on 3 February 1995, is set out on page 3.

Profit and loss account

The profit before tax for the year ended 30 September 1998 amounted to £7.769 million. The profit was struck after £72,093 abort fees relating to the mortgage financing facility arranged with Meditrust Corporation and £208,994 relating to restructuring of hedging arrangements, see below. In the year to 30 September 1997, profit before tax of £3.2 million was after charging £219,000 bank and legal fees written off on re-arrangement of the revolving credit facility. Adjusting for the one off items referred to above the underlying profit before tax for the year ended 30 September 1998 amounted to £8.05 million (1997: £3.42 million). After deduction of dividends totalling £6.627 million, tax amounting to £1.016 million, minority interests of £0.162 million, and £0.294 million transfer from revaluation reserve to revenue reserve relating to the sale of Collingwood Court Nursing Home, revenue reserves in the Balance sheet increased by £258,000 to £289,000.

Equity

There were two equity issues during the course of the year ended 30 September 1998 raising a combined total of £126.0 million net of issue costs.

On 22 December 1997, the Company allotted 31,753,095 Ordinary Shares of 1p each at 125p per share under a 4:5 Placing and Open Offer underwritten by Robert Fleming & Co. Limited.

The issue raised £39.69 million, less £1.7 million (4.3%) issue costs, enabling the Group to immediately reduce £37.99 million indebtedness by partially repaying the Bank of Scotland revolving credit facility, thereby saving approximately £3.1 million per annum at prevailing rates of interest.

On 18 August 1998, the Company allotted 47,629,642 Ordinary Shares of 1p each at 149p per share under a 2:3 Placing and Open Offer underwritten by Robert Fleming & Co. Limited. On the same date the Lend Lease Warrants were exercised and 14,000,000 Ordinary Shares of 1p each were allotted at 146.11p per share. The issue raised £91.42 million, less £3.37 million (3.7%) issue costs, enabling the Group to immediately reduce £88 million indebtedness by repaying £10 million to Morgan Guaranty Trust Company of New York and partially repaying £78 million of the Bank of Scotland revolving credit facility, saving approximately £7.25 million per annum at prevailing rates of interest.

Partnership with Lend Lease Corporation

The partnership was established during the year with facilities sufficient to support a £60 million portfolio of care homes funded by £12 million equity from the NHP Group and Lend Lease Corporation, £45 million bank debt from a Bank of Scotland syndicated 5 year term facility and £3 million mezzanine debt facility provided by Barclays Bank Plc. In the year ended 30 September 1998 15 care homes were purchased at a cost of £27.35 million.

Short term finance - bank and other loans

At 30 September 1997 the Group's facilities consisted of a £53.5 million syndicated revolving credit facility from Bank of Scotland maturing 15 February 1999 and a £10 million 364 day

unsecured revolving credit facility from Morgan Guaranty Trust Company of New York.

In the course of the year ended 30 September 1998, the Bank of Scotland facility was extended to 25 May 2001 and expanded to £150 million, and the £10 million 364 day facility was repaid

in August 1998. In addition, the Group arranged a £55 million loan facility with Meditrust Corporation for 21 months maturing 31 March 2000, but this facility was cancelled before drawdown took place.

The bank facilities available to the Group at 30 September 1998 were as follows:

Arranger	Provider	Amount	Term	Rate	Facility	Drawn down at 30 September 1998
Bank of Scotland Syndicated Revolving Credit Facility	Bank of Scotland	£55 million	3 years to 25 May 2001	LIBOR +1.25%	£150 million	£93.10 million
	Morgan Guaranty Trust Company of New York	£50 million				
	National Westminster Bank PLC	£25 million				
	Bank of Ireland	£20 million				
LLNHP Partnership						
Bank of Scotland Syndicated Loan Facility	Bank of Scotland	£15 million	5 years to 27 January 2003	LIBOR +1%	£45 million	£20.70 million
	Halifax Plc	£15 million				
	Wurtembergische Hypothesenbank	£15 million				
	Aktiengesellschaft					
Barclays Bank Plc Mezzanine Debt Facility	Barclays Bank Plc	£3 million	5 years to 27 January 2003	LIBOR +0.2%	£3 million	£1.38 million

On 23 November 1998 the Group completed the arrangement of a £70 million term loan arranged by Dresdner Kleinwort Benson and provided by Dresdner Bank AG, London Branch. The term of the facility is for 18 months. Interest rates are based on 1 month LIBOR plus 1.5% until 3 months from drawdown, increasing to 2% from 3-6 months, 2.5% from 6-9 months and to 4% after 1 October 1999.

of these costs are held in the Balance sheet at 30 September 1998.

Bank arrangement and associated legal fees relating to the LLNHP Partnership facility, amounting to £424,553 are being amortised over the period to 27 January 2003 and £365,435 of these costs are held in the Balance sheet at 30 September 1998.

Bank arrangement and associated legal fees of £676,058 were incurred in the year in connection with the Bank of Scotland revolving credit facility, which, together with £534,490 unamortised costs brought forward at 1 October, are being amortised over the period to 15 February 1999 (on the original £53.5 million part of the facility) and over the period to 29 May 2001 relating to the extension and expansion of the facility set out above. £577,162

As £50 million Morgan Guaranty Trust Company of New York indebtedness was not repaid by 1 October 1998 a penalty fee of £165,000 was incurred. If this indebtedness is not repaid by 1 February 1999 a further £350,000 is payable and if not repaid by 1 June 1999 a further £500,000 is payable. Thereafter £500,000 will be payable, in the event of non repayment, on 1 June 2000 and 1 June 2001.

Financial review continued

Hedging interest rates

It is Group policy to hedge interest rate risks and as at 30 September 1998 it held the following instruments, the costs of which are amortised over the life of the instrument.

Instrument	Capital	Strike rate	Maturity date
Straight caps	£38.5 million	7.0%	15 February 1999
Straight cap	£15.0 million	7.5%	2 February 2000
Flexible caps, exercisable 7 quarters out of 12	£56.5 million	7.0%	April/May 2001
Flexible caps, exercisable 7 quarters out of 12	£32.0 million	7.5%	31 May 2001
	£142.0 million	7.165%	
LLNHP Partnership			
Swap	£22.5 million	6.685%	3 February 2003
Swap	£22.5 million	6.28%	3 February 2003
	£45.0 million	6.4825%	
Group overall	£187.0 million	7.00%	

On 13 October 1998 NHP purchased for a premium of £2 million an interest rate swap for two years with a notional principal of £100 million. Under the swap NHP pay fixed interest at 5.23% and receive floating three month LIBOR, resetting quarterly. On the same date the flexible caps were sold for £402,000, realising a loss of £208,994 based on the value of the swap as at 30 September 1998. This loss has been recognised in the Profit and loss account for the year ended 30 September 1998. The benefit of the restructuring of the hedging facilities will be appreciated in the next two years as the overall protection rate has been reduced to an average of 6.58% from 7.165%, which will further reduce to an average of 5.53% from 16 February 1999. £509,151 will be received on 13 January 1999 in respect of this swap.

Gearing

Gearing is stated both on a consolidated basis and after the exclusion of debt which is non-recourse to the Group and which pertains to Care Homes No. 1 Limited.

Gearing, on a fully consolidated basis, at 30 September 1998 was 88.05% (1997: 201.95%). Excluding non-recourse debt, at the same date, gearing was 58.73% (1997: 108.32%). The maximum gearing available to the Group permitted in the Articles of Association is 250%.

Fixed assets

In the year ended 30 September 1998 the Group's additions to fixed assets were 100 (1997: 52) care homes containing 5,389 beds (1997: 2,801 beds) at a cost of £197.51 million (1997: £90.51 million), for the second year in succession approximately twice the rate of the previous year.

Land and buildings owned at 30 September 1998 have been valued by DTZ Debenham Thorpe at £401.4 million. The revaluation surplus over cost of £49.3 million, after deduction of £2.3 million attributable to Lend Lease, is standing to the credit of the revaluation reserve.

Investments

Loan Stock

At 30 September 1998 the total investment in Ultima Holdings Limited's 9.5% Loan Stock 2003 was £9.75 million. A further £300,000 of this Loan Stock was subscribed for on 10 November 1998. Under the terms of the Subscription Agreement dated 13 July 1998 up to a further £950,000 Loan Stock 2003 remains available for issue. Details of the Group's commitments to Ultima Holdings Limited are set out in note 27.

Deposit Swap

A Deposit Swap Agreement acquired in 1997 for £15.35 million premium in respect of an AAA rated Deposit Swap Agreement with General Re Financial Products Corporation for 24 years guarantees to provide the funds for repayment of £100 million Secured Notes 2021. In the consolidated accounts interest on the Deposit Swap Agreement is accrued on a monthly basis over its 24 year life and stands in the Balance Sheet at 30 September 1998 at £17.22 million. On a mark-to-market basis this Deposit Swap Agreement is valued at £27.575

Turnover and overheads

	Year to 30 September 1998	Year to 30 September 1997	Year to 30 September 1996	Eight months to 30 September 1995
Turnover	£25.3 million	£11.6 million	£3.5 million	£0.8 million
Overheads % turnover	12.2%	13.3%	22.1%	44.2%
Management costs % turnover	6.1%	6.5%	13.2%	17.9%

The annual pavement rent of the portfolio of leases owned at 30 September 1998 was £37.75 million (1997: £17.48 million).

