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NHP Plc
Annual Report & Accounts 2003



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NHP Plc Annual Report & Accounts 2003

NHP is determined to provide the very highest quality buildings for its tenants and to provide the highest quality care to residents in its homes. If we can do this in a timely and efficient manner, our residents, staff, business partners and shareholders will all benefit.

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Financial highlights

Our results have improved each year since the change in strategy implemented almost three years ago. The growth and success of Highfield Care has contributed greatly to our improved financial performance, which has been achieved in a challenging business environment. We expect to continue to deliver value to our shareholders through growing dividends and asset values.

- Profit before tax £24.8 million (2002: £16.4 million), an increase of 51 per cent.
- Net asset value per Ordinary Share increased by 52 per cent to 157.6p (2002: 103.4p) after accruing for the final dividend.
- Basic earnings per Ordinary Share up 25 per cent to 12.6p (2002: 10.1p).
- Proposed final dividend of 2.25p, payable on 3 March 2004 to shareholders on the register on 6 February 2004. Together with the interim dividend of 0.75p, this makes a total for the year of 3p (2002: nil). Shareholder approval sought for share repurchases.
- Highfield Care made significant progress, achieving profitability in the second half and producing a much reduced operating loss for the year as a whole of £2.0 million (2002: £3.2 million).
- Over half of third party leases now converted to annual RPI based review – leading to an uplift in the valuations of the homes concerned and increased certainty of future rental growth.
- New £60 million five year bank facility signed which will provide substantial annual cost savings.

Financial performance

For the year ended 30 September	2003	2002	Increase/ (decrease)
Turnover	£171.9m	£126.0m	36%
Pre-tax profits excluding exceptional income*	£24.5m	£16.1m	52%
Pre-tax profits including exceptional income	£24.8m	£16.4m	51%
Basic earnings per Ordinary Share	12.6p	10.1p	25%
Dividends per Ordinary Share	3.0p	-	-
Operating cash flow after interest†	£24.7m	£14.8m	67%
Net assets per Ordinary Share	157.6p	103.4p	52%
Shareholders' funds	£320.5m	£207.7m	54%
Beds	17,754	18,395	(3%)
Investment and operated properties at book value	£736.5m	£643.3m	14%
Investment and operated properties at cost	£662.2m	£659.6m	-

* Pre-tax profits excluding exceptional income for the year ended 30 September 2003 is calculated as pre-tax profits on ordinary activities of £24.8 million less net exceptional income of £0.3 million (2002: £16.4 million less £0.3 million).

† Operating cash flow after interest for the year ended 30 September 2003 is calculated as net cash inflow from operating activities of £64.3 million less net cash outflow from returns on investment and servicing of finance of £39.6 million (2002: £57.9 million less £43.1 million).

Chairman's Statement by Sir Martin Laing

We believe that a private residential care home sector, with appropriately high standards and well-trained staff, has an important part to play in the future healthcare needs of the UK. NHP intends to maintain its leading position within the industry by continuing to invest in its homes and Highfield Care's homes and people.

I am pleased to report that we have made good progress once more this year across all areas of our business. The operating subsidiary, Highfield Care, made significant headway – achieving profitability in the second half and restructuring under its new management team to enhance profitability further in the current year.

Our property business, where we lease homes to a number of third party care home operators, is nearing the end of the process of tenant consolidation that has been a feature of the past three years. Agreements have now been signed converting over half of all third party tenant leases to annual inflation linked rent review. In return, NHP has removed the obligation to pay turnover rents. The agreements

will provide much greater rental visibility and additionally have removed all discretionary buy-back options on the associated leases.

Many local authorities still do not pay fees that adequately cover the full cost of providing care for residents. The position for private care providers (such as Highfield Care) is made worse by significant staff cost pressures caused by Minimum Wage increases and often severe, local shortages of nursing staff. Because of the nature of the care industry – looking after the welfare and well being of those who cannot care for themselves, in a highly regulated environment – staff shortages must be filled. In many cases this requires the use of expensive agency personnel. Highfield Care has

Turnover for the year was £171.9 million – an increase of 36% over last year.

Property business

Owned 207 care homes at 30 September 2003, largely purpose built modern facilities, leased to third party operators throughout the UK.

Homes: 207

Beds: 10,238

Highfield Care

Formed in 2001, managed 160 NHP homes and 22 homes owned by third parties at 30 September 2003.

Homes: 182

Beds: 8,644

made it a priority to find ways to minimise such agency usage.

Financial results

Turnover for the year to 30 September 2003 was £171.9 million, an increase of 36 per cent over last year's £126.0 million. This primarily reflected a further increase in the number of homes operated by Highfield Care plus organic revenue growth in fees (from increased fee levels and rising occupancy). Profit before taxation was £24.8 million (2002: £16.4 million).

The annual valuation of investment and operated properties produced an increase of £93.2 million to £736.5 million. This increase, together with retained profits, fed through directly to the net asset value per Ordinary Share, which rose by a leveraged 52 per cent to 157.6p (2002: 103.4p). Basic earnings per Ordinary Share increased by 25 per cent to 12.6p (2002: 10.1p) after a net tax credit of £0.6 million (2001: credit of £0.5 million). Net recourse borrowings were again reduced – to £34.4 million (2001: £51.5 million), representing recourse gearing of only 12 per cent (2002: 30 per cent) – and were successfully refinanced during the year under a facility whose much improved terms will generate substantial annual savings and release NHP from restrictive terms contained within the old facility.

Dividend

In July this year, NHP resumed dividend payments with an interim dividend of 0.75p per Ordinary Share. The Directors propose a final dividend of 2.25p per Ordinary Share payable, if approved, on 3 March 2004 to shareholders on the register on 6 February 2004. Together with the interim dividend, this makes a total for the year of 3p. In future years, if the investment opportunities open to us

remain limited, we intend to adopt a policy of returning to shareholders all surplus cash generated by our businesses after capital expenditure.

A growing dividend payment is just one of the mechanisms to provide returns to shareholders. We are seeking authorisation to repurchase NHP Ordinary Shares (effectively reducing the issued share capital) at the Annual General Meeting in January 2004. Under the new rules in force from December 2003, Ordinary Shares repurchased can be held in 'Treasury' for re-issue at a future date, subject to the amounts set out in the Companies Act and the ABI guidelines. The authorisation will give us another option for returning value to shareholders and we will continue to evaluate other options.

Board

The chief executive of Highfield Care, John Murphy, joined the Board in January 2003. John's brief is to develop Highfield Care into a profitable business and make it one of the UK's premier care home operators. In February, Mrs Nancy Hollendonner joined the Board as a Non-Executive Director. Nancy is a leading UK health care consultant and was for six years the health care sector equity analyst with UBS. She brings extensive healthcare industry knowledge plus long experience of investment and capital markets. John and Nancy are both making significant contributions to the Board and the Group.

In September, Daniel Francis, our longest serving executive director, retired from the Board. On behalf of all the Directors, I would like to thank Danny for his hard work and contributions to NHP since its inception in 1995.

Outlook

The current year should see further benefits from the actions taken by our

management team to create two strong business units. The property business is currently completing what we believe will be the last phase of tenant consolidation as the final homes are taken out of receivership and re-registered to Highfield Care. In addition, the conversion of third party leases to rental levels escalated by RPI has increased both the certainty of rental income growth and the values of the assets concerned.

Our improving financial performance should be viewed against the background of continued uncertainty and margin pressure within the substantially state funded UK care home industry. Care homes across the country are continuing to close with over a thousand beds per month currently being lost. New build activity is minimal and is focused in regions where long term contracts are offered by local authorities or where the majority of residents will pay for their own care.

We believe that the private residential care home sector, with appropriately high standards and well-trained staff, has an important part to play in the future healthcare needs of an increasingly ageing UK population. NHP intends to maintain its leading position within the industry by continuing to invest in Highfield Care's homes and people to provide the best possible standard of accommodation and care for our residents.



Sir Martin Laing
Chairman

16 December 2003

Review of the year by NHP Plc Chief Executive, Bill Colvin

We begin the current financial year in robust financial health. We expect further progress from Highfield Care, supported by our core high quality property business, giving us the profitability to examine ways in which to begin to return further value to shareholders.

Above: Pitchill House Care Centre,
Salford Priors, Worcestershire

Above right: Home Farm Care Centre,
Portree, Isle of Skye

Far right: Lllys Newydd Care Centre,
Ammanford, Carmarthenshire

Near right: Alexandra Care Centre,
Hemel Hempstead, Hertfordshire

In the year under review, we continued to improve the financial performance of the NHP group. Profits and cash flows maintained the upward trend of recent years while debt continues to fall. Our continuing progress led directly to a further significant uplift in net asset value and earnings per Ordinary Share and enabled the Board to resume dividend payments to shareholders.

A major contributing factor to the improvement in financial performance was progress made by our care home operating subsidiary, Highfield Care. Since his appointment 12 months ago, the Highfield Care Chief Executive, John Murphy, and his new management team have substantially upgraded the physical condition of a large number of Highfield Care's homes and improved all aspects of care in them by providing strong management and clear direction. The new management team continues to work hard to grow profitability by investing in care staff, systems, equipment and buildings. We believe that there still exists plenty of scope to improve overall financial performance over the next two years.

The transfer of six under-performing frail elderly homes to our newly created

psychiatric care business, NHP Healthcare Partnerships, will further enhance the performance of Highfield Care. Two units are already trading very successfully as specialist homes and one has seen a substantial valuation increase as a consequence of conversion. The four others are in the process of being converted and will be trading by the end of the current financial year. We believe NHP Healthcare Partnerships can be built into a profitable business. However, its potential size is constrained by the specialist market it serves and it is not expected to become material to NHP as a whole.

The UK care home industry

The total capacity for nursing and residential care for the elderly in the UK is currently some 500,000 beds, of which the private sector contributes approximately 70 per cent. This has steadily increased from 60% over the last ten years as many local authorities, and the NHS, have withdrawn beds from the long-term care market because they were unable to provide residential care services as cost-efficiently as private operators.

Local authorities currently fund from their own resources over 60 per cent

NHP's investment has made a real difference at the Care Centre level for both residents and staff.

DEBORAH BAKER REGIONAL MANAGER

Above: Chaseview Care Centre
Burntwood, Staffordshire

Far left: Pennwood Lodge Care Centre,
Wotton-under-Edge, Gloucestershire

Left: Ardmaine Care Centre, Newry,
County Down

Right: Springwater Lodge Care Centre,
Calverton, Nottingham

Main photo right: Balfarg Care Centre,
Glenrothes, Fife

of all residents – a figure that will continue to decline as more and more people are able to self-fund (particularly in the South East with its higher property values) or own houses local authorities can sell to fund care.

The past year has brought even more challenges to the publicly funded, private sector care home industry. Margins have fallen as increases in National Insurance contributions, Minimum Wage levels and nursing salaries raised care home wage costs by more than inflation. Staff costs look set to rise further over the next year with further Minimum Wage increases planned and as regulations are implemented requiring a minimum ratio of 50 per cent of care staff to be trained to NVQ (National Vocational Qualification) Level 2 by 2005. In addition, all staff are to receive three days training per year on full pay.

Upward pressure on costs is not restricted to staffing. The cost of insuring a care home business has risen significantly during the year, as was the case last year. In addition, the four newly established inspection bodies across the UK are demanding improved physical standards in care homes. Many local authority funders, who set

their fixed fees at the beginning of each financial year, will not meet increased costs from higher staffing costs and improved quality. Consequently, the predictable result of the current system is continuing home closures, particularly in areas where fee levels do not meet the cost of providing care.

Despite an ageing population, current Government policy and lack of action appear to support a reduction in the number of available residential care beds across the UK. Their stated preference is for more people to be given care in their own homes, so keeping to a minimum the time publicly funded residents spend in a care home setting. This will result in the number of self-funded residents both in NHP homes and across the industry continuing to grow but it will be several years before such residents replace publicly funded individuals as a majority.

NHP wholeheartedly supported the creation of English Care and Scottish Care, the industry bodies set up to lobby Government on linking fees from local authorities to the local cost of providing residential care. The Scottish Executive has accepted this principle and is working in partnership with the industry in Scotland. John Murphy and

I are actively involved in these bodies. I am delighted that one of our non-executive directors, Lord Sutherland, has agreed to become Chairman of both bodies. His experience as a past Chairman of the Royal Commission on Long Term Care will be invaluable in making representations to national and local government.

Property business

In response to the trend outlined above, NHP is being very selective where we build or acquire new homes and, at the time of writing, there are only three in the pipeline – one in York and two in Scotland – in areas where the local supply/demand balance will ensure that we secure an adequate return on our investment. Elsewhere, Highfield Care has in place 10 planning consents to build extensions and annexes at existing homes. Our growth plans are focused on adding to the Highfield Care portfolio, where we obtain the highest returns.

The process of tenant consolidation continued during the year under review with three further receiverships taking place during the year or just after the year end. These resulted in 18 additional homes for Highfield Care, including 14 in South Wales that have now formed the basis of a new Welsh division, Highfield

The property business now derives around 90 per cent of its rental income from four tenants, one of which is Highfield Care. Together with the re-negotiated leases, the consolidation that this represents will produce increased earnings visibility and quality.

The upgrading of a large number of our Highfield Care homes accounted for a large proportion of the Group's £11.3 million capital expenditure. This level of investment is required whilst we complete the major 'catch-up' investment in homes starved of capital expenditure by previous operators.



I can see a big improvement in physical accommodation standards across the board.

GIL WATKINSON HOMES INSPECTOR

Main picture and left: Keresley Wood Care Centre, Keresley, Coventry

Above: Chapel Level Care Centre, Kirkcaldy, Fife

Above right: Catmoor House Care Centre, Scone, Perth

Right: Callands Care Centre, Warrington, Cheshire

Cymru. After the year end, nine further properties were assigned from receivership to Southern Cross.