Taxation

Capital allowances available exceed taxable profits and therefore there is no mainstream Corporation Tax to offset Advance Corporation Tax (ACT) payable on dividends. The ACT on dividends for the first three quarters of the year is written off in the Profit and loss account amounting to £1,000,059 (1997: £620,179). The payment of the dividends for the fourth quarter is being deferred from 9 January 1999 until 9 April 1999 thereby avoiding the attendant ACT write off amounting to £655,556.

The £98,000 provision made in the 1997 accounts for income tax in Care Homes No.1 Limited has been written back as it is not required for the income tax year to 5 April 1998. A provision for income tax at 30 September 1998 has been made of £114,000.

Earnings per share

The calculation of Earnings per Ordinary Share of 9.18p (1997: 6.25p), in accordance with the Statement of Standard Accounting Practice No.3, is based on earnings of £6,585,840 (1997: £2,479,200) divided by 71,740,219 Ordinary Shares of 1p each being the weighted average of Ordinary Shares in issue in the year (1997: 39,691,369 Ordinary Shares in issue during the whole year).

Fully diluted earnings per Ordinary Share are 8.58p, after the conversion of 5,000,000 Deferred Ordinary Shares and assuming the exercise of employee share options.

Financial review continued

Dividends

The proposed final dividend of 2.4p (1997: 1.75p) per share on 85,444,464 (1997: 39,691,369) Ordinary Shares of 1p each and 1.2p per share on the 47,629,642 New Ordinary shares of 1p each allotted on 18 August 1998, making a total dividend of 8.4p (1997: 6.25p). Total dividends of £6,622,458 (1997: £2,480,712) and the associated tax credit (see Taxation above) amounting to £1,000,059 (1997: £620,178) represent 98.12% (1997: 96.9%) of pre tax profits.

Net assets per Ordinary Share

Net assets per Ordinary Share amounted to 161.55p (1997: 143.99p) based on equity Shareholders' funds of £215.0 million (1997: £57.2 million) divided by 133,074,106 (1997: 39,691,369) Ordinary Shares in issue at the respective year ends.

In anticipation of the conversion of the 5 million Deferred Ordinary Shares to Ordinary Shares after

the Annual General Meeting, the diluted Net assets per Ordinary Share amounts to 155.73p per Ordinary Share.

Going concern

The Directors, having made appropriate enquiries, are satisfied that the Group and the Company have adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.



D. F. Francis
Finance Director
24 November 1998

Directors' report



The Directors have pleasure in presenting their annual report and the audited accounts for the year ended 30 September 1998.

Principal activity

The principal activity of the Group is the purchase of freehold and long leasehold interests in modern purpose-built care homes which are leased back to care home operators that have an established and proven ability, reputation and performance record.

The principal activity of the Company is to act as a holding company which conducts corporate activities on behalf of the Group.

Business review

A review of the development of the Group's business, including future prospects, is set out in the Chairman's statement on pages 4 to 9 and the Business review on pages 10 to 15. Events occurring after the Balance sheet date are reported in note 29 to the accounts on page 58.

Results

The results for the year to 30 September 1998 are set out in the consolidated Profit and loss account on page 40.

Directors

The following Directors served throughout the year ended 30 September 1998. Their beneficial shareholdings at 30 September 1998, and at 1 October 1997, were as follows:

	Self 1998	Ordinary Shares Spouse 1998	Total 1998	Total 1997	Deferred Ordinary Shares 1998/97
A. Bergbaum	330,000	60,000	390,000	130,000	400,000
R. J. Ellert	15,600	15,000	30,600	10,200	2,500,000
W. J. Davies	30,600	Nil	30,600	10,200	1,350,000
D. F. Francis	12,000	15,333	27,333	10,000	750,000
Sir Colin Walker	30,000	Nil	30,000	10,000	Nil
D. G. Hargrave	23,678	Nil	23,678	7,893	Nil
C. H. W. Robson	23,678	Nil	23,678	7,893	Nil
D. F. Benson (U.S. National)	60,000	Nil	60,000	20,000	Nil

Dividends

A first interim dividend of 1.85p per Ordinary Share (1997: 1.50p) was paid to Shareholders on 9 April 1998. A second interim dividend of 2.00p per Ordinary Share (1997: 1.50p) was paid to Shareholders on 9 July 1998. A third interim dividend of 2.15p per Ordinary Share (1997: 1.50p) was paid to Shareholders on 9 October 1998. The Directors have recommended a final dividend for the year ended 30 September 1998 of 2.40p per Ordinary Share other than in respect of the 47,629,642 shares issued on 18 August 1998 pursuant to the Placing and Open Offer (the "new Ordinary Shares") and the Ordinary Shares arising from the conversion of Deferred Ordinary Shares referred to below. The new Ordinary Shares are entitled to half of the final dividend for 1998 declared on the Ordinary Shares already in issue at the time of their issue and accordingly the Directors recommend a final dividend on the new Ordinary Shares of 1.20p per Ordinary Share. The Ordinary Shares arising from the conversion of the Deferred Ordinary Shares do not rank for dividend in respect of the financial year ended 30 September 1998. It is intended that the final dividends will be paid on 9 April 1999 to Shareholders on the register at close of business on 11 December 1998.

Directors' report continued

Directors continued

In addition to their interests shown above, R. J. Ellert and D. F. Francis have a beneficial interest in the NHP Executive Pension Scheme which owned 51,000 Ordinary Shares of the Company at 30 September 1998.

No Director had an interest in the shares of any of the subsidiaries of NHP Plc.

There have been no changes to any of these Directors' interests between 30 September 1998 and the date of this report. Details of share options granted to the Directors are set out in the Report of the Remuneration Committee on page 34.

Except as stated in note 28 to the accounts on page 58, none of the Directors had an interest in any material contract during the year relating to the business of the Group.

A. Bergbaum, R. J. Ellert and C. H. W. Robson retire by rotation at the Annual General Meeting in accordance with Article 109 of the Articles of Association and, being eligible, offer themselves for re-election.

The Chairman, Arthur Bergbaum, will be aged 73 at the date of the Annual General Meeting.

Deferred Ordinary Shares

Prior to the Company commencing trading on 3 February 1995, an incentive scheme was established for the executive Directors by the issue to them of a total of 5 million Deferred Ordinary Shares as set out in the above table. The Deferred Ordinary Shares convert into Ordinary Shares following admission of the Company's shares to the Official List of the London Stock Exchange. The Company's

Articles of Association provide that the number of Ordinary Shares obtained by the relevant executive Directors is calculated on a scale based on the consolidated net asset value of the Group per Ordinary Share and the number of shares in issue immediately prior to the conversion date up to a maximum of 5,000,000 Ordinary shares.

Following the admission of the Company's Ordinary Shares to the Official List on 18 August 1998 and the Company's auditors' confirmation that the Group's consolidated net asset value is in excess of 145p per share on 30 September 1998, the Deferred Ordinary Shares will convert into the maximum 5,000,000 Ordinary Shares immediately after the forthcoming Annual General Meeting. NHP Plc will then have an issued share capital of 138,074,106 Ordinary Shares, of which the executive Directors will hold 3.90%, including 3.62% derived from the Deferred Ordinary Shares.

The executive Directors have undertaken not to dispose of any Ordinary Shares they receive on conversion of the Deferred Ordinary Shares before 1 January 2000, save in the event of an intervening court order, a take-over becoming or being declared unconditional or the death of the Director.

Executive Directors

Arthur Bergbaum, aged 72, is the Chairman of the Company. He has extensive experience in the property sector having been managing director of City Wall Properties Limited from 1957 to 1971. This company obtained a listing in 1959 and was taken over in 1971 and renamed Rank City Wall Limited. In 1972, Arthur Bergbaum was a founder director of a group of companies which subsequently obtained a listing as London & Edinburgh Trust Plc and which was taken over by the Swedish group,

Forsakringbolaget SSP omsesidigt, in 1990. In 1986 he was appointed Chairman of Local London Group Plc at the time of its listing. This company was taken over by Priest Marians Plc in 1989. During 1990-1995 he was a director of numerous property development companies. In January 1995 he was appointed Chairman of Wessex Trust Plc at the time of its listing. This Company was taken over by Olives Property Plc in September 1996. He joined the management team of NHP in June 1994.

***Richard John Ellert**, aged 52, is the Chief Executive of the Group and was responsible for both establishing the Company in March 1993 and for developing its activities to date. He is responsible for all operational aspects of the Group including its funding, its acquisition strategy and the ongoing monitoring of the Group's investments. Prior to establishing NHP, he was principally involved in corporate finance activities. He was managing director of Charles Stanley Corporate Finance Limited from 1985-1989. He subsequently founded Sancroft Corporate Services Limited to provide corporate advice to private companies, their directors and shareholders. He is also Chairman of Tom Hoskins plc and a director of Athelney Trust Plc.*

***William Jeremy Davies (ARICS)**, aged 51, is the Estates Director of the Group. He is responsible for originating, assessing and negotiating the purchase of all care homes in conjunction with the Chief Executive. In addition, he manages the portfolio and advises the Directors on the purchase or sale of the Group's care homes. He joined the management team of NHP in March 1993 and until 1995 was the senior partner of a firm of chartered surveyors, Davies Knight & Partners, which he jointly founded in*

1974. He is also a founder shareholder and non-executive director of Somerford Health Care Limited which specialises in the identification, acquisition and operation of care homes for property investors. The Company has entered into an agreement with Somerford Health Care Limited to prevent a competitive situation arising between the two companies.

***Daniel Fernley Francis (FCA)**, aged 49, is the Finance Director and has developed the accounting, management reporting and administrative systems of the Group. He has functional responsibility for financial matters, including all aspects of financial control, cash management, management reporting, administration and monitoring of the financial performance of the Group's investments. He was appointed finance director in 1985 of Roberts Adlard Plc, an independent builders' merchant listed on the London Stock Exchange. In 1986 this company was acquired by Bowater Industries PLC and merged into an enlarged subsidiary under the name of Crossley Builders' Merchants Limited. In 1990 this company was acquired by Harrison & Crosfield PLC. He joined the management team of NHP in July 1993.*

Non-executive Directors

***Sir Colin John Shedlock Walker OBE**, aged 64, has been a member and Chairman of various National and Regional Health Authorities since 1983, including Chairman of the National Blood Authority from 1993 to 1998, and is currently Chairman of Harwich Haven Authority, having been appointed in 1987. Sir Colin has held various political posts and was Chairman of the All Party European Movement and a member of Suffolk County Council from 1976 to 1980. He is the senior non-executive Director,*

Directors' report continued

chairman of the Company's Remuneration Committee and a member of the Audit Committee. He was appointed a non-executive Director of the Company on 6 January 1995.

David Grant Hargrave, aged 47, is an Actuary who until 1995 was the partner of Bacon and Woodrow responsible for their UK pensions and employee benefits practice. He has been a consultant to a wide range of companies, trade unions and proprietors of small businesses. He is currently a director of Homeowners Friendly Society Limited, Morgan Grenfell Life and Pensions Limited and David Hargrave Limited, and is an independent trustee of a number of pension funds. He is chairman of the Audit Committee and a member of the Remuneration Committee and was appointed a non-executive Director of the Company on 1 May 1996.

Clayton Hugo Wynne Robson, aged 66, was a managing partner of Grieveson, Grant & Co. before its acquisition by Kleinwort Benson Group Plc in 1986. He was a director of Kleinwort Benson Limited and Kleinwort Benson Securities Limited from 1986 to 1993 in their Institutional Equity Department. He is currently Chairman of both Welsh Gold Plc and Audio Books and Music Holdings Plc, and is a member of the Company's Audit and Remuneration Committees. He was appointed a non-executive Director of the Company on 1 May 1996.

David Frederick Benson, aged 49, has been the President, Treasurer and a Director of Meditrust Corporation (the successor by merger to Meditrust) since 5 November 1997. Up until 5 November 1997 he was the President and a trustee of Meditrust (since 1991), and previously was a treasurer of that

company since its inception in August 1985. He is also a director of Meditrust Operating Company and Meditrust of the UK, Inc. Meditrust Corporation, the largest US health care real estate investment trust (REIT), together with Meditrust of the UK, Inc., acquired an approximate 19.99% shareholding in NHP on 26 July 1996. He is also a trustee of Mid-Atlantic Realty Trust, a shopping centre REIT which is traded on the New York Stock Exchange. He is a member of both the Audit and Remuneration Committees and was appointed a non-executive Director of the Company on 21 August 1996.

Substantial Shareholders

As at 13 November 1998 the Directors had received notifications under the Companies Act that the following had an interest in 3% or more of the issued Ordinary Shares of the Company:

	No. of Ordinary Shares	% of issued share capital
Meditrust Corporation	26,606,299	19.99%
Schroder Investment Management	18,992,578	14.27%
The Equitable Life Assurance Society	10,061,901	7.56%
M & G Investment Management	8,436,428	6.34%
Gartmore Investment Management	6,465,793	4.86%
Guardian Asset Management	4,794,204	3.60%
Invesco Funds	4,763,147	3.58%
Friends Provident & Sime	4,210,812	3.16%

Payments to creditors

The Group's policy is to fix payment terms when agreeing the terms of each transaction. It is the Group's general policy to pay suppliers in accordance with the agreed terms and conditions, provided that the supplier has complied with those terms. The creditor days for the Group at 30 September 1998 are 28 (1997: 25.5).

Year 2000

The Directors have appointed a committee led by the Company Secretary to examine the issues associated with computer-based equipment and the Year 2000, to formulate procedures to enable the Group to be compliant with the standards ISO 8601 and BSI 13DDI1/43 and to put those procedures in place. A budget of £30,000 has been allocated. The Group has also appointed a consultant to assist the committee and to provide the necessary expertise.

The Group's hardware and software has been reviewed by its suppliers and, where necessary, equipment and software has been replaced or orders have been placed and delivery is due.

When that exercise is complete, the suppliers will be asked to give the necessary assurance of compliance. Other systems not involved in data processing are also under review.

Enquiries have been made of all the Group's tenant operators requesting confirmation that all relevant

Year 2000 issues have been addressed and resolved, including specific confirmation that the operators have sought similar assurances from the relevant Local Authorities who place residents and pay their fees.

Post balance sheet events

Events occurring after the balance sheet date are described in note 29 of the accounts.

Auditors

Deloitte & Touche have expressed their willingness to be re-appointed as auditors to the Company, and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting.



Registered Office:
6 Broad Street Place
Blomfield Street
London EC2M 7JH

By Order of the Board
A. R. Kilmartin
Company Secretary
24 November 1998

Report of the remuneration committee

Composition of the Remuneration Committee

The Remuneration Committee comprises four non-executive Directors, Sir Colin Walker (Chairman), D. G. Hargrave, C. H. W. Robson and D. F. Benson. The Committee consults with and receives recommendations from the Chief Executive about its proposals, and has access to professional advice from outside the Company.

The remuneration of the non-executive Directors for the year ended 30 September 1998 is set out on page 33, and all are shareholders in their own right. D. F. Benson is a director and shareholder in Meditrust Corporation, which owns 19.99% of the Ordinary Shares of NHP Plc in issue. On 8 September 1997 Sir Colin Walker was appointed a director of Eton Hall Homes Limited and Eton Hall Leased Homes Limited, a tenant, as the Company's representative on their Boards. He resigned from both Boards on 13 July 1998 when Ultima Holdings Limited took over the Eton Hall Group. Sir Colin Walker was appointed to the Board of Ultima Holdings Limited on 29 October 1998. Apart from the above, the members of the Remuneration Committee do not have any day-to-day involvement in the running of the business and, apart from those noted above, do not have any conflicts of interest arising from cross-directorships.

Compliance

Throughout the year the Group complied with the best practice provisions in Section A annexed to the

Listing Rules of the London Stock Exchange.

In framing the Group's remuneration policy, the Committee has given full consideration to the provisions of Section B annexed to the Listing Rules.

Policy on remuneration of executive Directors

The Company's policy is to attract and retain a management team with the appropriate skills to maximise shareholder value for the future. Thus the Committee needs to ensure that the Company's pay and benefits practices are competitive, designed to motivate the executive Directors and to recognise and reward high standards of performance. The policy also takes into account the size of the Group's portfolio and the rate of growth which continues to be generated. Short term incentives are based on performance targets set by the Remuneration Committee requiring the achievement of a minimum level of Earnings per share. The Committee appointed independent remuneration consultants to report on the executive Directors' basic salaries and short and long term incentives plans. The Committee's resulting recommendations have been approved by the Board and will be implemented during the financial year commencing 1 October 1998.

The main elements of remuneration and Directors' interests

The interest of Directors in the Ordinary Shares and Deferred Ordinary Shares are shown individually in the Directors' report on page 27.

Details of the Directors' emoluments for the year ended 30 September 1998, with comparative amounts for the year ended 30 September 1997, are as follows:

	For the year ended 30 September 1998					For the year ended 30 September 1997	
	Salary and fees £	Bonus £	Benefits £	Aggregate emoluments £	Pension contributions £	Total £	Aggregate emoluments £
Executive Directors							
A. Bergbaum, Chairman	40,000	—	647	40,647	—	40,647	32,606
R. J. Ellert	200,000	100,000	9,183	309,183	40,000	349,183	157,567
W. J. Davies	160,000	80,000	3,945	243,945	32,000	275,945	122,755
D. F. Francis	120,000	60,000	7,662	187,662	24,000	211,662	100,888
Non-executive Directors							
Sir Colin Walker	15,000	—	—	15,000	—	15,000	10,000
D. G. Hargrave	15,000	—	—	15,000	—	15,000	10,000
C. H. W. Robson	15,000	—	—	15,000	—	15,000	10,000
D. F. Benson	15,000	—	—	15,000	—	15,000	10,000
	£580,000	£240,000	£21,437	£841,437	£96,000	£937,437	£453,816

R. J. Ellert is the highest paid Director.

Pension contributions in respect of R. J. Ellert, W. J. Davis and D. F. Francis for the year ended 30 September 1997 were £30,000, £24,000 and £19,000 respectively.