All leases on our homes held by Southern Cross and Ashbourne, accounting for 118 homes or 57 per cent of third party operated NHP homes, have now been converted to an inflation-linked rent review process, effective from April 2003. The new agreements consolidated the existing pavement and turnover rents to a single higher level of base rent to be reviewed upwards annually by the level of inflation, subject to cap and collars. At the same time all discretionary buy-back options held under the leases were removed.

The valuations of the 79 homes whose leases were converted during the period under review increased by over 17 per cent as a result of the change, together with their improved trading performance and enhanced financial covenants. The improved tenant covenants resulted from the acquisition of Ashbourne (and Care Management Group) by venture capital funded vehicles during the year.

As part of the drive to more actively manage the property portfolio, six

homes were closed during the year after they had been reviewed as either sub-economic or more suitable for alternative use. One home was sold during the year for £0.3 million, another is in the process of being sold and four will be refurbished and transferred to NHP Healthcare Partnerships for use as psychiatric rehabilitation facilities.


Staff

The directors owe a debt of thanks to all our managers, team leaders and staff, without their hard work and dedication these results could not have been achieved. During my many visits to homes all over the UK, I have continued to encounter caring and committed people who are at the heart of our recovery. I thank all staff on behalf of the Board and shareholders.

Outlook

The property business now derives around 90 per cent of its rental income from four tenants, one of which is Highfield Care. Together with the re-negotiated leases, the consolidation that this represents will produce increased earnings visibility and quality. In addition, the last stage in NHP's refinancing was completed in September with the signing of a new five year bank facility on much improved

terms. We begin the current financial year in robust financial health. We expect further progress from Highfield Care, supported by our core high quality property business, giving us the profitability to examine ways in which to begin to return further value to shareholders.



Bill Colvin
Chief Executive
16 December 2003

Review of the year by Highfield Care Chief Executive, John Murphy

Subject, as always, to the level of fee settlements from local authorities, our current strategy and management team should be able to achieve further increases in operating profit over the next couple of years, producing a valuable and cash generative business for NHP's shareholders.

We've put in a lot of effort this year into increasing the level and range of activities in our homes.

TINA WARREN REGIONAL MANAGER

Left: The Highfield Care executive team. From left to right Mark Wilson, Joe Makepeace, Kamma Foulkes, Elaine Hardiman, Sue Collins, John Murphy, Jeanette Malham, Kevin Groombridge, Pauline McKeever and Tony Stein.

Highfield Care

Highfield Care under its new management team has made excellent progress. The business achieved profitability during the second half of the year with an operating profit of £0.7 million, coupled with the loss in the first half of £2.7 million meant that the business recorded a loss of £2.0 million (2002: £3.2 million loss) for the year as a whole. These better than expected results are direct consequences of substantial operational improvements and a disciplined strategy to increase fees where possible and to attack controllable costs throughout the business. The improved financial performance is reflected in increased profitability per bed when compared with the equivalent periods in the prior year.

A considerable effort has been made to improve and upgrade all Highfield Care's homes and to deliver additional equipment such as specially adapted minibuses and provide a much expanded training programme for staff, in association with the Learning and Skills Council. Substantially all of the Group's investment in the year of £11.3 million went to Highfield Care. The upgrading of a large number of our Highfield Care homes accounted

for a large proportion of the Group's £11.3 million capital expenditure. This level of investment is required whilst we complete the major 'catch-up' investment in homes starved of capital expenditure by previous operators. With the operational improvement and the major capital investment, we have substantially enhanced the quality of care for residents, enabling us to secure higher occupancy and to charge increased numbers and levels of top-up fees.

As a result of the assignment of leases from receiverships, Highfield Care has now acquired the operation or management of an additional 18 care homes, including 14 from one operator in South Wales allowing us to create Highfield Cymru – under a new Managing Director, Kamma Foulkes – as a new division. In total, Highfield Care now operates or manages 196 care homes with some 9,300 beds, of which 174 (with some 8,200 beds) are owned by NHP, representing some 46 per cent of NHP's care home portfolio. In the absence of a significant acquisition, we do not expect to add materially to the number of homes operated by Highfield Care in the short term.

The divisional structure instituted at the beginning of the year has injected a much sharper focus on day to day operational issues in the business – ranging from the provision of a greatly enhanced level of activities for residents to the costs of consumables and the accurate analysis of local and regional supply/demand balances. The four divisions have been supported by a series of central marketing initiatives aimed at enhancing the Highfield Care brand among residents, potential residents, funders, referrers and staff.

The retention and motivation of staff is key to our business and we expect to see continuing improvements in this area resulting from the upgraded physical work environment and from training initiatives and incentive schemes which are now in place throughout Highfield Care. A particular focus has been on reducing the expensive use of agency staff to cover absent staff and unfilled vacancies. For example, we have recently introduced a lottery with attractive high value prizes, and for which entry is limited to those staff with high attendance records over a specified period.

At the heart of our operational improvement is the delivery of a substantially enhanced quality of care for residents. We have made a good start on building Highfield Care into one of the UK's premier care home operators.

Our sports sponsorship programme has been really appreciated by the schools and our homes.

DEBBIE GRAVES ADMINISTRATION MANAGER

Above: Winners and finalist at the 2003 Caring Times UK Care Awards. From left to right Julie Sherwood, Cathy McColl and Pat Sharpe with Highfield Care Chief Executive John Murphy.

The revenues generated by Highfield Care have risen as a result of occupancy increases as refurbishment programmes at individual properties are completed. Highfield Care's occupancy, at 30 September 2003, stood at 91 per cent. This figure should increase further in the current year as we finish renovating more of our homes. For publicly funded residents, the fee increases received from their local authority funders varied enormously across the country but produced an average fee increase for all such residents of 5.5 per cent.

Highfield Care's progress in raising its standards of care was recognised at the recent Caring Times' UK Care Awards, at which two of our team members won awards – for Marketing and Lifetime Achievement – and a third was a finalist. Recognition by our peers provides a valuable boost to morale as well as helping to make Highfield Care an operator people want to work for.

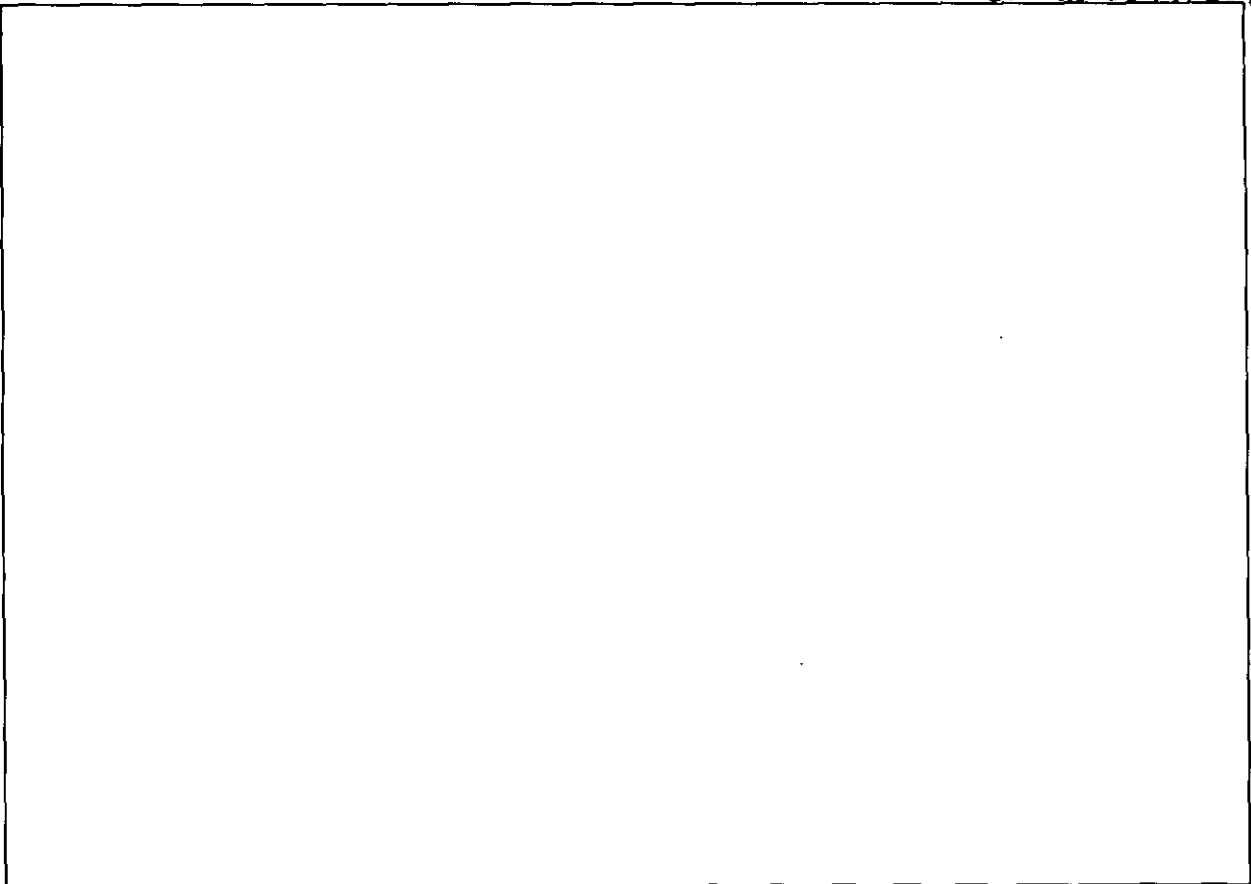
NHP's focus on giving and sponsorship is based on supporting community-based initiatives in the areas surrounding Highfield Care homes. This recognises that our residents and staff come from local communities within a relatively small radius of our care centres.

There are a number of initiatives that we have instituted over the past 18 months. For example, we have sponsored over 100 local state primary and secondary school sports teams by providing equipment and strips. A more recent initiative has been to support community arts projects – mirroring our residents' arts competition that features on Highfield Care's 2004 calendar. The first of these projects is with Hall Garth School, a state specialist arts college in Middlesbrough.

We have made a good start on building Highfield Care into one of the UK's premier care home operators. Subject, as always, to the level of fee settlements from local authorities, our current strategy and management team should be able to achieve further increases in operating profit over the next couple of years, producing a valuable and cash generative business for NHP's shareholders.



John Murphy
Chief Executive Highfield Care
16 December 2003



**Review by the Finance Director
Richard Midmer**

Highfield Care has delivered improved financial results from many of the under-performing homes that were previously unable to pay their rent. The 159 operated properties and 207 investment properties produced a value of £736.5 million (2002: £643.3 million), an increase of 14%.

Profit before tax rose to £24.8 million, net asset value per Ordinary Share increased to 157.6p and net recourse bank borrowings fell to £34.6 million.

This review provides a commentary on the principal movements in the Group accounts for the year to 30 September 2003 and an analysis of the Group's businesses.

Profit and loss account

Rent receivable from third party operators of NHP homes totalled £49.0 million for the year (2002: £56.6 million), which included £4.3 million (2002: £3.4 million) of turnover rent. Income from pavement rents reduced as a consequence of lease transfers during the period to Highfield Care. The increase in turnover rents arises from a one-off payment of £1.0 million associated with the conversion of leases held by the two largest tenants into annually reviewed inflation linked leases with no turnover rent, with effect from 1 April 2003. Rent charged to Highfield Care was £25.7 million (2002: £15.6 million). Total rents receivable during the year from both third parties and Highfield Care increased from £72.3 million to £74.7 million.

Turnover generated by Highfield Care increased significantly to £122.9 million (2002: £69.3 million), reflecting the much larger number of NHP homes operated by the company and its inclusion for a full year as a wholly owned subsidiary. Combined total Group turnover was £171.9 million (2002: £126.0 million), again reflecting the growth of the Highfield Care operating business and average fee increases of 5.5 per cent secured during the year. This average figure conceals wide regional variations in fee increases with the lowest increases coming from local authorities in the North West of England and the East Midlands.

Profit before tax was £24.8 million (2002: £16.4 million). This figure is after the write back of £0.8 million of bad debt provisions (2002: charge of £4.8 million)

which included £1.2 million in respect of Eastwood Care Homes (Northampton) Limited, made possible by the receivership sale of the ex-Eastwood leases to Southern Cross for a premium of £1.4 million. In addition there was a net exceptional credit of £0.3 million (2002: exceptional credit of £0.3 million) and profit on disposal of tangible fixed assets of £0.3 million (2002: £0.4 million). Net exceptional income for the period of £0.3 million comprises a net write back of permanent diminution in value on fixed asset properties of £1.7 million (2002: £1.5 million), tenant receivership costs of £1.3 million (2002: £1.4 million) and a charge in respect of Ultima Group closure support costs of £0.1 million (2002: credit of £0.2 million). Included in administrative expenses are restructuring (principally redundancy) costs of £1.1 million.

Total Group depreciation was £6.2 million (2002: £3.4 million) including depreciation of the operated properties of £5.4 million (2002: £2.9 million). This charge will continue to increase in the current year as a result of the greater number of NHP homes operated by Highfield Care and the increased opening valuations on which depreciation is based.

Highfield Care's financial performance improved significantly during the year. After a first half operating loss of £2.7 million (2002: £1.5 million), an operating profit of £0.7 million (2002: loss of £1.7 million) was recorded in the second half producing a reduced operating loss for the year of £2.0 million (2002: loss of £3.2 million).

At the beginning of the year, 50 homes were in receivership and four more, previously operated by Healthcare Investments (No.2) Limited, were added in the first quarter of the year.