Basic salary

The basic salary for each executive Director, which is reviewed annually at the beginning of October, is determined by the Committee taking into account the rate of growth and performance of the Group, the performance of the individual and information from external sources.

"Executive scheme") and the NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme (the "Savings scheme"). The market price of the Company's Ordinary Shares at the end of the year was 157.5p and the quoted price ranged from 122.5p to 163.0p.

Taxable benefits

The full-time executive Directors are provided with a fully expensed company car, mobile telephone and personal private medical insurance.

Executive scheme

Options issued in terms of the executive scheme are entirely at the discretion of the Board after consultation with the Remuneration Committee.

The subscription price for the option shall not be less than the higher of the nominal value of an Ordinary Share or its market value on the date of the grant, and the aggregate subscription price of all options granted to an individual employee, including both executive and savings options, may not exceed £30,000. No awards have been made to the Executive directors although awards have been made to three of the managers within the Company of 10,000 Ordinary Shares each on 9 September 1998 at the option price of 137.5p per share.

Deferred Ordinary Shares

Full details relating to the status and conversion of the Deferred Ordinary Shares to Ordinary Shares are set out in the Directors' report on page 28.

Share options

In February 1998 the Company adopted two share option schemes, the NHP Plc 1998 Inland Revenue Approved Executive Share Option Scheme (the

Report of the remuneration committee continued

Savings scheme

To participate in the savings scheme employees enter into an approved "save as you earn" contract with the Yorkshire Building Society to save a monthly amount (from £5 to £250), by deduction from salary, for a period of 3, 5 or 7 years. The total number of Ordinary Shares which an employee may acquire is determined by dividing the aggregate amount saved,

including the known interest bonus payment, by the subscription price. On 3 April 1998, all employees, including non-executive Directors, were offered membership of the savings scheme at a subscription price of 120p per Ordinary Share. The Company was required to set aside 139,375 Ordinary Shares on 10 April 1998 as a result of this offer.

Options granted to the Directors at the subscription price of 120p per Ordinary Share, and outstanding at the date of this report, are as follows:

	Term	Number of options granted in the year and outstanding at 30 September 1998	Date which exercisable	Expiry date
A. Bergbaum	7 years	16,250	10 April 2005	10 October 2005
R. J. Ellert	7 years	16,250	10 April 2005	10 October 2005
W. J. Davies	7 years	16,250	10 April 2005	10 October 2005
D. F. Francis	7 years	16,250	10 April 2005	10 October 2005
Sir Colin Walker	7 years	16,250	10 April 2005	10 October 2005
D. G. Hargrave	7 years	16,250	10 April 2005	10 October 2005
C. H. W. Robson	3 years	8,125	10 April 2001	10 October 2001

Pension arrangements

The Company operates a self administered money purchase pension scheme for full time executive Directors. The Company contributes at a rate of 20% of basic salary, plus the provision of death in service insurance.

the Articles of Association, and is based upon independent surveys of fees paid to non-executive Directors of similar companies. The remuneration paid to each non-executive Director in the year to 30 September 1998, shown on page 33, was subject to Board approval. Non-executive Directors may be paid for professional services provided to the Group, but cannot participate in the Company's Executive share option scheme. Non-executive Directors do not have service contracts, and are not eligible to join the Company's pension scheme.

Service contracts

The service contracts of the executive Directors include a 12-month period of notice by both parties. The executive Directors' service contracts have been reviewed by an external professional adviser, who has confirmed that they reflect best current practice. The services of the non-executive Directors can be terminated by a resolution of the Board, without notice or compensation.

Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board within the limits set out in

C. H. W. Robson


Acting Chairman of the Remuneration Committee
24 November 1998

Company balance sheet

As at 30 September 1998			
	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible fixed assets	10	118	180
Investments	11	160,812	42,662
Total fixed assets		160,930	42,842
Current assets			
Debtors	12	4,781	1,100
Cash at bank and in hand		68	1,434
		4,849	2,534
Creditors			
Amounts falling due within one year	14	(6,024)	(11,748)
Net current liabilities		(1,175)	(9,214)
Net assets		£159,755	£33,628
Capital and reserves			
Called up share capital	17	1,381	447
Share premium account	18	157,073	31,970
Revenue reserve	18	975	1,101
Profit and loss account	18	326	110
Total Shareholders' funds		£159,755	£33,628
Shareholders' funds attributable to:			
Equity interests		159,705	33,578
Non-equity interests		50	50
		£159,755	£33,628

These financial statements were approved by the Board of Directors on 24 November 1998.

Signed on behalf of the Board of Directors.


R. J. Ellert
Chief Executive


D. F. Francis
Finance Director

Consolidated cash flow statement



For the year ended 30 September 1998			
	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	21	22,626	10,260
Returns on investment and servicing of finance			
Interest paid		(15,487)	(3,171)
Other similar charges paid (net)		(458)	(731)
Interest received		996	1,006
Distributions to minority		(127)	—
Net cash outflow from returns on investment and servicing of finance		(15,076)	(2,896)
Taxation			
Advance Corporation Tax paid		(655)	(368)
Capital expenditure and financial investment			
Purchase of fixed assets and properties for resale		(201,400)	(90,630)
Proceeds on disposal of investment property		3,550	—
Investment in Deposit Swap Agreement		—	(15,350)
Investment in secured loan stock (net)		(8,550)	(1,200)
Net cash outflow from investing activities		(206,400)	(107,180)
Equity dividends paid		(3,453)	(1,880)
Net cash outflow before use of liquid resources and financing		(202,958)	(102,064)
Management of liquid resources			
Short term deposit withdrawal/(investment) (net)		2,450	(10,500)
Financing			
Equity			
Issue of Ordinary Shares including premium		131,115	—
Less: Issue costs paid		(4,973)	—
Minority capital contribution		2,759	—
Net cash inflow from financing		128,901	—
Bank loans			
Bank loans drawn down		203,480	76,000
Bank loans repaid		(132,300)	(57,500)
Less: Financing costs paid		(1,040)	(580)
Net cash inflow from bank loan finance		70,140	17,920
Secured Notes			
Principal from Secured Notes		—	100,000
Less: Discount on issue of Secured Notes		—	(772)
Issue costs of Secured Notes		—	(2,886)
Net cash inflow from Secured Notes		—	96,342
Net cash inflow from financing activities		199,041	114,262
(Decrease)/increase in cash in the year	23	(£1,467)	£1,698

Statement of total recognised gains and losses

<i>For the year ended 30 September 1998</i>			
	<i>Note</i>	<i>1998 £'000</i>	<i>1997 £'000</i>
Profit for the year		6,591	2,483
Net surplus on revaluation of investment properties	18	31,822	15,460
Total recognised gains for the year		£38,413	£17,943

Reconciliation of movements in shareholders' funds

<i>For the year ended 30 September 1998</i>			
		<i>1998 £'000</i>	<i>1997 £'000</i>
Profit for the year		6,591	2,483
Dividends paid and proposed		(6,627)	(2,485)
Retained loss for the year		(36)	(2)
New capital subscribed:			
Ordinary Shares including share premium		131,115	–
Less: Issue costs		(5,078)	–
		126,037	–
Net surplus on revaluation of investment properties		31,822	15,460
Net increase in Shareholders' funds		£157,823	£15,458
Shareholders' funds at the beginning of the year		£57,202	£41,744
Shareholders' funds at the end of the year		£215,025	£57,202

Note of historical cost profits and losses

<i>For the year ended 30 September 1998</i>			
	<i>Note</i>	<i>1998 £'000</i>	<i>1997 £'000</i>
Profit on ordinary activities before taxation		7,769	3,201
Realisation of valuation gains on disposal of investment property	18	294	–
Historical cost profit on ordinary activities before taxation		£8,063	£3,201
Historical cost retained profit/(loss) for the year		£258	(£2)

1 Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of land and buildings, and in accordance with all applicable accounting standards. The particular accounting policies adopted are described below. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, land and buildings are not depreciated.

Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiaries, together with those of Care Homes No.1 Limited ("Care Homes") and those of the LLNHP Partnership. Care Homes is not a subsidiary of the Group; however, by reason of contractual arrangements between the Group and Care Homes, in terms of Financial Reporting Standard No.5, the financial statements of Care Homes are required to be consolidated as part of the Group. A summary of Care Homes' financial statements are disclosed in note 26 of the financial statements.

Valuation of land and buildings

The cost of land and buildings is their purchase cost, together with any incidental costs of acquisition. Land and buildings represent freehold or long leasehold properties held for long term retention. In accordance with Statement of Standard Accounting Practice No. 19, these investment properties are valued annually by independent professional valuers at open market value, on an investment basis, subject to the Group's leases. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

Properties held for resale are separately disclosed in the financial statements at the lower of cost and net realisable value, any diminution in value being charged to the profit and loss account.

Depreciation

In accordance with Statement of Standard Accounting Practice No. 19, no depreciation is provided in respect of investment properties. Under the terms of the Group's leases, freehold or long leasehold properties are required to be maintained to a high standard by its tenants.

This treatment is a departure from the requirements of the Companies Act 1985 which requires all fixed assets to be depreciated over their effective useful lives. However, such properties are not held for consumption but for investment, and the Directors consider that systematic depreciation would be inappropriate and would not give a true and fair view. The accounting policy adopted, which is a departure from the Companies Act 1985, is therefore necessary for the accounts to give a true and fair view. Depreciation is one of the factors reflected in the annual revaluation, and amounts which might otherwise have been charged cannot be separately identified or quantified.

Other fixed assets are stated at cost less depreciation which is provided at rates calculated to write off the cost in equal amounts over their anticipated useful lives as follows:

Short leasehold improvements	remaining period of lease
Office equipment and fixtures	5 years
Motor vehicles	5 years

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements to the extent that it is probable a liability or asset will crystallise in the future.

Finance costs

Costs which are incurred directly in connection with the raising of bank loans or Secured Notes are amortised over the life of the loan facility or Secured Notes in accordance with Financial Reporting Standard No.4.

Interest

Interest receivable and interest payable are recognised in the financial statements on an accruals basis. Interest on the Deposit Swap Agreement is accrued on a monthly basis over the life of the Deposit Swap Agreement. The discount on the Secured Notes, being interest paid in advance, is amortised over the life of the Secured Notes.

Notes to the accounts continued

1 Accounting policies *continued*

Leased assets

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

Pensions

The company contributes to money purchase pension schemes for the full time executive Directors at the rate of 20% of basic salary, which is charged monthly to the profit and loss account. The assets of the NHP Executive Pension Scheme are held in a separate trustee administered fund.

2 Information regarding Directors and employees

Disclosures on Directors' remuneration, share options, long term incentive schemes and pension contributions required by the Companies Act 1985, and those specified for audit by the London Stock Exchange, are on pages 33 and 34 within the Report of the Remuneration Committee, and form part of these audited financial statements.

Staff costs

The aggregate payroll costs (including Directors) were as follows:

	1998 £'000	1997 £'000
Wages and salaries	1,223	592
Social security costs	123	60
Pension costs	123	86
	£1,469	£738

Average number of employees:

	1998 Number	1997 Number
Administrative	10	6
Directors	8	8
	18	14

3 Turnover

Turnover comprises the following earned from the Group's ordinary activities, which take place wholly within the United Kingdom:

	1998 £'000	1997 £'000
Rental income	24,768	11,302
Commissions and fees received	578	303
	£25,346	£11,605

4 Operating profit

Operating profit is arrived at after charging:

	1998 £'000	1997 £'000
Depreciation	79	53
Auditors' remuneration – audit fees	70	45
– other fees	254	50
Operating lease rentals – buildings	60	29

A further £258,650 has been paid to the auditors in respect of equity issue costs (1997: £84,952 in respect of Secured Note issue costs). This amount has been set off against the share premium account (1997: included in the Secured Note issue costs).

5 Net interest payable and similar charges

	1998 £'000	1997 £'000
Interest payable on Secured Notes	8,200	3,932
Interest payable on bank loans wholly repayable within 5 years	7,326	3,152
Other interest payable	9	17
Finance costs (net)	1,587	1,380
Interest receivable on deposits	(831)	(1,036)
Interest receivable on secured Loan Stock	(446)	(9)
Interest receivable on Deposit Swap Agreement	(1,293)	(577)
	£14,552	£6,859

6 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
Income Tax	16	98
Irrecoverable ACT	1,000	620
	£1,016	£718
Effective tax rate	13.08%	22.43%

There is no liability for mainstream Corporation Tax owing to the availability of capital allowances. No material taxation gains or losses arose from the disposal of Collingwood Court in June 1998. Advance Corporation Tax (ACT) in relation to dividends paid and proposed is not recoverable in the foreseeable future, and has accordingly been charged in the Profit and loss account in the respective periods.

No deferred tax liability is recognised as timing differences arising from capital allowances are not expected to reverse in the foreseeable future. A potential capital gains tax liability of £12,645,000 exists in relation to the surplus arising on the revaluation of land and buildings. It is not the Group's intention to sell these assets and therefore no deferred taxation has been provided on the revaluation surplus.

7 Dividends paid and proposed

	1998 £'000	1997 £'000
Equity		
First quarter interim dividend of 1.85p per Ordinary Share on 39,691,369 shares in issue prior to the December 1997 Placing and Open Offer, paid on 9 April 1998 (1997 Q1: 1.50p on 39,691,369 shares)	734	595
Second quarter interim dividend of 2.00p per Ordinary Share on 71,444,464 shares, paid on 9 July 1998 (1997 Q2: 1.50p on 39,691,369 shares)	1,429	595
Third quarter interim dividend of 2.15p per Ordinary Share on 85,444,464 shares, following the issue of 14 million Ordinary Shares after the exercise of the Lend Lease Warrants, paid on 9 October 1998 (1997 Q3: 1.50p on 39,691,369 shares)	1,837	596
Final dividend proposed of 2.40p per Ordinary Share on 85,444,464 shares and 1.20p per Ordinary Share on 47,629,642 additional shares issued under the August 1998 Placing and Open Offer, payable on 9 April 1999 (1997 Q4: 1.75p on 39,691,369 shares)	2,622	695
Non-equity		
Dividends payable to minority interests (Shareholders of Care Homes)	5	4
	£6,627	£2,485

Notes to the accounts continued

8 Earnings per share

Earnings per Ordinary Share for the year to 30 September 1998 have been calculated on the profit after taxation, minority interest and non-equity dividends of £6,586,000 divided by 71,740,219 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year. The fully diluted earnings per Ordinary Share of 8.58p for the year to September 1998 is based on earnings of £6,599,000 divided by 76,909,594 Ordinary Shares of 1p each, being the increased weighted average number of Ordinary Shares in issue during the year assuming conversion of the 5,000,000 Deferred Ordinary Shares to Ordinary Shares for the full year and assuming the exercise of employee share options. The calculation of earnings per Ordinary Share for the year to 30 September 1997 of 6.25p is based on earnings after taxation and non-equity dividends of £2,479,000 divided by 39,691,369 Ordinary Shares of 1p each which were in issue for the whole year.

Fully diluted earnings per share for the year ended 30 September 1997 has been restated in these financial statements to take account of the conversion of the Deferred Ordinary Shares and is based on earnings of £2,479,000 divided by 44,691,369 Ordinary Shares of 1p each assuming conversion of the 5,000,000 Deferred Ordinary Shares to Ordinary shares for the full year.

9 Parent company profit and loss account

	1998 £'000	1997 £'000
Profit for the financial year	6,712	2,558

The Company has taken advantage of section 230 of the Companies Act 1985 and consequently a profit and loss account for the Company alone is not presented.

10 Tangible fixed assets

Land and buildings

	Freehold investment properties £'000	Long leasehold investments properties £'000	Total £'000
Group			
Valuation at 1 October 1997	168,820	4,400	173,220
Additions at cost	197,505	—	197,505
Surplus on revaluation	33,950	190	34,140
Disposal of investment property at valuation	(3,485)	—	(3,485)
Valuation at 30 September 1998	£396,790	£4,590	£401,380

Land and buildings have been valued, at open market value, by DTZ Debenham Thorpe, International Property Advisers, as at 30 September 1998 (1997: GVA Grimley). The historical cost and net book value of the Group's investment properties at 30 September 1998 was £349,780,000, compared to £155,466,000 at 30 September 1997.

The purchase in June 1998 of 24 homes from Ultima Healthcare Limited included 6 homes (totalling 195 beds) held for resale. The total cost of acquisition of these 6 homes of £3,773,000 has been separately disclosed in the Group's Balance sheet as a current asset.

Company

At 30 September 1998 the Company had investments in freehold investment properties totalling £23 (1997: £8), representing the consideration paid, including VAT, for the freehold reversions to 20 (1997: 7) properties, the 999 year leasehold interests in which are held are by NHP Securities No.3 Limited, a subsidiary company.

10 Tangible fixed assets continued

Other tangible fixed assets

	Short leasehold improvements £'000	Office equipment and fixtures £'000	Motor vehicles £'000	Total £'000
Group				
Cost				
At 1 October 1997	15	179	109	303
Additions	64	100	—	164
Restatement of cost	—	(8)	—	(8)
At 30 September 1998	79	271	109	459
Depreciation				
At 1 October 1997	(15)	(55)	(40)	(110)
Depreciation for the year	(14)	(43)	(22)	(79)
At 30 September 1998	(29)	(98)	(62)	(189)
Net book value at 30 September 1998	£50	£173	£47	£270
Net book value at 30 September 1997	—	£124	£69	£193
Company				
Cost				
At 1 October 1997	15	165	109	289
Additions	—	1	—	1
Restatement of cost	—	(8)	—	(8)
At 30 September 1998	15	158	109	282
Depreciation				
At 1 October 1997	(15)	(54)	(40)	(109)
Depreciation for the year	—	(33)	(22)	(55)
At 30 September 1998	(15)	(87)	(62)	(164)
Net book value at 30 September 1998	—	£71	£47	£118
Net book value at 30 September 1997	—	£111	£69	£180
Capital commitments				
	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Contracted but not completed or accrued	13,510	9,560	—	—

Notes to the accounts continued

11 Investments

Group

	1998 £'000	1997 £'000
Deposit Swap Agreement	15,350	15,350
Accumulated compound interest	1,870	577
	17,220	15,927
12% secured Loan Stock 2000 – Eton Hall Homes Limited	–	1,200
9.5% secured Loan Stock 2003 Class A – Ultima Holdings Limited	3,250	–
9.5% secured Loan Stock 2003 Class B – Ultima Holdings Limited	6,500	–
	£26,970	£17,127

The Deposit Swap Agreement represents a £15.35 million premium paid in respect of an AAA rated Deposit Swap Agreement with General Re Financial Products Corporation which, together with accumulated interest, guarantees to provide for the repayment of £100 million Secured Notes in 2021.