All of these homes, with the exception of two that were assigned to a new tenant, Methodist Homes for the Aged, were reregistered to Highfield Care during the year.

In April, Eastwood Care Homes (Northampton) Limited, which operated nine specialist NHP homes across England, went into receivership. Since 30 September 2003, all nine homes have been assigned to Southern Cross. Also after the year end, Puretruce Care Limited, an operator of 14 NHP homes in South Wales, was placed in receivership. Highfield Care is currently managing or operating the homes in its newly created Welsh division.

Net interest payable and similar charges reduced from £38.1 million in 2002 to £34.8 million this year and includes a £0.4 million accelerated write-off of unamortised bank arrangement charges relating to the replaced bank facility. In the last four years the Group has charged annual amortisation in respect of bank arrangement fees averaging £1.4 million. Under the new facility such charges will be below £0.1 million per year. Average cost of bank borrowing during the year was 5.6 per cent (2002: 6.0 per cent). The blended fixed rate of the £559 million (2002: same) secured notes outstanding was an unchanged 6.7 per cent. These non-recourse secured notes represented 94 per cent (2002: 91 per cent) of the Group's total debt.

Basic earnings per Ordinary Share were 12.6 p (2002: 10.1 p) and fully diluted earnings per Ordinary Share were 12.2 p (2002: 9.9 p). There was a tax credit for the year of £0.6 million (2002: £0.5 million) comprising a credit of £1.0 million relating to an increase in the estimate of recoverable deferred tax

Financial review continued

(2002: nil) and an income tax charge of £0.4 million (2002: credit of £0.5 million).

Balance sheet

At 30 September 2003, there were 367 care homes in the Group's property portfolio (2002: 373 homes) with a total of 17,754 beds (2002: 18,395 beds). Bed numbers have been reduced as a result of six disposals (225 beds), a review of the available beds in Highfield Care in the light of rising standards and the elimination of the majority of double rooms (369 beds) and adjustments elsewhere in the third party tenanted portfolio (47 beds).

The annual year end independent valuation of the 207 investment properties, including those still in receivership, (2002: 261 homes) produced a value of £464.6 million (2002: £483.3 million). The 158 operated properties (2002: 108 homes) were valued, on an existing use basis as operating assets requiring depreciation, at £271.8 million (2002: £159.9 million). Taking the two asset classes together, the value has increased by 14 per cent to £736.5 million (2002: £643.3 million). In addition, two homes are held for resale, as current assets, one of which has been sold since the year end.

A significant factor behind the increase was the uplift in value of the 79 investment properties whose leases were converted during the year to an annual RPI increase in place of turnover rent. This is a reflection of certainty of future rental growth and the increased pavement rent levels from which rent will grow. Several of the leases converted contained discretionary buy-back options and these have now been removed, reducing to 41 (including 11 in receivership) the number of homes subject to such buy-backs (which are at purchase prices

equivalent to the higher of a formulated figure or the market value).

In arriving at the Group property portfolio valuation, GVA Grimley International Property Advisers have separately assessed the market values of the individual properties and made an adjustment by way of a portfolio premium of around five per cent, an approach consistent with that applied in previous years. The overall yield on the investment property portfolio, based on annualised receivable rents of £44.8 million (2002: £52.4 million), was 9.6 per cent (2002: 10.8 per cent). Using full annual pavement rents only, the yield reduces to 9.3 per cent (2002: 10.2 per cent).

Net debt, excluding the deposit swaps and zero coupon notes of the three securitisation vehicles reduced to £548.6 million from £563.7 million in the prior year. Recourse borrowings of £34.4 million (2002: £51.5 million) were refinanced in September with a new five year £60 million facility with significantly reduced coupon and fees. Consolidated gearing – including the non-recourse securitised debt – was 136 per cent at 30 September 2003 (2002: 222 per cent). Gearing calculated using recourse only borrowings declined to 12 per cent from 30 per cent, reflecting the increased value of the asset base and the growing level of retained profits.

Cash flow

Net cash inflow from operating activities improved to £64.3 million (2002: £57.9 million). Net cash interest and finance costs reduced by £3.5 million to £39.6 million (2002: £43.1 million) principally as a result of lower bank borrowings at reduced cost.

Capital expenditure exceeded cash inflows from asset disposals by £5.9

million (2002: net cash inflow of £0.2 million) with disposals during the year totalling £5.4 million (2002: £5.5 million). Capital expenditure more than doubled to £11.3 million (2002: £5.3 million) as Highfield Care carried out substantial 'catch-up' investment on its increased portfolio of operated homes

Financial derivatives and other instruments

The deposit swap agreements and zero coupon notes associated with the redemption of the Care Homes 1, 2 and 3 securitised notes remained in place during the period. These investments mature between 2021 and 2028 and provide for the repayment of £408 million of the non-recourse £559 million notes. In NHP's consolidated accounts, interest on these investments accrues on a monthly basis until their maturity dates. At 30 September 2003 the investments were held at a book value in the consolidated balance sheet of £139.5 million (2002: £132.4 million).

Short-term cash deposits held in the three securitisation vehicles average £18 million at any one time, thereby providing a natural hedge against sterling interest rate movements. This fact, coupled to the purchase of a £10 million interest rate cap at 6 per cent in November 2003, has minimised the Group's future interest rate exposure to almost nil.



Richard Midmer
Group Finance Director
16 December 2003

Company information

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Tel: 01483 754760

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Registered No. 02798607

Secretary

Sheila Kaul

Stockbrokers and Financial Adviser

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9th Floor, 88 Wood Street
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Auditors

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Hill House
1 Little New Street
London
EC4A 4TR

Solicitors

S J Berwin
222 Grays Inn Road
London WC1X 8XF

Eversheds LLP
Holland Court
The Close
Norwich
Norfolk NR1 4DX

Principal Bankers

Bank of Scotland
Commercial Banking Services
Telford House, 3 Mid New Cultins
Edinburgh EH11 4DH

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
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Tel: 01484 600900

Insurance Brokers

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Brittanic House
230 Burlington Road
New Malden
Surrey KT3 4NW

Valuers

GVA Grimley
3 Brindley Place
Birmingham B1 2JB

Committees

Audit Committee

R A Henderson (Chairman)
C H W Robson
Lord Sutherland
N J Hollendoner

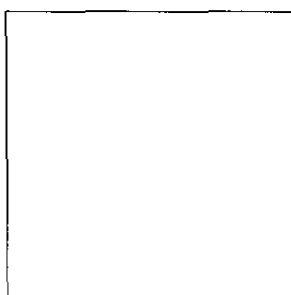
Remuneration Committee

C H W Robson (Chairman)
R A Henderson
Lord Sutherland

Nominations Committee

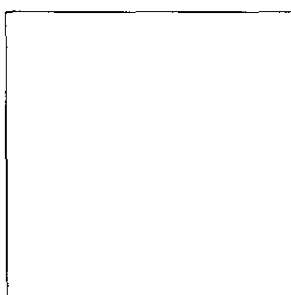
Sir Martin Laing (Chairman)
W Colvin
Lord Sutherland

Board of Directors



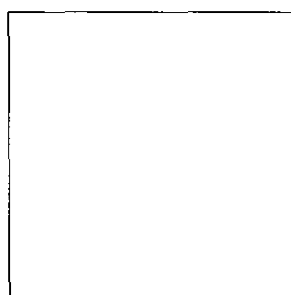
Sir John Martin Kirby
Laing CBE

Non-executive Group Chairman, aged 61, has broad experience in and knowledge of the property sector, both in the UK and overseas. He joined the Laing Group in 1966, and was until recently Group Chairman and is now a non-executive Director of the Laing Group. He holds and has held office in various industry, trade, academic and charitable organisations. He was appointed a non-executive Director of the Company on 21 December 1998 and became Chairman on 2 March 1999.



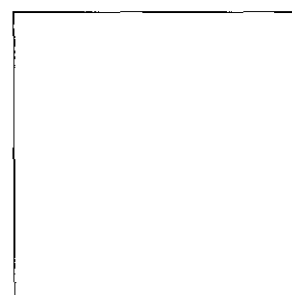
Bill Colvin

Chief Executive, aged 45, has overall executive responsibility to the Board for the Group's activities. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. He is also a non-executive director of Sondex Plc and Chairman of CustomVis Plc. He is a Scottish Chartered Accountant. He was appointed an executive Director of the Company on 18 January 2000 and took over as Chief Executive on 20 November 2000.



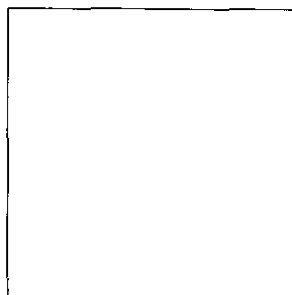
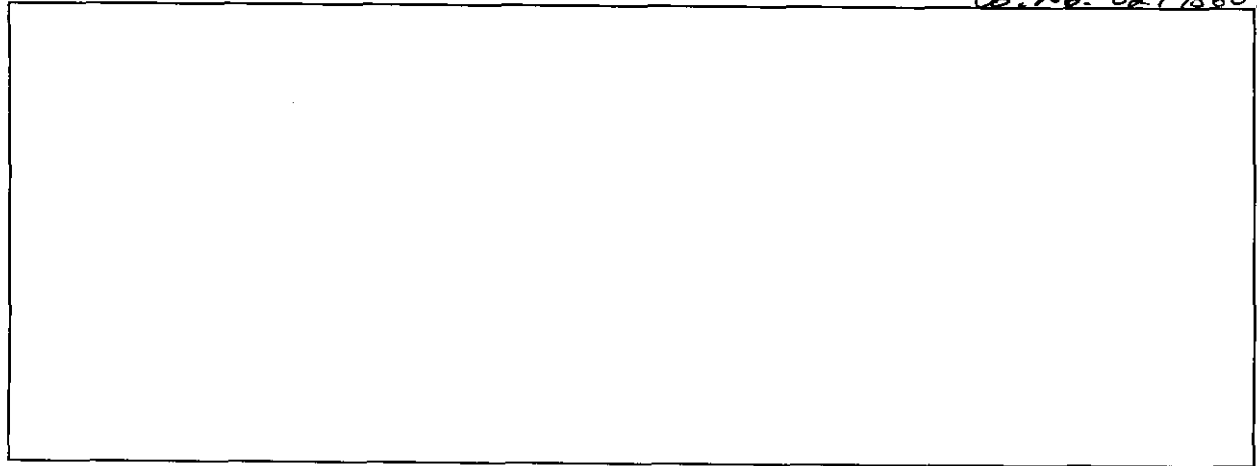
Richard Neil Midmer

Finance Director, aged 49, is also responsible for the property division. He was previously in the construction and oil and gas sectors. A civil engineer by training, he was Treasurer and Finance Director of British Borneo Oil & Gas Plc from 1997 to 2000. He was appointed an executive Director of the Company on 20 November 2000.

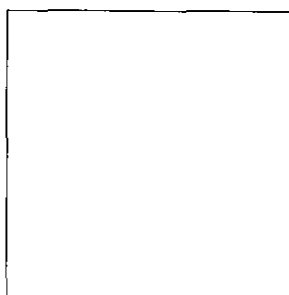


John Murphy

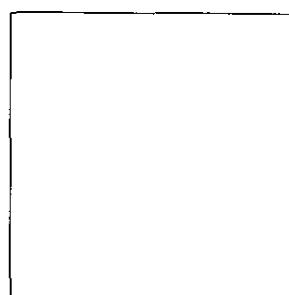
Executive Director and Chief Executive of Highfield Care, aged 47, is responsible for the operating division. He was previously Group Operations Director of Idun Health Care responsible for all operations, company development and strategy from 1997 to 2002. He began his career in catering and hospitality before moving into operational management in the care home industry some 15 years ago. He was appointed an executive Director of the Company on 30 January 2003.

**Clayton Hugo****Wynne Robson**

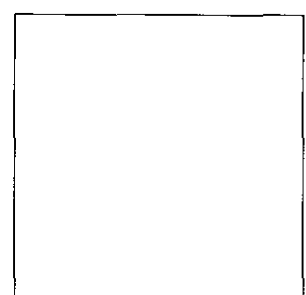
Non-executive Director, aged 71, has long and broad experience in the corporate finance and banking sectors. He is currently Chairman of Welsh Gold Plc. He is Chairman of the Remuneration Committee and a member of the Company's Audit Committee. He was appointed a non-executive Director of the Company on 1 May 1996 and has been the senior non-executive Director since 16 February 2002.

**Lord Sutherland**

Non-executive Director, aged 62, has a wealth of knowledge and experience in education and healthcare. He is currently Chairman of the Quarry Products Association and was until recently the Principal and Vice-Chancellor of the University of Edinburgh. He was the Chairman of the government's Royal Commission on Long-Term Care. He is a member of the Company's Audit, Remuneration and Nominations Committees. He was appointed a non-executive Director of the Company on 14 May 2001.

**Nancy Jane Hollendoner**

Non-executive Director, aged 48, is currently a health care sector consultant to the financial services industry. She was previously with UBS' equity research division in London as European health care sector analyst. She is Chairman of NHP Healthcare Partnerships Limited, our specialist care subsidiary, and is a member of the Audit Committee. She was appointed a non-executive Director of the Company on 27 February 2003.

**Ronald Andrew****Henderson**

Non-executive Director, aged 57, is currently Group Finance Director of Network Rail and non-executive Director of Scipher plc. He is Chairman of the Audit Committee and a member of the Company's Remuneration Committee. He was appointed a non-executive Director of the Company on 6 December 2001.

Directors' report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30 September 2003.

Principal activities

The principal activities of the Group are the purchase and retention of freehold and long leasehold interests, in modern, purpose-built care homes together with the operation of nursing and residential homes by Highfield Care, which has again grown considerably during the year.

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

Operational and financial review

A review of the development of the Group's business, including future prospects, is set out in the Chairman's statement on pages 2 and 3 and the Chief Executives' reviews and financial review on pages 4 to 16. Events occurring after the balance sheet date are reported in note 35 to the accounts on page 57.

Results

The results for the year ended 30 September 2003 are set out in the consolidated profit and loss account on page 30.

Dividends

An interim dividend of 0.75p per Ordinary Share (2002: nil) was paid to Shareholders on 14 July 2003. The Directors have proposed a final dividend of 2.25p per Ordinary Share to be paid to Shareholders for the year ended 30 September 2003 (2002: nil). It is intended that the final dividend will be paid on 3 March 2004 to Shareholders on the register at close of business on 6 February 2004.

Directors

A brief statement on each of the current Directors, their responsibilities and experience is set out on pages 18 and 19 of this report. All the Directors served throughout the year ended 30 September 2003, except that D F Francis retired as an executive Director on 30 September 2003, J Murphy was appointed as an executive Director on 30 January 2003 and N J Hollendoner was appointed as a non-executive Director on 27 February 2003.

The Directors' beneficial shareholdings at 30 September 2003, and at 30 September 2002 or date of appointment, if later, were as follows:

	Ordinary Shares	
	2003	2002
Sir Martin Laing	9,049	9,049
W Colvin	20,000	10,000
R N Midmer	5,000	–
J Murphy	14,705	14,705
D F Francis	845,459	845,459
C H W Robson	44,520	44,520
Lord Sutherland	5,886	5,886
R A Henderson	5,000	5,000
N J Hollendoner	–	–
Total	949,619	934,619

The market price of the Ordinary Shares at the end of the year was 135.25p and the quoted price during the year ranged from 82.00p to 143.50p.

In addition to his interests shown above, D F Francis has a beneficial interest in part of the NHP Executive Pension Scheme, which owned 45,519 Ordinary Shares of the Company at 30 September 2003.

No Director had a beneficial 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 2003 and the date of this report, with the exception of N J Hollendoner who acquired 3,500 Ordinary Shares in the Company on 7 October 2003. Details of share options granted to the Directors are shown on page 25.

Except as stated in note 34 to the Accounts on page 57, none of the Directors had an interest in any material contract during the year relating to the business of the Group.

Article 109 of the Articles of Association requires that one third of the Directors retire at the Annual General Meeting in every year.

Sir Martin Laing and R A Henderson retire by rotation at the Eleventh Annual General Meeting in accordance with Article 109 of the Articles of Association and, being eligible, offer themselves for re-election.

C H W Robson is aged 71 and is not due to retire by rotation, but in accordance with the Company's Articles of Association, Article 108, he is re-elected annually.

J Murphy and N J Hollendoner were appointed during the year and accordingly will retire at the Eleventh Annual General Meeting, to be held on 29 January 2004, and, being eligible, offer themselves for election.

On 1 August 2003, Deloitte & Touche, the Group's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Group's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP from 1 August 2003 under the provision of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Group's auditors will be proposed at the Annual General Meeting to be held on 29 January 2004.

In addition to the routine business, the following special business will be transacted at the Eleventh Annual General Meeting to be held on 29 January 2004 at 9.30am:

Restricted disapplication of pre-emption rights (Resolution 10)

The proposed special resolution will give the Directors a limited authority to issue equity shares for cash other than to existing Shareholders in proportion to their existing shareholdings notwithstanding the pre-emption provisions of Section 89 of the Companies Act 1985 ("the Act"). This limited authority would allow the Directors to make such issues provided they do not exceed in aggregate an amount equal to 5% of the issued share capital of the Company. The resolution also contains provisions enabling the Directors to take action to overcome certain practical difficulties that could arise in the case of a rights issue. The authority in Resolution 10 will expire at the conclusion of the next AGM or 30 September 2005, whichever is the earlier.

Purchase by the Company of its own shares (Resolution 11)

The Directors consider that it would be advantageous for the Company to be granted the authority to allow the use of the Company's available cash resources to acquire its own shares in the market. Accordingly, a special resolution is proposed to authorise the purchase in the market of up to 10% of the issued ordinary shares of the Company at a price of not more than 105% of the average of the middle market quotations for the ordinary shares of the Company (as derived from the London Stock Exchange Daily List) for the five business days prior to the date of purchase.

The Directors do not intend to exercise the Company's power to purchase its own shares other than in circumstances where they consider this to be in the Shareholders' interests and where this would result in an increase in earnings per share.

Substantial Shareholders

As at 28 November 2003 the Directors had received notifications under the Companies Act that the following had an interest in 3 per cent or more of the issued Ordinary Shares of the Company:

	No. of 1p Ordinary Shares	% of issued share capital
Schroder Investment Management	33,776,104	16.6%
Aviva/Morley Investment Management	15,689,801	7.7%
M&G Investment	13,912,292	6.8%
Artemis Investment Management	9,062,500	4.5%
Barclays Global Investors	8,887,580	4.4%
Clerical & Medical	6,960,945	3.4%
Legal & General	6,878,038	3.4%

Directors' report continued

Payment 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 2003, calculated in accordance with the Companies Act 1985, were 30 (2002: 27). Creditor days for the Company at 30 September 2003 were 26 (2002: 25).

Employment policies

The Group's employment policies are designed to attract, retain and motivate the very best people, recognising that this can be achieved only through offering equal opportunities regardless of gender, race, religion or disability.

The Group supports the principal of Equal Opportunities in employment and opposes all forms of unfair and unlawful discrimination. The Group gives full and fair consideration to applications by disabled persons for employment. Disabled employees, and those becoming disabled, are afforded the same training, career development and promotion opportunities as other staff.

The Directors recognise the importance of good communications and relations with the Group's employees. Each part of the Group maintains employee relationships appropriate to its own particular needs and environment.

The Company places emphasis on keeping its employees informed of the Group's activities, financial performance and the economic and financial factors affecting the Group's performance. The NHP Plc Inland Revenue Approved and Unapproved Executive Share Option Schemes and the Inland Revenue Approved Savings Related Share Option Scheme are intended to help develop employees' interest in the Company's performance.

Statement of Directors' Responsibilities

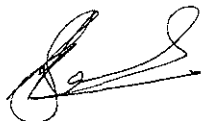
United Kingdom Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those 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; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Companies Act 1985. They are also responsible for the Group's system of internal financial control, for safeguarding the assets of the Company and the Group and hence for taking steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

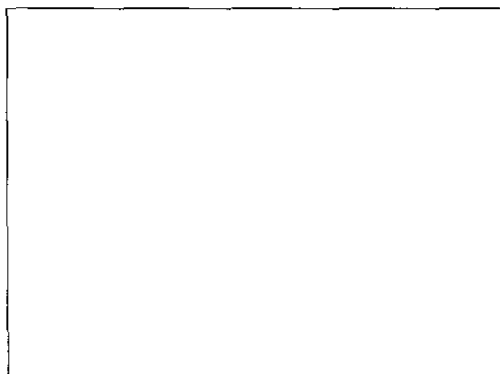


Sheila Kaul

Company Secretary
16 December 2003

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Report of the remuneration committee



This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002, which introduced new statutory requirements for the disclosure of Directors' remuneration in respect of periods ending on or after 31 December 2002, as well as the Listing Rules of the Financial Services Authority. A resolution to approve the report will be proposed at the Annual General Meeting.

The Regulations require the Auditors to report to the Company's members on the auditable section of this report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985. Therefore this report has been divided into separate sections, pages 23 and 24 containing the unaudited information and page 25 containing the audited information.

Introduction

The Remuneration Committee, which sits at least three times in each year, deliberates and makes recommendations to the Board on the remuneration policy for the executive Directors. It also monitors the level and structure of the remuneration for senior staff. The members of the Committee are the non-executive Directors, C H W Robson, Chairman, Lord Sutherland and R A Henderson. The Committee also consults with Sir Martin Laing, Chairman of NHP, when appropriate, and retains New Bridge Street Consultants for further advice on policy and pay. New Bridge Street Consultants do not provide advice on any other subject to the Company. All the non-executive Directors are independent.

Remuneration Policy

The Committee considers the following criteria as guidance for its recommendations to the Board on salaries, bonuses, and long term incentive plans. A significant proportion of Directors' remuneration is designated to be performance-related through bonuses and share options.

Salaries

It is our policy to offer salaries that are competitive and sufficient to attract the best executives possible to run a diversified and complicated company. These are reviewed annually and designed to be in the upper quartile by any comparison.

Bonuses

Short-term bonuses are offered annually. These are based on the amount by which earnings per share exceed the previous year's figure. This is agreed by the board at the beginning of the year. These can rise to 50% of salary when the performance figures have been met. In addition it is in the power of the Committee to award discretionary bonuses when the year's results are completed.

Following the growth of Highfield Care over the past year, the Board feels that a separate incentive scheme should be put in place for the Directors and senior staff of Highfield Care. The Remuneration Committee, in conjunction with the Executive, will produce a suitable scheme for Highfield Care which again will depend on challenging profit targets for the company to trigger any reward.

Share Options

All Directors, along with all other employees, are entitled to participate in the Inland Revenue Approved Savings Related Share Option Scheme. In addition, executive Directors and other senior executives receive options under the Company's Executive Share Option Schemes which were approved by the Shareholders in August 2001. The Committee has the ability under the Unapproved Executive Share Option Scheme to grant options to an individual worth up to 150% of base salary per annum (or 400% in the case of options granted to facilitate recruitment).

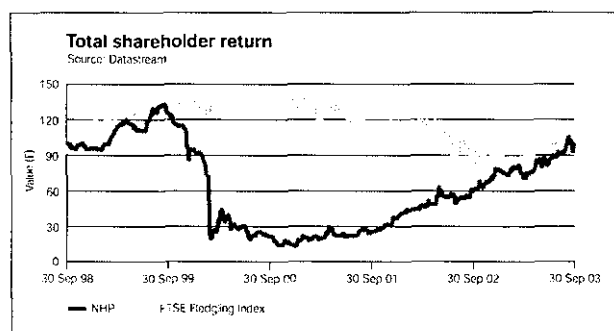
For grants to date, the Committee has chosen to use share price targets to determine whether the options are exercisable because it was felt this was the best way of aligning executives' and Shareholders' interests during the Company's recovery. There are also no listed companies that in any way compare in composition to NHP. The Committee will keep this policy under review as the Company progresses and will ensure that any future grants are similarly linked to challenging, appropriate performance targets that take into account the Company's circumstances at the time. Details concerning the grant of options made to the Directors to date are set out in the options table on page 25.

Report of the remuneration committee continued

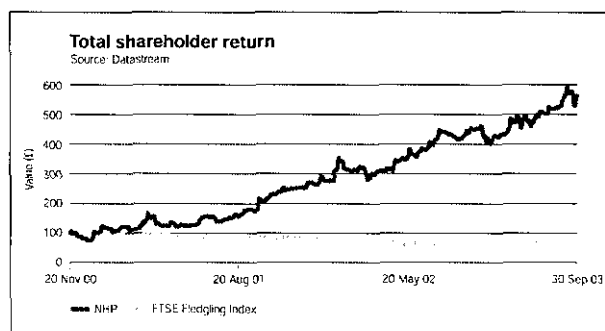
All outstanding options have satisfied their performance targets, apart from those granted in 2003. The 2003 grant of options is subject to 2 targets: for 50% of each individual's grant to be exercisable requires the achievement of a share price of 150p over 30 consecutive dealing days and the other 50% requires a share price of 160p.

The performance graphs below show NHP's Total Shareholder Return performance compared to the FTSE All-Share Index over a) the last five financial years and b) over the period since November 2000 when W Colvin and R N Midmer were appointed. The Committee chose the All-Share Index as they consider it to be the most appropriate comparator of which the Company is currently a constituent.

Shareholder returns last five years



Shareholder returns over three years



These graphs show the value by 30 September 2003 of £100 invested in NHP on 30 September 1998 or November 2000 compared with the value of £100 invested in the FTSE All-Share index for either period.

Executive Directors

The executive Directors have contracts of employment for 12 months subject to 12 months notice on either side. The Company pays an extra 20% of their basic salaries as a contribution to their money purchase pension arrangements. Each has the right to a fully expensed company car and is reimbursed on all expenses incurred wholly on the business of the Company. They also receive long-term disability insurance and personal medical insurance. Executive Directors may not hold outside appointments or directorships without the permission of the Board in writing. On termination of their contracts, they are not entitled to compensation outside their contractual obligations of 12 months salary, 20% pension contribution, use of Company car, and approved expenses.

The date of the commencement of their contracts is as follows:

W Colvin	9 November 2000
R N Midmer	9 November 2000
D F Francis	3 February 1995
J Murphy	4 October 2002

Non-executive Directors

The remuneration of the non-executive Directors is determined by the board within the limits set out in the Articles of Association and is based upon independent surveys of fees paid to non-executive Directors. The remuneration paid to each non-executive Director in the years to 30 September 2003 and 2002 is shown on page 25 and was subject to Board approval. Non-executive Directors do not have contracts of employment. They may be paid for professional services provided to the Group, but cannot participate in the Company's Executive Share Option Schemes, nor are they eligible to join the Company's pension scheme. However, non-executive Directors are eligible to participate in the Savings Related Share Option Scheme. All Directors offer themselves for election every three years with the exception of C H W Robson who stands for election every year as he is over 70.