The 12% Loan Stock 2000 was invested in Eton Hall Homes Limited, the parent company of Eton Hall Nursing Homes Limited, a tenant of the Group. The loan stock was secured by fixed charges and a floating charge over the undertaking and assets of Eton Hall Homes Limited.

The £1.2 million 12% Secured Loan Stock 2000 in Eton Hall Homes Limited was repaid on 13 July 1998 on the takeover of the Eton Hall Group by Ultima Holdings Limited and was replaced by £3 million 9.5% Secured Loan Stock 2003 Class A in Ultima Holdings Limited. A further £250,000 of this Loan Stock was issued in September 1998.

The 9.5% Loan Stock 2003 is invested in Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Group. The loan stock is secured by fixed charges and a floating charge over the undertaking and assets of Ultima Holdings Limited.

The Group holds warrants to subscribe for up to 45% of Ultima Holdings Limited's enlarged share capital, with the right of subscription dependent on the amount of loan stock redeemed before 31 May 2003.

Company

	1998 £'000	1997 £'000
Shares in subsidiary companies, at cost	89	50
Subordinated loan notes due from subsidiary companies	160,723	42,612
	£160,812	£42,662

Shares in subsidiary companies represent the Company's holding of 100% of the issued share capital of NHP Securities No.1 PLC, NHP Securities No.2 Limited, NHP Securities No.3 Limited, NHP Management Limited, NHP Securities No.4 Limited and NHP EUROPA, S.A., all companies being registered in England and Wales except for NHP EUROPA, S.A., which is registered in Spain. The principal activity of the subsidiaries is the acquisition of care home properties for leasing to established operators, except that NHP Securities No.4 Limited holds a 50.01% interest in the capital of the LLNHP Partnership and NHP Management Limited manages care home property portfolios on behalf of Group companies, Care Homes and the LLNHP Partnership. NHP EUROPA, S.A. has yet to commence operations.

The subordinated loan notes have no fixed repayment date, bear interest at 8.5% per annum (1997: 10.0%) and represent the consideration payable for financing of asset transfers and purchases.

12 Debtors

	1998 £'000	1997 £'000
Group		
Trade debtors	150	–
Other debtors	451	255
Prepayments and accrued income	1,402	312
	£2,003	£567
Company		
Other debtors	5	31
Amounts owed by Group companies	4,319	1,023
Prepayments and accrued income	457	46
	£4,781	£1,100

13 Short term investment

	1998 £'000	1997 £'000
Short term bank deposit held by Care Homes	£8,050	£10,500

The short term deposit represents reserves required to be held by Care Homes to meet interest and other possible liabilities.

£1,010,500 of the deposit at 30 September 1997 represented a further drawings fund reserved for the purchase of additional overriding leases in care homes. This amount was fully utilised in July 1998, when Care Homes acquired the leases of two homes in substitution for the disposal of its lease in Collingwood Court for a consideration of £3.55 million.

14 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Group		
Bank loans due within one year	–	10,000
Less: Unamortised finance costs	–	(282)
	–	9,718
Interest payable	4,259	4,210
Dividends payable to equity shareholders	4,459	1,291
Dividends payable to non-equity shareholders (Care Homes)	9	4
Advance Corporation Tax (ACT)	816	472
Income Tax	114	98
Other creditors	1,327	217
Taxation and social security	88	23
Accruals	1,018	544
	£12,090	£16,577
Company		
Bank loan due within one year	–	10,000
Less: Unamortised finance costs	–	(282)
	–	9,718
Interest payable	–	109
Dividends payable to equity shareholders	4,459	1,291
Advance Corporation Tax (ACT)	816	472
Other creditors	68	51
Taxation and social security	79	23
Accruals	602	84
	£6,024	£11,748

Notes to the accounts continued

15 Deferred taxation

	Provided		Unprovided	
	As at 30 September 1998 £'000	As at 30 September 1997 £'000	As at 30 September 1998 £'000	As at 30 September 1997 £'000
Group				
Capital allowances in excess of depreciation	—	—	3,841	3,073
Losses created by capital allowances	—	—	(1,567)	(526)
Revaluation of investment properties	—	—	12,645	4,264
	—	—	£14,919	£6,811

Company

There is no provided or unprovided Deferred Tax in respect of the Company.

16 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Group		
Bank loans due between two and five years	115,180	34,000
Less: Unamortised finance costs	(943)	(534)
Net bank loans	114,237	33,466
Class A1 Secured 8% Notes due 2021	60,000	60,000
Class A2 Secured 8.5% Notes due 2021	40,000	40,000
Less: Unamortised issue costs	(2,709)	(2,829)
Unamortised discount on issue	(723)	(756)
Net Secured Notes	96,568	96,415
	£210,805	£129,881

Bank loans

Bank loans maturing after more than one year at 30 September 1998 comprise the following separate loan facilities:

	1998 £'000
A £150 million revolving credit facility from a syndicate led by the Bank of Scotland which matures on 25 May 2001. The loans bear interest at LIBOR plus 1.25% and are secured by a fixed charge on the investment properties of NHP Securities No.3 Limited, together with a floating charge on its other assets and an unlimited guarantee from NHP Plc. The amounts drawn down at 30 September 1998 were as follows:	
Bank of Scotland	34,137
Morgan Guaranty Trust Company of New York	31,033
National Westminster Bank PLC	15,517
Bank of Ireland	12,413
	93,100

16 Creditors: amounts falling due after more than one year continued

	1998 £'000
A £45 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 27 January 2003. The loans bear interest at LIBOR plus 1.0% and are secured by a first charge on the investment properties of the LLNHP Partnership, together with a floating charge over the assets of NHP Securities No.4 Limited. The amounts drawn down at 30 September 1998 were as follows:	
Bank of Scotland	6,900
Wurttembergische Hypothekenbank Aktiengesellschaft	6,900
Halifax Plc	6,900
	20,700
A £3 million unsecured revolving credit facility from Barclays Bank Plc, guaranteed by Lend Lease Corporation Limited. The loan bears interest at LIBOR plus 0.2%, and matures on 27 January 2003. The amount drawn down at 30 September 1998 was as follows:	
Barclays Bank Plc	1,380
Total bank loans drawn down at 30 September 1998	£115,180

At 30 September 1998 the Group held hedging instruments fixing a total of £187 million of borrowings at an average rate of 7.0%. Details of hedging transactions completed by the Group since 30 September 1998 are set out in note 29.

Secured Notes

Both the discount on the issue prices of the Secured Notes issued by Care Homes and the costs of issuing the Secured Notes are being amortised on a straight line basis over the 24 year term of the Secured Notes.

The Secured Notes are non-recourse to NHP Plc and its subsidiaries, and are secured, inter alia, by charges over the overriding leases and the rents receivable thereunder, the Deposit Swap Agreement with General Re Financial Products Corporation, which at 30 September 1998 amounted to £17,220,000 (see note 11), and cash and short term investment balances, which at 30 September 1998 amounted to £8,105,000.

17 Called up share capital

	Number	1998 £'000	Number	1997 £'000
Authorised:				
Ordinary Shares of 1p each				
At 1 October 1997	100,000,000	1,000		
Increase per Ordinary Resolution dated 14 August 1998	70,000,000	700		
At 30 September 1998	170,000,000	1,700	100,000,000	1,000
Deferred Ordinary shares of 1p each	5,000,000	50	5,000,000	50
	175,000,000	£1,750	105,000,000	£1,050
Called up, allotted and fully paid:				
Ordinary Shares of 1p each				
At 1 October 1997	39,691,369	397		
UK Placing and Open Offer on 22 December 1997 at 1p nominal value and 124p premium per share	31,753,095	318		
UK Placing and Open Offer on 18 August 1998 at 1p nominal value and 148p premium per share	47,629,642	476		
Exercise of the Lend Lease Warrants on 18 August 1998 at 1p nominal value and 145.11p premium per share	14,000,000	140		
At 30 September 1998	133,074,106	1,331	39,691,369	397
Deferred Ordinary Shares of 1p each	5,000,000	50	5,000,000	50
	138,074,106	£1,381	44,691,369	£447

Notes to the accounts continued

17 Called up share capital *continued*

The Deferred Ordinary Shares will convert into 5 million Ordinary Shares immediately following the Annual General Meeting. Further details regarding the conversion are set out in the Chairman's statement on page 5 and in the Directors' report on page 28.