Audited information

Details of the Directors' emoluments for the year ended 30 September 2003, with comparative amounts for the year ended 30 September 2002, are as follows:

	Salary and fees £	Bonus £	Benefits £	Aggregate emoluments £	Pension contributions £	Year ended 30 Sept 2003 Total emoluments £	Year ended 30 Sept 2002 Total emoluments £
Executive Directors							
W Colvin	257,500	65,000	13,191	335,691	51,500	387,191	465,225
R N Midmer	206,000	50,000	15,508	271,508	41,200	312,708	309,196
D F Francis	123,600	15,000	13,583	152,183	24,720	176,903	202,619
J Murphy	155,833	50,000	18,425	224,258	31,167	255,425	-
Non-executive Directors							
Sir Martin Laing, Chairman	52,500	-	-	52,500	-	52,500	52,500
C H W Robson	25,000	-	-	25,000	-	25,000	25,000
Lord Sutherland	25,000	-	-	25,000	-	25,000	25,000
R A Henderson	25,000	-	-	25,000	-	25,000	20,833
N J Hollendoner	16,874	-	-	16,874	-	16,874	-
Total	887,307	180,000	60,707	1,128,014	148,587	1,276,601	1,100,373

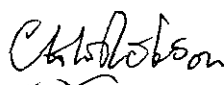
In addition, W Colvin is a non-executive director of Sondex Plc and CustomVis Plc. W Colvin has received fees of £10,000 from Sondex Plc and £16,964 from CustomVis Plc for the year to 30 September 2003, which he retains.

D F Francis retired from the Board on 30 September 2003. He remains an employee of the Company.

Details of share options held by the Directors during the year were:

	Scheme (see below)	At 1 Oct 2002	Granted	Exercised	Lapsed	At 30 Sept 2003	Exercise price	Date from which exercisable
Sir Martin Laing	1	15,770	-	-	-	15,770	107.00p	01.02.2005
W Colvin	1	-	17,733	-	-	17,733	89.80p	01.08.2008
	2	83,300	-	-	-	83,300	36.00p	13.10.2004
	3	2,060,928	-	-	-	2,060,928	35.00p	14.09.2004
	3	457,300	-	-	-	457,300	82.00p	01.10.2005
	3	-	320,500	-	-	320,500	120.50p	28.08.2006
R N Midmer	1	-	10,300	-	-	10,300	89.80p	01.08.2006
	2	83,300	-	-	-	83,300	36.00p	13.10.2004
	3	1,373,952	-	-	-	1,373,952	35.00p	14.09.2004
	3	365,800	-	-	-	365,800	82.00p	01.10.2005
	3	-	256,400	-	-	256,400	120.50p	28.08.2006
D F Francis	1	-	14,187	-	14,187	-	89.80p	01.08.2008
	2	36,585	-	-	-	36,585	82.00p	01.10.2005
	3	182,915	-	-	-	182,915	82.00p	01.10.2005
J Murphy	1	-	10,300	-	-	10,300	89.80p	01.08.2006
	2	-	31,250	-	-	31,250	96.00p	10.12.2005
	3	-	718,232	-	-	718,232	90.50p	10.12.2005
	3	-	211,600	-	-	211,600	120.50p	28.08.2006
C H W Robson	1	-	10,300	-	-	10,300	89.80p	01.08.2006
R A Henderson	1	-	10,300	-	-	10,300	89.80p	01.08.2006
Lord Sutherland	1	-	17,733	-	-	17,733	89.80p	01.08.2008
N J Hollendoner	-	-	-	-	-	-	-	-

Schemes: 1. NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme
2. NHP Plc 2001 Inland Revenue Approved Executive Share Option Scheme
3. NHP Plc 2001 Unapproved Executive Share Option Scheme



C H W Robson

Chairman, Remuneration Committee
16 December 2003

Statement on corporate governance

Application of the principles of corporate governance

Throughout the year the Group complied with the principles of the Combined Code annexed to The Listing Rules of the Financial Services Authority. This statement describes how the principles of governance are applied by the NHP Group.

In January 2003 the Higgs Report on the Review of the Role and Effectiveness of non-executive Directors and the Smith Report on Audit Committees were published. The Board has considered the impact of both Higgs and Smith Reports and in reviewing its governance procedures in line with recommendations contained therein, the Board has incorporated as many of the guidelines as practical. The Board will continue to review its governance procedures in the forthcoming year in line with principles contained in the Higgs and Smith Reports.

Board composition

The Board meets at least seven times during the year, with additional special meetings as required. During the year ended 30 September 2003, there was a 100% attendance by all the Directors. The Board has a formal agenda and is responsible for the Group's strategy, acquisition and divestment policy and consideration of major financial matters.

The Board currently consists of the non-executive Chairman, Chief Executive, two other executive Directors and four other non-executive Directors. The Directors' respective biographies appear on pages 18 and 19. J Murphy joined the Board on 30 January 2003 as an executive Director and is Chief Executive of Highfield Care. Mrs N J Hollendonner joined the Board as non-executive Director on 27 February 2003.

In accordance with the provisions of The Code 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.

The senior independent Director is C H W Robson, who is also the Chairman of the Remuneration Committee. The Board considers that notwithstanding his length of service as a non-executive Director (7 years) Mr Robson remains independent in character and judgement and continues to be committed to the role he performs for the Company.

All the non-executive Directors are independent. Directors appointed by the Board are required to submit themselves for election at the first opportunity after their appointment and thereafter for re-election at least every three years.

On appointment Directors go through a business familiarisation process, primarily with the other Directors and the Group's managers, to give them a good understanding of the Group's business, procedures, management information systems and the performance of the Group's care homes operators. Visits to the Care Homes are organised on a regular basis to afford a greater understanding of the operating business.

Nominations Committee

The Chairman, the Chief Executive and Lord Sutherland comprise the Nominations Committee. The purpose of the Nominations Committee is to make recommendations to the Board on all new Board appointments, thereby ensuring that a formal and transparent procedure exists for all such appointments. Board approval is required before an appointment can be made. The Committee meets as appropriate and the quorum is two members.

The Nominations Committee is continuing to review the composition of the Board so as to ensure that it is appropriate to the Group's future strategy.

Board information

The Board is supplied with regular and appropriate management information and forecasts to enable it to discharge its duties.

The executive Directors produce monthly management reports to the Board summarising the key issues. As part of this process, forecasts are updated regularly and the executive Directors review the results and report to the Board. These monthly reports are distributed to the members of the Board and considered in detail at regular meetings.

All Directors have access to independent professional advice and to the advice and services of the Company Secretary who is responsible to the Board for ensuring that the Board procedures are followed and that the Group and Board operate within applicable legislation, rules and regulations.

Remuneration Committee

The Remuneration Committee, reporting to the Board under the Chairmanship of C H W Robson, includes two other non-executive Directors, namely Lord Sutherland and R A Henderson. The Committee seeks, whenever it is required, advice from external professional advisors. The Committee meets at least three times a year, the quorum is two members and it can meet at the request of any member. Details of the Group's remuneration policy are set out in the Committee's report on pages 23 to 25.

Accountability and audit

The Audit Committee, reporting to the Board under the Chairmanship of R A Henderson together with three other non-executive Directors, namely C H W Robson, Lord Sutherland and N J Hollendoner, meets at least four times a year and the quorum is two members. 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 is responsible for reviewing a wide range of financial matters including the annual financial statements and accompanying reports, interim statements, Group audit arrangements, accounting policies, financial reporting, internal control and the actions and procedures included in the management of risk throughout the Group. It also provides a forum through which the external auditors report to the non-executive Directors. The business of the Committee takes full account of the Combined Code.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. This is designed to manage rather than eliminate the risk of not achieving business objectives and can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Company has been in compliance with the provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority for the year ended 30 September 2003 and to the date of this report.

Steps continue to be taken to embed internal control and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention.

Given the size and importance of our Highfield Care operating business, incident reporting mechanisms and quality control procedures, including an ongoing ISO 9001 home accreditation programme, remain a prime focus.

Internal financial control

The Group is developing an internal audit function, reporting to the Group Finance Director and reviewed by the Board's Audit Committee.

The Board reviews the effectiveness of the Group's system of internal financial control on a regular basis, which is designed to ensure 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.

The Group and each operating company have comprehensive systems for reporting financial results, all of which are monitored by the executive Directors. Financial results, including a detailed balance sheet analysis, are reviewed on a monthly basis with comparisons against budget. The twelve month profit and cash flow forecasts are reviewed on a quarterly basis. Treasury reporting is reviewed on a monthly basis. Tenant performance indicators (including our own operating business) are reviewed monthly. All forecasts are reviewed quarterly and revised as necessary.

The principles underlying all significant transactions and contracts, including those relating to property and all financing arrangements, are the responsibility of the Board.

Relations with Shareholders

The Group places considerable importance on the maintenance of good communications with Shareholders. Meetings with analysts and institutional Shareholders are held on regular basis providing an opportunity for the Shareholders to assess the Company's performance and prospects. The Group keeps the Shareholders regularly apprised of the performance of the Company through the Annual Report and Accounts, regular announcements to the Stock Exchange and, at the half year, an

Statement on corporate governance

continued

Interim report is published. The Annual General Meeting also provides an opportunity for any shareholder to ask questions and the Chairman provides a trading update.

The Group maintains a website – www.nhprops.co.uk – which is regularly updated and contains live links to other sites containing up to date investor information. The Group's site holds the latest accounts of the NHP Plc Group and information on the performance of the three bond issues. The site has become the most frequently used channel of communication with private investors.

Details of the resolutions to be proposed at the Annual General Meeting on 29 January 2004 are in the Notice of Meeting on pages 62 and 63. Prior to a vote being taken on a show of hands, as is recommended in the Combined Code, the number of proxy votes for and against each resolution are disclosed to the meeting.

Environmental Policy

As a service based organisation, with no manufacturing, the Group's exposure is limited, as is its ability to control the environmental impact of its activities. The Group is committed to making the maximum practical use of recycling.

Health and Safety

The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. Highfield Care's Health & Safety policy has been rolled out to all the care homes and the purpose of this policy is to ensure compliance the appropriate legislative requirements associated with the operation of a care home.

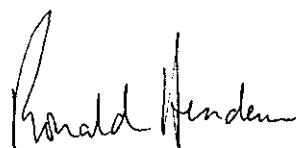
Code of Ethics

The Board has adopted a formal Code of Ethics covering the Group. The Code of Ethics provides comprehensive guidelines to all employees as to the standard of business ethics expected from them as representatives of the Group. It also recognises the importance to the Group of operating to the highest possible ethical standards, bearing in mind the nature of the services offered by Group and the needs of their clients.

The Code of Ethics also introduced confidential 'Disclosure Procedures' used to raise concerns about possible inappropriate behaviour by the company or its employees relating to matters such as financial irregularity, criminal offences, breaches of legal obligations, miscarriages of justice, dangers to health and safety or the environment and to the concealing of evidence relating to any of these. The procedure recognises the need for confidentiality and protection for those employees who raise a genuine concern.

Going Concern

The Directors, having made appropriate enquiries, are satisfied that the Group has adequate resources to continue in operation for the foreseeable future and so continue to adopt the going concern basis in preparing the financial statements.



R A Henderson
Chairman
Audit Committee
16 December 2003

Independent Auditors' report to the members of NHP Plc

We have audited the financial statements of NHP Plc for the period ending 30 September 2003 which comprise the profit and loss account, balance sheets, consolidated cash flow statement, consolidated statement of total recognised gains and losses, consolidated reconciliation of movements in shareholders' funds, consolidated note of historical cost profits and losses and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the report of the remuneration committee that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements and the part of the report of the remuneration committee described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read the Directors' report and other information contained in the annual report for the above year as described in the contents section including the unaudited part of the report of the remuneration committee and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the report of the remuneration committee described as having been audited. 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the report of the remuneration committee described as having been audited 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 and the part of the report of the remuneration committee described as having been audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of the Company and the Group's affairs as at 30 September 2003 and of the profit of the Group for the year then ended; and
- The financial statements and part of the report of the remuneration committee described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

16 December 2003

Consolidated profit and loss account

For the year ended 30 September 2003

	Note	2003 £'000	2002 £'000
Turnover	3	171,892	125,964
Cost of sales		(87,321)	(47,836)
Gross profit		84,571	78,128
Provision for doubtful debts and related costs		774	(4,838)
Other administrative expenses		(26,381)	(19,750)
Exceptional income	4	250	248
Administrative expenses		(25,357)	(24,340)
Group operating profit	5	59,214	53,788
Share of associated undertakings' operating profits	6	32	283
Total operating profit	3	59,246	54,071
Profit on disposal of tangible fixed assets		337	371
Net interest payable and similar charges	7	(34,827)	(38,072)
Profit on ordinary activities before taxation		24,756	16,370
Tax credit on profit on ordinary activities	8	556	509
Profit on ordinary activities after taxation		25,312	16,879
Profit for the year		25,312	16,879
Dividends paid and proposed	9	(6,088)	-
Retained profit transferred to reserves	23	19,224	16,879
Earnings per Ordinary Share	10		
Basic		12.6p	10.1p
Diluted		12.2p	9.9p

Turnover and operating profit is wholly derived from continuing operations.


Balance sheets

As at 30 September 2003

	Note	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Intangible fixed assets					
Goodwill	12	2,053	2,167	-	-
Tangible fixed assets					
Investment properties	13	464,640	483,330	-	-
Operated properties	13	271,810	159,920	-	-
Other fixed assets	13	3,540	1,782	-	-
		739,990	645,032	-	-
Investments	14	139,880	132,817	191,589	199,521
Total fixed assets		881,923	780,016	191,589	199,521
Current assets					
Properties held for resale		2,328	2,972	-	-
Debtors	15	19,258	14,877	35,869	26,744
Short term investments	16	19,331	17,869	-	-
Cash at bank and in hand		1,773	2,339	-	-
		42,690	38,057	35,869	26,744
Creditors					
Amounts falling due within one year	17	(35,185)	(25,558)	(6,142)	(1,798)
Net current assets		7,505	12,499	29,727	24,946
Total assets less current liabilities		889,428	792,515	221,316	224,467
Creditors					
Amounts falling due after more than one year	19	(567,626)	(583,690)	-	-
Provisions for liabilities and charges	20	(1,261)	(1,088)	(274)	-
Net assets	3	320,541	207,737	221,042	224,467
Capital and reserves					
Called up share capital	22	2,034	2,009	2,034	2,009
Share premium account	23	192,213	190,891	192,213	190,891
Revaluation reserve	23	86,306	(6,401)	-	-
Revenue reserve	23	-	-	914	914
Profit and loss account	23	39,988	21,238	25,881	30,653
Total equity Shareholders' funds		320,541	207,737	221,042	224,467
Net assets per Ordinary Share					
Basic	24	157.6p	103.4p	-	-

These financial statements were approved by the Board of Directors on 16 December 2003.

Signed on behalf of the Board of Directors.



W Colvin
Chief Executive



R N Midmer
Finance Director

Consolidated cash flow statement

For the year ended 30 September 2003

	Note	2003 £'000	2002 £'000
Net cash inflow from operating activities	26	64,280	57,872
Returns on investments and servicing of finance			
Interest paid		(40,321)	(43,746)
Other similar charges paid (net)		(74)	(223)
Interest received		787	837
Dividends received		32	33
Net cash outflow from returns on investment and servicing of finance		(39,576)	(43,099)
Taxation			
Corporation tax repaid		190	319
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(11,326)	(5,280)
Proceeds on disposal of fixed asset properties (net of disposal costs)		3,128	4,291
Proceeds on disposal of other tangible fixed assets		1,124	631
Proceeds on disposal of properties held for resale		1,128	533
Net cash (outflow)/inflow from investing activities		(5,946)	175
Acquisitions and disposals			
Net bank overdraft acquired with subsidiaries		-	(73)
Investment in Highfield Holdings Limited		-	(73)
Net cash outflow from acquisitions		-	(146)
Equity dividends paid		(1,512)	-
Net cash inflow before use of liquid resources and financing		17,436	15,121
Management of liquid resources			
Short term deposit investment (net)		(1,462)	(5,460)
Financing			
Equity			
Issue of Ordinary Shares		1,347	33,963
Less: Issue costs paid		-	(2,104)
Net cash inflow from equity financing		1,347	31,859
Bank loans			
Bank loans drawn down		37,700	5,800
Bank loans repaid		(55,915)	(47,152)
Less: Financing costs paid		(1,204)	(2,336)
Net cash outflow from bank loan finance		(19,419)	(43,688)
Other loan repayments		(298)	(111)
Finance lease repayments		(170)	(18)
Net cash outflow from financing activities		(18,540)	(11,958)
Decrease in cash in the year	27	(2,566)	(2,297)

Consolidated statement of total recognised gains and losses

For the year ended 30 September 2003

	Note	2003 £'000	2002 £'000
Profit for the year		25,312	16,879
Net surplus on revaluation of properties	23	92,233	56,607
Total recognised gains for the year		117,545	73,486

Consolidated reconciliation of movements in shareholders' funds

For the year ended 30 September 2003

	2003 £'000	2002 £'000
Profit for the year	25,312	16,879
Dividends paid and proposed	(6,088)	–
Retained profit for the year	19,224	16,879
Net surplus on revaluation of properties	92,233	56,607
Issue of share capital net of costs	1,347	31,859
Net increase in Shareholders' funds	112,804	105,345
Shareholders' funds at the beginning of the year	207,737	102,392
Shareholders' funds at the end of the year	320,541	207,737

Consolidated note of historical cost profits and losses

For the year ended 30 September 2003

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	24,756	16,370
Realisation of net valuation losses on disposal of fixed asset properties	(1,597)	(2,045)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	1,123	–
Historical cost profit on ordinary activities before taxation	24,282	14,325
Historical cost profit retained for the year	18,750	14,834

Notes to the accounts

For the year ended 30 September 2003

1. Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment and operated properties, and in accordance with all applicable United Kingdom accounting standards. A summary of principal accounting policies, all of which have been applied consistently during the current and preceding year, is set out below.

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 1"), Care Homes No.2 Limited ("Care Homes 2") and Care Homes No.3 Limited ("Care Homes 3"). Care Homes 1, Care Homes 2 and Care Homes 3 are not subsidiary undertakings of the Group; however, by reason of contractual arrangements between the Group and Care Homes 1, Care Homes 2 and Care Homes 3, under FRS 5 "Reporting the Substance of Transactions", the financial statements of Care Homes 1, Care Homes 2 and Care Homes 3 are required to be consolidated as part of the Group. Summaries of the financial statements of Care Homes 1, Care Homes 2 and Care Homes 3 are disclosed in notes 30 to 32 of the financial statements.

Goodwill

Goodwill on acquisition of subsidiary and associated undertakings, representing any excess of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its estimated useful life. Goodwill on the acquisition of Highfield Holdings Limited in the year ended 30 September 2002 is being amortised over 20 years. Goodwill on the acquisition of Highfield Care Homes Limited (formerly 'Palladium Healthcare Limited') and Highfield Care Homes No.3 Limited (formerly 'Somerford Leased Homes Limited') in the year ended 30 September 2001 is being amortised over 20 years. Goodwill on the acquisition of G.R. Patrick & Co. Limited in the year ended 30 September 1999 is being amortised over 10 years. Provision is made for any impairment.

Valuation of land and buildings

Investment properties

The cost of investment properties is purchase cost, any incidental costs of acquisition and the cost of capital improvements. Investment properties represent freehold or long leasehold properties held for long term retention. In accordance with SSAP No.19 "Accounting for Investment Properties", these investment properties are valued annually by qualified external valuers. 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.

Operated properties

Operated properties, which are initially transferred out of investment properties at the then existing use value, are valued annually at 30 September by qualified external valuers. 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

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

Capital expenditure on the investment portfolio assets

Capital expenditure incurred on a leased care home which improves the physical condition above the level required in the lease and which enhances the property's value is capitalised. Otherwise such capital expenditure is charged in the profit and loss account.

Depreciation

In accordance with SSAP No.19 "Accounting for Investment Properties", no depreciation is provided in respect of investment properties. Under the terms of the Group's leases, freehold and long leasehold properties are required to be maintained to a high standard by its tenants. The fact that no depreciation is provided in respect of investment properties is a departure from the requirement 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

1. Accounting policies continued

that systematic depreciation would be inappropriate and would not give a true and fair view. The accounting policy adopted and 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.

Operated properties are depreciated in equal annual instalments over the estimated useful economic lives of each category of asset. The amount of depreciation, the calculation of which is based on the opening valuation plus subsequent capitalised capital expenditure less estimated residual value, is charged to the profit and loss account with an appropriate adjustment being made to the revaluation reserve by the transfer of a sum from revaluation reserve to profit and loss account. The estimated useful economic lives are as follows:

Freehold land	no depreciation
Freehold and long leasehold buildings	50 years
Plant, machinery, fixtures and fittings	5 to 20 years

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:

Freehold land	no depreciation
Freehold buildings	50 years
Short leasehold improvements	remaining period of lease
Office equipment and fixtures	5 years
Motor vehicles	5 years

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value.

In the consolidated accounts, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses, whilst the Group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

Deferred taxation

Deferred tax is provided in full on timing differences which have originated at the balance sheet date and which could give rise to an obligation to pay more or less tax in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is not recognised in respect of gains and losses on revalued assets unless the company has entered into a binding agreement to sell the assets and the gains or losses have been recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered.

Finance costs

Costs which are incurred directly in connection with the raising of bank loans or Secured Notes are amortised at a constant rate over the lives of the loan facility or Secured Notes in accordance with FRS 4 "Capital Instruments".

Interest

Interest receivable and interest payable are recognised in the financial statements on an accruals basis. Interest on Deposit Swap Agreements and Zero Coupon Bonds is accrued and capitalised on a monthly basis over their respective lives. Discounts on Secured Notes, being interest paid in advance, are amortised over the lives of the Secured Notes.

Notes to the accounts continued

For the year ended 30 September 2003

1. Accounting policies continued

Leased assets

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of the future lease obligations are recorded as liabilities, whilst the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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 Group contributes to money purchase pension schemes, including contributions to the NHP Executive Pension Schemes, for the 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 Schemes are held in separate trustee administered funds.

The Company and its subsidiary undertaking, NHP Management Limited, contribute to the personal pensions of their employees at rates up to 20% of basic salary which is charged monthly to the profit and loss account.

A stakeholder pension scheme exists for all employees of the Highfield Care Group of companies.

Financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements in line with the Group's risk management policies. The Group does not enter into derivative financial instruments for speculative purposes. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

2. Information regarding Directors and employees

Disclosures on Directors' remuneration, share options and pension contributions required by the Companies Act 1985, and those specified by the UK Listing Authority, are included on page 25 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:

	2003 £'000	2002 £'000
Wages and salaries	72,632	39,424
Social security costs	5,172	2,464
Pension costs	571	429
	78,375	42,317

Average number of employees on a full time equivalent basis:

	2003 Number	2002 Number
Operational	6,019	3,455
Administrative	109	88
Directors	9	7
	6,137	3,550

3. Segmental analysis of turnover, operating profit and net assets

All operations are carried out wholly within the United Kingdom.

	2003 £'000	2002 £'000
Turnover		
Property business	48,985	56,631
Highfield Care	122,907	69,333
	171,892	125,964
Operating profit		
Property business	61,284	57,244
Highfield Care	(2,038)	(3,173)
	59,246	54,071

The results of Highfield Care above include pavement and turnover rents payable under leases to the property business of £25,712,000 (2002: £15,645,000). Included in the property business is £5,407,000 (2002: £2,879,000) depreciation of the operated properties.

	2003 £'000	2002 £'000
Net assets		
Property business	325,248	210,206
Highfield Care	(4,707)	(2,469)
	320,541	207,737

4. Exceptional income

The following exceptional income/(costs) have been incurred or provided for and included in administrative expenses:

	2003 £'000	2002 £'000
Net write back of permanent diminution in value – fixed asset properties	1,686	1,525
Tenant receivership costs	(1,289)	(1,450)
Ultima Holdings Group closure support costs	(147)	173
Total net exceptional income	250	248

5. Group operating profit

Group operating profit is arrived at after charging:

	2003 £'000	2002 £'000
Depreciation of operated properties	5,407	2,879
Depreciation of other fixed assets	827	568
Amortisation of goodwill of subsidiary undertakings	114	104
Auditors' remuneration (including VAT):		
– Group audit fees to Group auditors	73	62
– Group audit fees to other auditors	74	65
– Company audit fees	62	86
– other fees to Group auditors – Interim review	36	35
– tax services – compliance	161	185
Operating lease rentals:		
– buildings	1,656	1,264
– equipment	188	65

In 2002, a further £117,500 (including VAT) was paid to the Group auditors in respect of the Rights Issue in July 2002. This amount was set off against the share premium account.

Notes to the accounts continued

For the year ended 30 September 2003

6. Share of associated undertakings' operating profits

	2003 £'000	2002 £'000
Share of associated undertakings' operating profits	86	343
Amortisation of goodwill	(54)	(60)
	32	283

7. Net interest payable and similar charges

	2003 £'000	2002 £'000
Group		
Interest payable on Secured Notes	37,265	37,265
Interest payable on bank loans wholly repayable within 5 years	2,599	5,000
Other interest payable	72	148
Amortisation of issue costs and discount of Secured Notes	1,177	1,172
Finance costs	1,586	1,901
Associates		
Interest payable	5	22
Interest payable and similar charges	42,704	45,508
Group		
Interest receivable on deposits	(776)	(806)
Interest receivable on Deposit Swap Agreements and Zero Coupon Notes	(7,073)	(6,588)
Other interest receivable	(8)	(31)
Associates		
Interest receivable	(20)	(11)
Interest receivable	(7,877)	(7,436)
Net interest payable and similar charges	34,827	38,072

8. Tax credit on profit on ordinary activities

	2003 £'000	2002 £'000
Group		
Corporation tax	-	-
Income tax	(420)	523
Total current tax	(420)	523
Increase in estimate of recoverable deferred tax asset	1,000	-
Total deferred tax	1,000	-
Share of associate's tax	(24)	(14)
Total tax credit on profit on ordinary activities	556	509
Effective tax rate	n/a	n/a

There is no Group liability for mainstream Corporation Tax owing to the availability of capital allowances.

8. Tax credit on profit on ordinary activities continued

	2003 £'000	2002 £'000
Reconciliation of current tax charge:		
Profit on activities before tax	24,756	16,370
Tax on profit at standard rate of 30% (2002: 30%)	7,427	4,911
Factors affecting the charge:		
Disallowable expenses	1,095	1,193
Non-taxable income	(2,895)	(2,960)
Capital allowances for period in excess of depreciation	(2,924)	(5,286)
Increase in other short term timing differences	(1,540)	(952)
Utilisation of brought forward capital losses	-	(150)
Movement in revenue losses not recognised	(743)	3,244
Share of associate's tax	24	14
Group tax charge for the current year	444	14

9. Dividends paid and proposed

	2003 £'000	2002 £'000
Equity		
Interim dividend paid of 0.75p per Ordinary Share on 201,600,395 shares (2002: nil)	1,512	-
Final dividend proposed of 2.25p per Ordinary Share on 203,375,555 shares (2002: nil)	4,576	-
	6,088	-

10. Earnings per share

The earnings per Ordinary Share of 12.6p for the year ended 30 September 2003 is calculated on the profit after taxation of £25,312,000 divided by 201,589,427 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year. The diluted earnings per Ordinary Share of 12.2p for the year ended 30 September 2003 is based on the profit after taxation of £25,312,000 divided by 207,207,002 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year and assuming the Directors' and employees' share options are exercised.