During the year the following options were granted to employees of the Group:

	Number of Ordinary Shares	Option price per share p	Date from which exercisable	Expiry date
Under the NHP Plc 1998 Inland Revenue Approved Executive Share Option Scheme	30,000	137.5	9 Sep 2001	9 Sep 2008
Under the NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme				
3 year term	35,750	120	10 Apr 2001	10 Oct 2001
5 year term	2,875	120	10 Apr 2003	10 Oct 2003
7 year term	100,750	120	10 Apr 2005	10 Oct 2005

18 Reserves

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
Group				
At 1 October 1997	31,970	7,000	17,754	31
Premium on issue of 31,753,095 Ordinary Shares at 124p per share	39,374	—	—	—
Less: Issue costs incurred	(1,704)	—	—	—
Premium on issue of 47,629,642 Ordinary Shares at 148p per share	70,492	—	—	—
Premium on issue of 14,000,000 Ordinary Shares at 145.11p per share	20,315	—	—	—
Less: Issue costs incurred	(3,374)	—	—	—
Net surplus on revaluation of investment properties	—	—	34,140	—
Revaluation attributable to minority interest	—	—	(2,318)	—
Transfer arising on disposal of investment property	—	—	(294)	294
Retained loss for the year	—	—	—	(36)
At 30 September 1998	£157,073	£7,000	£49,282	£289
		Share premium account £'000	Revenue reserve £'000	Profit and loss account £'000
Company				
At 1 October 1997		31,970	1,101	110
Premium on issue of 31,753,095 Ordinary Shares at 124p per share		39,374	—	—
Less: Issue costs incurred		(1,704)	—	—
Premium on issue of 47,629,642 Ordinary Shares at 148p per share		70,492	—	—
Premium on issue of 14,000,000 Ordinary Shares at 145.11p per share		20,315	—	—
Less: Issue costs incurred		(3,374)	—	—
Transfer arising on disposal of investment property		—	(126)	126
Retained profit for the year		—	—	90
At 30 September 1998		£157,073	£975	£326

The revenue reserve comprises profits arising from transfers of properties to subsidiaries and is not available for distribution.

19 Net assets per Ordinary Share

	1998	1997
Basic		
Equity Shareholders' funds	£214,975,000	£57,152,000
Number of Ordinary Shares of 1p each in issue	133,074,106	39,691,369
Net assets per Ordinary Share	161.55p	143.99p
Fully diluted		
In anticipation of the conversion of 5,000,000 Deferred Ordinary Shares to Ordinary Shares		
Total Shareholders' funds	£215,025,000	£57,202,000
Number of Ordinary Shares of 1p each in issue	138,074,106	44,691,369
Net assets per Ordinary Share	155.73p	127.99p

Fully diluted net assets per share as at 30 September 1997 has been restated in these financial statements to take account of the conversion of the Deferred Ordinary Shares.

20 Gearing

	1998 £'000	1997 £'000
Consolidated		
Secured Notes	100,000	100,000
Bank loans	115,180	44,000
Deposit Swap Agreement	(17,220)	(15,927)
Short term investment	(8,050)	(10,500)
Cash at bank and in hand	(586)	(2,053)
Net borrowings	£189,324	£115,520
Shareholders' funds	£215,025	£57,202
Consolidated gearing	88.05%	201.95%
Excluding non-recourse borrowings*		
Bank loans	115,180	44,000
Cash at bank and in hand	(531)	(1,887)
Net recourse borrowings	£114,649	£42,113
Shareholders' funds	215,025	57,202
Less: Diminution in value (see below)	(19,222)	(17,392)
Net indebtedness from Care Homes	(599)	(930)
Adjusted Shareholders' funds	£195,204	£38,880
Gearing excluding non-recourse borrowings	58.73%	108.32%

*Relating to Care Homes.

As part of the issue of Secured Notes by Care Homes, 3 (1997: 2) of the Company's wholly owned subsidiaries have sold overriding leases in respect of certain investment properties to Care Homes. These sales result in a diminution in value, as the combined value of the separate interests of the subsidiaries and Care Homes is less than the value of those interests if they were vested only in the subsidiaries. Whilst no reduction to this value is necessary in the consolidated balance sheet of the Group, the diminution in value reflected above represents the effective write down that would have to be made if the financial statements of Care Homes were not consolidated with those of the Group.

Notes to the accounts continued

21 Reconciliation of operating profit to operating cash flows

	1998 £'000	1997 £'000
Operating profit	22,256	10,060
Depreciation	79	53
Increase in debtors	(1,067)	(377)
Increase in creditors	1,358	524
Net cash inflow from operating activities	£22,626	£10,260

22 Analysis of changes in net debt

	Balance at 1 October 1997 £'000	Cash flow £'000	Non-cash changes £'000	Balance at 30 September 1998 £'000
Cash at bank and in hand	2,053	(1,467)		586
Short term investment	10,500	(2,450)		8,050
Bank loans due within one year	(9,718)	10,080	(362)	—
Bank loans due after one year	(33,466)	(80,220)	(551)	(114,237)
Secured Notes	(96,415)		(153)	(96,568)
Total	(£127,046)	(£74,057)	(£1,066)	(£202,169)

23 Analysis of changes in cash

	1998 £'000	1997 £'000
Cash at bank and in hand at 1 October 1997	2,053	355
(Decrease)/increase in cash during the year	(1,467)	1,698
Cash at bank and in hand at 30 September 1998	£586	£2,053

24 Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
(Decrease)/increase in cash during the year	(1,467)	1,698
Net cash inflow from debt financing activities	(70,140)	(114,262)
Net cash (inflow)/outflow from management of liquid resources	(2,450)	10,500
Changes in net debt resulting from cash flows	(74,057)	(102,064)
Non-cash changes in net debt	(1,066)	(663)
Movement in net debt during the year	(75,123)	(102,727)
Net debt at the beginning of the year	(127,046)	(24,319)
Net debt at the end of the year	(£202,169)	(£127,046)

25 Operating lease commitments

The Group had the following annual commitments under a non-cancellable operating lease in respect of property:

	1998 £'000	1997 £'000
On a lease which expires within 2 to 5 years	£60	£60

26 Disclosures relating to quasi-subsiary

A summary of the financial statements of Care Homes No.1 Limited for the year ended 30 September 1998 and the period from incorporation on 13 February 1997 to 30 September 1997, which have been included in the consolidated financial statements of the Group, is as follows:

	1998 £'000	1997 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	73,283	73,985
Deposit Swap Agreement, including accumulated compound interest	17,220	15,927
Net current assets	3,570	5,715
Creditors: amounts falling due after more than one year		
Class A1 and A2 Secured Notes, net of unamortised issue costs and discount	(96,568)	(96,415)
Shareholders' deficit	(£2,495)	(£788)
Profit and loss account		
Turnover and gross profit	10,475	3,921
Net operating costs	(7,170)	(2,036)
Net interest payable and similar charges	(6,426)	(2,571)
Profit on disposal of overriding lease	1,435	-
Taxation	(16)	(98)
Equity dividends payable	(5)	(4)
Loss for the year	(£1,707)	(£788)
Cash flow statement		
Cash flow from operating activities	(1,550)	4,746
Net cash outflow from investing activities		
Investment in overriding leases	(4,560)	(75,073)
Proceeds on disposal of overriding lease	3,550	-
Investment in Deposit Swap Agreement	-	(15,350)
Management of liquid resources – short term deposit withdrawal/(investment)	2,450	(10,500)
Net cash inflows from financing activities		
Secured Notes, net of issue costs and discount	-	96,342
(Decrease)/increase in cash in the year	(£110)	£165

The summary of the financial statements disclosed above is prepared in accordance with the accounting principles generally accepted in the UK (UK GAAP). The financial statements of Care Homes No.1 Limited are prepared under accounting principles generally accepted in the United States (US GAAP) under which the Deposit Swap Agreement is valued in those accounts at £27,575 (1997: £19,733), on a mark-to-market basis.

27 Contingent liabilities and guarantees

The Company guarantees the Bank of Scotland syndicated revolving credit facility of £150 million referred to in note 16 of the accounts, and also the £70 million term loan with Dresdner Bank AG London Branch referred to in note 29 of the accounts.

The Company has issued a guarantee in favour of Care Homes No.1 Limited and Royal Exchange Trust Company Limited of performance by NHP Securities No.1 PLC, NHP Securities No.2 Limited, NHP Securities No.3 Limited and NHP Management Limited of their obligations arising in respect of the overriding leases and associated documents.

The Company has issued a guarantee in favour of Lend Lease Homes Limited of performance by NHP Management Limited of its obligations arising in respect of the management of the LLNHP Partnership.

NHP Securities No.3 Limited, a wholly owned subsidiary of the Company, has guaranteed the repayment to Ultima Healthcare Limited of the principal amount of a loan of £6 million made by Ultima Healthcare Limited to its parent company Ultima Holdings Limited. Ultima Healthcare Limited has subordinated its right to repayment of the principal amount of such loan to NHP Securities No.3 Limited's right to repayment of the Loan Stock 2003 Class B investment in Ultima Holdings Limited (the "Loan Stock") referred to in note 11 of the accounts. Under the Subscription Agreement relating to the Loan Stock, NHP Securities No.3 Limited has also agreed to make available a further £3 million in exchange for Loan Stock, if necessary, to fund Ultima Holdings Limited's corporation tax liability in respect of chargeable gains incurred on the sale of care homes to the Group. This obligation is subject to Ultima Holdings Limited being unable to arrange separate bank finance.

Notes to the accounts continued

27 Contingent liabilities and guarantees continued

At the date of this report, the Group has invested only £3.55 million of the agreed subscription for up to £4.5 million Ultima Holdings Limited Loan Stock 2003 Class A. Investment of the remaining £950,000 is dependent upon the working capital requirements of Ultima Holdings Limited.

Penalty fees will become payable to the Morgan Guaranty Trust Company of New York if the indebtedness to them is not repaid within 4 months of a securitisation issue. Details of the penalties are set out in the Financial review on page 23.

The purchase of the two year swap referred to in note 29 of the accounts has resulted in a mark-to-mark exposure in terms of which the Group may be called upon to pay additional premiums to National Westminster Bank PLC. The benefit to the Group of paying any such additional premiums will be commensurate reductions to the swap strike rate below its current level of 5.23%.

28 Related party transactions

Since 1 October 1997 the Group has completed the purchase of 6 care homes for £13.28 million from subsidiary companies of Somerford Health Care Limited. The minimum annual rent payable by subsidiary companies of Somerford Health Care Limited currently amounts to £1.614 million. W. J. Davies is a director of all Group companies and Somerford Health Care Limited.

Sir Colin Walker, a director of the Company, served as the Company's representative on the Boards of Eton Hall Homes Limited and Eton Hall Leased Homes Limited until his resignation from both appointments on 13 July 1998. On 29 October 1998 he was appointed as the Company's representative on the Board of Ultima Holdings Limited. Details of the Group's interests in Eton Hall Homes Limited, Eton Hall Leased Homes Limited and Ultima Holdings Limited are set out in note 11 of the accounts. Note 27 contains details on the guarantees given by the Group to Ultima Holdings Limited and its subsidiaries.

Lend Lease Homes Limited, a subsidiary of Lend Lease Europe Holdings Limited, is a partner in the LLNHP Partnership together with NHP Securities No.4 Limited, a wholly owned subsidiary of the Company. Lend Lease Corporation Limited, the holding company of Lend Lease Europe Holdings Limited, receives guarantee fees from the LLNHP Partnership in return for guaranteeing a £3 million unsecured facility granted to the partnership by Barclays Bank Plc. On 18 August 1998 Lend Lease Europe Holdings Limited exercised its Warrants over 14 million Ordinary Shares at 146.11p per share.

During the year the Group arranged a £55 million mortgage finance facility from Meditrust Corporation. This facility was cancelled before any draw down took place, and resulted in £72,093 abort fees being incurred. Meditrust Corporation has maintained its 19.99% shareholding in the Company's share capital following two Placings and Open Offers and exercise of the Lend Lease Warrants which took place during the year. D. F. Benson is a Director and Shareholder of both the Company and Meditrust Corporation.

29 Post balance sheet events

Since 30 September 1998 the Group has acquired from 6 tenants a further 15 care homes, with a total of 744 beds, for a cost of £26.85 million (including acquisition costs).

On 7 October 1998 NHP Plc acquired the entire issued share capital of Legislator 1396 Limited, a dormant company incorporated on 9 September 1998 as a company registered in England and Wales. The name of the company was simultaneously changed to NHP Securities No.6 Limited.

On 9 October 1998 NHP Securities No.5 Limited was incorporated as a company registered in Jersey. NHP Securities No.5 Limited is a wholly owned subsidiary of NHP Plc.

On 13 October 1998 the Group sold hedging instruments, fixing £88.5 million of borrowings at an average rate of 7.18%, for a consideration of £402,000, and simultaneously purchased a two year swap, fixing £100 million of borrowings at 5.23%, for a consideration of £2 million. These transactions are further explained in the Financial review on page 24.

On 30 October 1998 NHP Plc acquired the entire issued share capital of Legislator 1400 Limited, a dormant company incorporated on 26 October 1998 as a company registered in England and Wales. The name of the company was simultaneously changed to NHP Securities No.7 Limited.

On 10 November 1998 the Group subscribed for a further £300,000 Ultima Holdings Limited 9.5% secured Loan Stock 2003 Class A.

On 23 November 1998 the Group concluded a £70 million term loan with Dresdner Bank AG London Branch. Further details are given in the Chairman's statement on page 7 and in the Financial review on page 23.

Notice of meeting




NOTICE IS HEREBY GIVEN that the 5th Annual General Meeting of NHP Plc will be held at 6 Broad Street Place, Blomfield Street, London EC2M 7JH at 9.00 a.m. on Monday, 21 December 1998 for the following purposes.

Ordinary business

1. To receive the Report of the Directors and the Accounts for the year ended 30 September 1998.
2. To declare final dividends for the year.
3. To re-elect A. Bergbaum as a Director.
4. To re-elect R. J. Ellert as a Director.
5. To re-elect C. H. W. Robson as a Director.
6. To reappoint Deloitte & Touche as Auditors and to authorise the Directors to fix their remuneration.

Registered office:
6 Broad Street Place
Blomfield Street
London EC2M 7JH


By Order of the Board
A. R. Kilmartin
Company Secretary
24 November 1998

Notes:

1. A member entitled to vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice for use at the meeting.
2. To be valid, the form of proxy (together with the power of attorney, if any, under which it is signed or notarially certified copy of such power of attorney or other authority) must be deposited at or posted to the office of the Registrars of the Company, Connaught St. Michaels Limited, to be received not less than 48 hours before the time fixed for the meeting. Completion and return of the form of proxy will not preclude shareholders from attending or voting at the meeting in person.
3. Copies of the service agreements of Directors and the register of Directors' interests kept in accordance with section 325 of the Companies Act are available for inspection at the registered office of the Company on weekdays during normal business hours and will be available for inspection at the meeting.
4. Only persons entered on the register of members of the Company are entitled to attend or vote at the meeting.

Directors, secretary and advisers

<i>Directors</i>	<i>Arthur Bergbaum, Chairman</i>
	<i>Richard John Ellert, Chief Executive</i>
	<i>William Jeremy Davies, ARICS, Estates Director</i>
	<i>Daniel Fernley Francis, FCA, Finance Director</i>
	<i>Sir Colin John Shedlock Walker, OBE, Non-executive Director</i>
	<i>David Grant Hargrave, Non-executive Director</i>
	<i>Clayton Hugo Wynne Robson, Non-executive Director</i>
	<i>David Frederick Benson, Non-executive Director (US National)</i>
<i>Registered office</i>	<i>6 Broad Street Place, Blomfield Street, London EC2M 7JH</i>
<i>Secretary</i>	<i>Adrian Robert Kilmartin, FCA</i>
<i>Joint stockbrokers</i>	<i>Collins Stewart Limited</i>
	<i>21 New Street, Bishopsgate, London EC2M 4HR</i>
	<i>Merrill Lynch International</i>
	<i>P O Box 293, 20 Farringdon Road, London EC1M 3NH</i>
<i>Financial adviser</i>	<i>Robert Fleming & Co. Limited</i>
	<i>25 Copthall Avenue, London EC2R 7DR</i>
<i>Auditors</i>	<i>Deloitte & Touche</i>
	<i>Hill House, 1 Little New Street, London EC4A 3TR</i>
<i>Solicitors</i>	<i>Eversheds</i>
	<i>Holland Court, The Close, Norwich, Norfolk NR1 4DX</i>
<i>Principal bankers</i>	<i>Bank of Scotland, Commercial Banking Services</i>
	<i>Telford House, 3 Mid New Cultins, Edinburgh EH11 4DH</i>
	<i>National Westminster Bank PLC</i>
	<i>Norwich City Office, 45 London Street, Norwich, Norfolk NR2 1HX</i>
<i>Registrars</i>	<i>Connaught St. Michael's Limited</i>
	<i>P O Box 30, CSM House, Victoria Street, Luton, Bedfordshire LU1 2PZ</i>
<i>Insurance brokers</i>	<i>G. R. Patrick & Co. Limited</i>
	<i>Britannic House, 230 Burlington Road, New Malden, Surrey KT3 4NW</i>
<i>Valuers</i>	<i>DTZ Debenham Thorpe</i>
	<i>3-5 Swallow Place, London W1A 4NA</i>

Financial calendar

<i>Annual General Meeting</i>	<i>21 December 1998</i>
<i>Payment of 1998 final dividend</i>	<i>9 April 1999</i>
<i>First quarter results announced</i>	<i>March 1999</i>
<i>Payment of first interim dividend</i>	<i>9 April 1999</i>
<i>Interim results announced</i>	<i>June 1999</i>
<i>Payment of second interim dividend</i>	<i>9 July 1999</i>
<i>Third quarter results announced</i>	<i>September 1999</i>
<i>Payment of third interim dividend</i>	<i>9 October 1999</i>
<i>Preliminary announcement of 1999 results</i>	<i>December 1999</i>