The earnings per Ordinary Share of 10.1p for the year ended 30 September 2002 is calculated on the profit after taxation of £16,879,000 divided by 166,801,087 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year. The diluted earnings per Ordinary Share of 9.9p for the year ended 30 September 2002 is based on the profit after taxation of £16,879,000 divided by 170,592,472 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year and assuming the Directors' and employees' share options were exercised.

11. Parent company profit and loss account

	2003 £'000	2002 £'000
Profit for the financial year, including dividends from subsidiary undertakings, after taxation	1,316	60,422

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. The following exceptional (cost)/credits have been included in the Company's profit for the financial year:

	2003 £'000	2002 £'000
Waiver of Loan Notes due by subsidiary undertaking	(7,900)	-
Reversal of impairment provision in respect of loan notes due by subsidiary undertakings	-	3,711
Reversal of provision against loans to subsidiary undertakings	-	46,520

Notes to the accounts continued

For the year ended 30 September 2003

12. Goodwill

	Total £'000
Group	
Cost	
At 1 October 2002 and 30 September 2003	2,300
Amortisation	
At 1 October 2002	(133)
Amortisation for the year	(114)
At 30 September 2003	(247)
Net book value at 30 September 2003	2,053
Net book value at 30 September 2002	2,167

13. Tangible fixed assets

Investment properties

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Total £'000
Group			
Valuation at 1 October 2002	475,280	8,050	483,330
Additions at cost	226	–	226
Disposals of investment properties at valuation	(2,250)	–	(2,250)
Reclassification of properties to operated properties at valuation	(75,715)	–	(75,715)
Net surplus on revaluation	56,444	1,870	58,314
Net write back to permanent diminution in value	635	100	735
Valuation at 30 September 2003	454,620	10,020	464,640

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2003, at Market Value on both portfolio and individual property bases in accordance with the RICS Appraisal and Valuation Manual.

The Directors have reviewed GVA Grimley's valuation at 30 September 2003 and have made a net write back to permanent diminution in value of £735,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's investment properties at 30 September 2003 was £397,803,000 (2002: £473,707,000). Freehold properties' historical cost was £390,599,000 at 30 September 2003 (2002: £466,503,000) and long leasehold properties' historical cost was £7,204,000 at 30 September 2003 (2002: £7,204,000).

41 homes (2002: 75) are subject to discretionary buy-back options by their respective operators. A further 51 homes (2002: 17) are subject to buy-back options by their respective operators only in the event of irrecoverable VAT becoming levied on the rents charged to the operators. The buy-back options may be exercised at purchase prices equivalent to the higher of a formulated figure or the "market value" (as defined in the respective leases) of the landlord's reversionary interest and of the landlord's fixtures and fittings.

Company

At 30 September 2003, the Company had investments in freehold investment properties totalling £31 (2002: £31), representing the consideration paid, including VAT, for the freehold reversions to 26 properties (2002: 26), the 999 year leasehold interests in which are held by NHP Securities No.3 Limited, a subsidiary undertaking.

13. Tangible fixed assets continued

Operated properties

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant, machinery, fixtures and fittings £'000	Total £'000
Group				
Cost or valuation				
At 1 October 2002	135,551	2,960	22,902	161,413
Reclassification of properties from investment properties at valuation	65,828	–	9,887	75,715
Additions at cost	511	–	–	511
Reclassification	(1,876)	–	1,876	–
Capital expenditure on operated properties	–	–	7,394	7,394
Net write back to permanent diminution in value	951	–	–	951
Disposals	(1,057)	–	(152)	(1,209)
Net surplus on revaluation	31,183	470	–	31,653
At 30 September 2003	231,091	3,430	41,907	276,428
Depreciation				
At 1 October 2002	–	–	(1,493)	(1,493)
Depreciation for the year	(2,228)	(42)	(3,137)	(5,407)
Disposals	4	–	12	16
Transfer to revaluation reserve	2,224	42	–	2,266
At 30 September 2003	–	–	(4,618)	(4,618)
Net book value at 30 September 2003	231,091	3,430	37,289	271,810
Net book value at 30 September 2002	135,551	2,960	21,409	159,920

Operated properties represent properties held for long term retention. Operated properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2003 at existing use value on both portfolio and individual property bases in accordance with the RICS Appraisal and Valuation Manual.

Operated properties, reclassified from investment properties at valuation, were valued by GVA Grimley on an existing use basis at their respective dates of transfer.

The Directors have reviewed GVA Grimley's valuation at 30 September 2003 and have made a net write back to permanent diminution in value of £951,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's operated properties at 30 September 2003 was £264,416,000 (2002: £185,904,000). Depreciation charged for the year ended 30 September 2003 in respect of properties under leases was £42,000 (2002: £24,000).

Notes to the accounts continued

For the year ended 30 September 2003

13. Tangible fixed assets continued

Other tangible fixed assets

	Land and buildings £'000	Short leasehold improvements £'000	Office equipment and fixtures £'000	Motor vehicles £'000	Total £'000
Group					
Cost or valuation					
At 1 October 2002	–	51	1,790	766	2,607
Additions in the year	309	7	1,728	1,150	3,194
Disposals	–	(11)	(479)	(672)	(1,162)
At 30 September 2003	309	47	3,039	1,244	4,639
Depreciation					
At 1 October 2002	–	(2)	(565)	(258)	(825)
Depreciation for the year	(1)	(4)	(515)	(307)	(827)
Depreciation on disposals	–	–	83	470	553
At 30 September 2003	(1)	(6)	(997)	(95)	(1,099)
Net book value at 30 September 2003	308	41	2,042	1,149	3,540
Net book value at 30 September 2002	–	49	1,225	508	1,782

At 30 September 2003 the net book values of assets held under finance leases and hire purchase contracts were £nil for office equipment and fixtures (2002: £64,000) and £20,000 for motor vehicles (2002: £185,000). Depreciation charged in respect of assets held under finance leases and hire purchase contracts for the year ended 30 September 2003 was £11,000 (2002: £197,000).

Capital commitments

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Contracted and committed	2,028	1,112	–	–

14. Investments

	2003 £'000	2002 £'000
Group		
Deposit Swap Agreement at cost	15,350	15,350
Accumulated compound interest	10,095	8,183
Deposit Swap Agreement – Care Homes 1	25,445	23,533
Deposit Swap Agreement at cost	57,180	57,180
Accumulated compound interest	14,196	10,855
Deposit Swap Agreement – Care Homes 2	71,376	68,035
Zero Coupon Notes at cost	36,010	36,010
Accumulated compound interest	6,647	4,828
Zero Coupon Notes – Care Homes 3	42,657	40,838
Investment in associate – G.R. Patrick & Co. Limited	402	411
Investment in Ultima Holdings Limited – see below	–	–
	139,880	132,817

The Deposit Swap Agreement of £15.35 million represents the premium paid by Care Homes 1 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 Class A1 and Class A2 Secured Notes in 2021.

14. Investments continued

The Deposit Swap Agreement of £57.18 million represents the premium paid by Care Homes 2 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 £180 million Class A Secured Notes in 2023.

The Zero Coupon Notes of £36.01 million represents the consideration paid by Care Homes 3 in respect of AAA rated Zero Coupon Notes issued by the European Investment Bank which, together with accumulated interest, guarantee to provide for the repayment of £128 million Class A Secured Notes in 2028.

G.R. Patrick & Co. Limited

The investment of 20.42% in G.R. Patrick & Co. Limited was made on 12 March 1999. The principal activity of the company is that of an insurance brokerage specialising in healthcare. The carrying value of the investment is analysed as follows:

	Goodwill £'000	Share of net assets £'000	Total £'000
At 1 October 2002	349	62	411
Negative goodwill adjustment arising in respect of increased NHP shareholdings	(20)	20	—
Retained profit to 30 September 2003	—	77	77
Dividends received	—	(32)	(32)
Amortisation to 30 September 2003	(54)	—	(54)
At 30 September 2003	275	127	402

G.R. Patrick & Co. Limited bought back 11,326 of its own shares from a third party shareholder on 30 September 2002, thereby increasing NHP's shareholding at that date to 22.5%. G.R. Patrick & Co. Limited bought back a further 11,164 of its own shares from a third party shareholder on 31 March 2003, thereby further increasing NHP's shareholding to 25.01%.

Ultima Holdings Limited

The investment in Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Group, is analysed as follows:

	Cost £'000
Cost	
At 1 October 2002 and 30 September 2003	13,970
Provision for impairment	
At 1 October 2002 and 30 September 2003	(13,970)
Net book value	
At 30 September 2002 and 30 September 2003	—

	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Subordinated loan notes to subsidiary undertakings £'000	Total £'000
Company				
Cost				
At 1 October 2002	3,159	534	195,828	199,521
Dividends received	—	(32)	—	(32)
Waiver of loan notes due by subsidiary undertaking	—	—	(7,900)	(7,900)
At 30 September 2003	3,159	502	187,928	191,589
Net book value at 30 September 2002	3,159	534	195,828	199,521

Notes to the accounts continued

For the year ended 30 September 2003

14. Investments continued

At 30 September 2003, the Company held investments in the following principal subsidiary and associated undertakings:

Name	Country of incorporation	% Holding	Principal activity
Subsidiary undertakings			
NHP Securities No.1 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.2 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.3 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.4 Limited	Great Britain	100.00%	Partner in LLNHP Partnership
NHP Securities No.6 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.9 Limited	Jersey	100.00%	Investment in overriding leases of care home properties
NHP Securities No.11 Limited	Jersey	100.00%	Holding company of NHP Securities No.9 Limited
NHP Management Limited	Great Britain	100.00%	Management of care home property portfolios
NHP Healthcare Partnerships Limited	Great Britain	100.00%	Specialist care home operator
NHP Operations (York) Limited	Great Britain	100.00%	Care home property development
LLNH Limited	Great Britain	100.00%	Partner in LLNHP Partnership
Highfield Care Homes No.3 Limited	Great Britain	100.00%	Care home operator
Highfield Care Homes Limited	Great Britain	100.00%	Care home operator
Highfield Care Homes No.2 Limited	Great Britain	100.00%	Care home operator
Highfield Holdings Limited	Great Britain	100.00%	Care home operator
Highfield Home Properties Limited	Great Britain	100.00%	Care home operator
Highfield Home Properties (Perth) Limited	Great Britain	100.00%	Care home operator
Highfield Care Centres Limited	Great Britain	100.00%	Care home operator
Highfield Operations Limited	Great Britain	100.00%	Care home operator
Highfield Operations (No.2) Limited	Great Britain	100.00%	Care home operator
Highfield Healthcare Centres Limited	Great Britain	100.00%	Care home operator
Associated undertaking			
G.R. Patrick & Co. Limited	Great Britain	25.01%	Insurance brokerage specialising in healthcare

15. Debtors

	2003 £'000	2002 £'000
Group		
Trade debtors	12,625	8,715
Other debtors	3,847	1,794
Deferred tax	1,000	–
Corporation tax	7	197
Prepayments and accrued income	1,779	4,171
	19,258	14,877
Company		
Amounts owed by Group companies	35,836	26,357
Other debtors	3	176
Corporation tax	3	193
Prepayments and accrued income	27	18
	35,869	26,744

16. Short term investments

	2003 £'000	2002 £'000
Group		
Short term deposits held by Care Homes 1	7,750	7,700
Short term deposits held by Care Homes 2	3,750	3,100
Short term deposits held by Care Homes 3	6,000	5,000
Rent deposits held by Highfield Care Group	1,831	1,766
Cash collateral held on deposit	-	303
	19,331	17,869

£3,644,000 (2002: £3,644,000) of the short term deposits in Care Homes 1 are reserved against long term eventualities. The remainder of the short term deposits in Care Homes 1, 2 and 3 are required to meet short term interest on the Secured Notes.

17. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Group		
Loan from third party to Highfield Holdings Limited – see note 19	75	75
Mortgage on freehold property owned by Highfield Care Homes Limited	-	38
Obligations under finance leases and hire purchase contracts	9	105
Bank overdrafts	2,000	-
Interest payable	9,759	10,144
Other creditors	8,227	8,465
Taxation and social security	2,079	1,291
Income tax	420	-
Accruals and deferred income	8,040	5,440
Proposed dividend payable to Equity Shareholders	4,576	-
	35,185	25,558
Company		
Bank overdraft	3	35
Amount due to Care Homes 1	21	11
Amount due to Care Homes 2	36	13
Amount due to Care Homes 3	50	39
Amounts due to Group companies	806	1,114
Other creditors	545	501
Accruals and deferred income	105	85
Proposed dividend payable to Equity Shareholders	4,576	-
	6,142	1,798

18. Deferred taxation

	Provided		Unprovided	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Group				
Accelerated capital allowances	(1,000)	-	(9,122)	(14,009)
Losses created by capital allowances	-	-	-	(4,538)
Short term timing differences	-	-	-	952
Revaluation of investment properties	-	-	49,335	29,506
	(1,000)	-	40,213	11,911

Notes to the accounts continued

For the year ended 30 September 2003

18. Deferred taxation continued

The Directors have taken advice from GVA Grimley, International Property Advisers, and consider that the appropriate value of assets qualifying for capital allowances, to be used in the calculation of deferred tax, is an apportionment of the total portfolio value. Applying the valuation, the Group has, as at 30 September 2003, unprovided deferred tax assets of £9,122,000 in respect of accelerated capital allowances (2002: £14,009,000) and £nil in respect of revenue losses (2002: £4,538,000). The unrecognised accelerated capital allowance assets would be recovered if in future they reverse in the same periods and entities in which suitable taxable profits arise. Deferred tax assets in respect of accelerated capital allowances of £1,000,000 (2002: £nil) have been recognised on the basis that the Directors believe it is more likely than not that suitable profits will arise from which this asset will be deducted.

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £49,335,000 (2002: £29,506,000) is not recognised as the Group has no intention to sell these properties at this time and there is no binding agreement to dispose of them.

Company

There is no provided or unprovided deferred tax in respect of the Company.

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

	2003 £'000	2002 £'000
Group		
Bank loans due between two and five years	–	53,165
Less: Unamortised finance costs	–	(1,628)
Bank loans due after more than five years	34,950	–
Less: Unamortised finance costs	(320)	–
Net bank loans	34,630	51,537
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	(2,103)	(2,225)
Unamortised discount on issue	(563)	(595)
Net Secured Notes – Care Homes 1	97,334	97,180
Class A Secured 5.75% Notes due 2023	180,000	180,000
Class M Secured 6.65% Notes due 2025	60,000	60,000
Class B Secured 7.65% Notes due 2025	25,000	25,000
Less: Unamortised issue costs	(6,063)	(6,376)
Unamortised discount on issue	(428)	(450)
Net Secured Notes – Care Homes 2	258,509	258,174
Class A Secured 6.125% Notes due 2028	128,000	128,000
Class M Secured 7.125% Notes due 2030	42,000	42,000
Class B Secured 8.25% Notes due 2030	24,000	24,000
Less: Unamortised issue costs	(15,097)	(15,693)
Unamortised discount on issue	(2,203)	(2,295)
Net Secured Notes – Care Homes 3	176,700	176,012
Loan from third party to Highfield Holdings Limited	450	525
Mortgage on freehold property owned by Highfield Care Homes Limited	–	185
Net loans owed by Highfield Care Group	450	710
Obligations under finance leases and hire purchase contracts	3	77
	567,626	583,690

19. Creditors: amounts falling due after more than one year continued

Bank loans

At 30 September 2003, a £34,950,000 loan was drawn on the £60 million revolving credit facility entered into with a syndicate led by Bank of Scotland on that date. The facility matures on 31 December 2008. The loan bears interest at LIBOR plus 1.2% and is secured by a fixed charge on certain of the freehold and long leasehold properties held in NHP Securities No.3 Limited, together with a floating charge on its other assets and an unlimited guarantee from NHP Plc.

Secured Notes

The Care Homes 1 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, over the Deposit Swap Agreement with General Re Financial Products Corporation, which at 30 September 2003 amounted to £25,445,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2003 amounted to £7,882,000.

The Care Homes 2 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, over the Deposit Swap Agreement with General Re Financial Products Corporation, which at 30 September 2003 amounted to £71,376,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2003 amounted to £4,038,000.

The Care Homes 3 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, over the Zero Coupon Notes with European Investment Bank, which at 30 September 2003 amounted to £42,657,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2003 amounted to £6,144,000.

Loan from third party to Highfield Holdings Limited

A loan of £525,000 is due to Highfield Group Limited (in administration) and is repayable in equal instalments over seven years. Interest is charged on the loan at 2% above base rate. £75,000 of the total outstanding is reported within 'Creditors falling due within one year' (see note 17).

20. Provisions for liabilities and charges

	At 1 Oct 2002 £'000	Costs incurred in the year £'000	Profit and loss account £'000	At 30 Sep 2003 £'000
Group				
Ultima Holdings Group closure support costs	63	(100)	147	110
Receivership support costs	1,025	(1,560)	1,289	754
National Insurance Contributions payable on exercise of share options	–	(185)	582	397
Total	1,088	(1,845)	2,018	1,261
Company				
National Insurance Contributions payable on exercise of share options	–	–	274	274

The provision for Ultima Holdings Group closure support costs is based on the expected financial support to be provided to the Ultima Group of companies to settle trading liabilities. It is expected that the majority of this financial support will be provided in the next financial year.

The provision for receivership support costs represents the expected financial commitment to settle known and estimated trading liabilities of administrative receivership appointments made by Group companies. It is expected that the majority of this expenditure will be incurred in the next financial year.

The provision for National Insurance Contributions relates to share options that can be exercised under the 2001 Unapproved Executive Share Option Scheme, details of which are disclosed in note 22. The actual amount payable is dependent on the Company's share price at the date of exercise of the options. The provision has been based on the share price at the balance sheet date of 135.25p and the assumption that 80% (Company: 100%) of options will be exercised. The rate of NIC used is 12.8%.

Notes to the accounts continued

For the year ended 30 September 2003

21. Financial instruments

Hedging instruments policy

The Group does not trade in derivatives or other interest rate hedging instruments, but the Directors consider the use of appropriate financial instruments to protect the Group against exposure to possible interest rate rises.

Short-term debtors and creditors have been omitted from all disclosures, as permitted by FRS 13 "Derivatives and Other Financial Instruments".

Currency profile

All of the Group's financial liabilities and assets at 30 September 2003 and 30 September 2002 were sterling denominated.

Maturity profile of financial liabilities

The maturity profile of the Group's gross financial liabilities at 30 September was as follows:

	Bank loans and overdrafts £'000	Secured Notes £'000	Other loans and finance leases £'000	Total 2003 £'000	Total 2002 £'000
In one year or less or on demand	2,000	—	84	2,084	218
More than one year but not more than two years	—	—	78	78	190
More than two years but not more than five years	—	—	225	225	53,504
More than five years	34,950	559,000	150	594,100	559,258
	36,950	559,000	537	596,487	613,170

The Group had the following undrawn committed bank loan facilities at 30 September:

	2003 £'000	2002 £'000
Expiring in more than one year but not more than two years	—	15,000
Expiring in more than two years but not more than five years	—	21,835
Expiring in more than five years	25,050	—
	25,050	36,835

Maturity profile of financial assets

At 30 September 2003, the Group held two Deposit Swap Agreements and Zero Coupon Notes with a combined carrying value of £139,478,000 (2002: £132,406,000) which will mature in more than five years. The Deposit Swap Agreements and Zero Coupon Notes will provide for the repayment of £408,000,000 (2002: £408,000,000) of the Secured Notes as more fully described in note 14.

At 30 September 2003, the Group held short term deposits and cash at bank and in hand totalling £21,104,000 (2002: £20,208,000).

None of the deposits had a maturity date beyond 31 October 2003.

21. Financial instruments continued**Interest rate profile of financial liabilities**

The interest rate profile of the Group's gross financial liabilities at 30 September 2003 was as follows:

	2003 £'000	2002 £'000
Fixed rate	559,012	559,182
Floating rate	37,475	53,988
	596,487	613,170

With respect to the £37,475,000 of floating rate debt, in order to hedge against adverse changes in interest rates NHP purchased a £10 million interest rate cap at 6.0% on 3 November 2003. The cap expires on 28 November 2007.

At 30 September 2003, the weighted average interest rate on the fixed rate financial liabilities of the Group was 6.67% (2002: 6.67%) and the weighted average period for which the rate is fixed was 21 years (2002: 22 years).

The floating rate financial liabilities at 30 September 2003 principally comprised bank borrowings bearing interest at rates based on one month LIBOR.

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 30 September 2003 was as follows:

	2003 £'000	2002 £'000
Fixed rate	139,478	132,406
Floating rate	21,104	20,208
	160,582	152,614

At 30 September 2003, the weighted average interest rate on the fixed rate financial assets of the Group was 5.26% and the weighted average period for which the rate is fixed was 21 years.

The floating rate financial assets at 30 September 2003 comprised short term deposits and cash at bank and in hand, bearing interest at rates based on LIBOR.

Fair values of financial liabilities and assets

Set out below is a comparison by category of book values and estimated fair values of the Group's financial liabilities and assets at 30 September 2003:

	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations		
Bank loans and overdrafts	(36,950)	(36,950)
Secured Notes	(559,000)	(603,753)
Other loans and finance leases	(537)	(537)
Gross financial liabilities	(596,487)	(641,240)
Deposit Swap Agreements and Zero Coupon Notes	139,478	151,955
Short term deposits	19,331	19,331
Cash at bank and in hand	1,773	1,773
Gross financial assets	160,582	173,059

The fair values of the Secured Notes, Deposit Swap Agreements and Zero Coupon Notes have been determined by reference to prices available from the markets on which the instruments involved are traded.

Notes to the accounts continued

For the year ended 30 September 2003

21. Financial instruments continued

Gains and losses on hedges

The Directors consider the use of hedging instruments to manage the Group's interest rate profile. The table below shows the extent to which the Group has off-balance sheet (unrecognised) and on-balance sheet (carried forward) gains and losses in respect of financial instruments used as hedges.

	Unrecognised			Carried forward		
	Gains £'000	Losses £'000	Net £'000	Gains £'000	Losses £'000	Net £'000
Gains and losses brought forward at 1 October 2002	17,345	(2,732)	14,613	–	–	–
Gains and losses recognised in the year	(1,911)	(5,162)	(7,073)	–	–	–
Gains and losses arising before 1 October 2002 that were not recognised before 30 September 2003	15,434	(7,894)	7,540	–	–	–
Gains and losses arising in the year	2,249	2,688	4,937	–	–	–
Gains and losses carried forward at 30 September 2003	17,683	(5,206)	12,477	–	–	–
To be recognised before 30 September 2004	1,968	5,156	7,124	–	–	–
To be recognised after 30 September 2004	15,715	(10,362)	5,353	–	–	–

22. Called up share capital

	Number	Authorised £'000	Called up, allotted and fully paid Number	£'000
Ordinary shares of 1p each				
At 1 October 2002	370,000,000	3,700	200,851,895	2,009
Issued during the year	–	–	2,523,660	25
At 30 September 2003	370,000,000	3,700	203,375,555	2,034

The shares issued during the year were issued for a consideration of £1,347,000 to employees exercising share options under share option schemes.

22. Called up share capital continued

The following table sets out the share options in issue under the various Company schemes at the beginning and end of the year, together with movements during the year.

Date granted	Option price per share (p)	Date from which exercisable	Expiry date	In issue 1 Oct 2002	Granted in the year	Exercised in the year†	Lapsed in the year	In issue 30 Sep 2003
1998 Inland Revenue Approved Executive Share Option Scheme								
9 Sep 1998	128.5	9 Sep 2001	9 Sep 2008	10,700	–	–	–	10,700
5 Jul 1999	158.0	5 Jul 2002	5 Jul 2009	10,700	–	–	–	10,700
18 Jan 2000	126.0	18 Jan 2003	18 Jan 2010	10,700	–	–	–	10,700
				32,100	–	–	–	32,100
1998 Inland Revenue Approved Savings Related Share Option Scheme								
1 Feb 2000	107.0	1 Feb 2003	1 Aug 2003	3,620	–	–	(3,620)	–
1 Feb 2000	107.0	1 Feb 2005	1 Aug 2005	15,770	–	–	–	15,770
1 Aug 2003	89.8	1 Aug 2006	1 Feb 2007	–	147,496	–	–	147,496
1 Aug 2003	89.8	1 Aug 2008	1 Feb 2009	–	88,665	–	(14,187)	74,478
				19,390	236,161	–	(17,807)	237,744
2001 Unapproved Executive Share Option Scheme								
13 Sep 2001	35.0	14 Sep 2004	13 Sep 2011	6,182,784		(343,488)		5,839,296
8 Oct 2001	35.0	9 Oct 2004	8 Oct 2011	343,488				343,488
13 Dec 2001	40.0	14 Dec 2004	13 Dec 2011	1,472,704		(1,422,352)	(50,352)	–
25 Jul 2002	69.0	26 Jul 2005	25 Jul 2012	682,250		(181,090)	(85,955)	415,205
30 Sep 2002	82.0	1 Oct 2005	30 Sep 2012	2,143,270		(283,530)		1,859,740
9 Dec 2002	90.5	10 Dec 2005	9 Dec 2012		718,232			718,232
30 Jan 2003	101.8	1 Feb 2006	30 Jan 2013		66,830			66,830
7 Feb 2003	101.0	8 Feb 2006	7 Feb 2013		336,632			336,632
1 Jul 2003	110.0	2 Jul 2006	1 Jul 2013		118,178			118,178
27 Aug 2003	120.5	28 Aug 2006	27 Aug 2013		1,546,879			1,546,879
				10,824,496	2,786,751	(2,230,460)	(136,307)	11,244,480
2001 Approved Executive Share Option Scheme								
12 Oct 2001	36.0	13 Oct 2004	12 Oct 2011	666,400		(83,300)		583,100
13 Dec 2001	44.8	14 Dec 2004	13 Dec 2011	134,000		(129,500)	(4,500)	–
25 Jul 2002	74.5	26 Jul 2005	25 Jul 2012	1,085,400		(80,400)	(80,332)	924,668
30 Sep 2002	82.0	1 Oct 2005	30 Sep 2012	106,090				106,090
9 Dec 2002	96.0	10 Dec 2005	9 Dec 2012		31,250			31,250
30 Jan 2003	101.8	1 Feb 2006	30 Jan 2013		88,452			88,452
7 Feb 2003	102.5	8 Feb 2006	7 Feb 2013		58,536			58,536
1 Jul 2003	110.0	2 Jul 2006	1 Jul 2013		27,272			27,272
27 Aug 2003	126.5	28 Aug 2006	26 Aug 2013		211,434			211,434
				1,991,890	416,944	(293,200)	(84,832)	2,030,802
Total				12,867,876	3,439,856	(2,523,660)	(238,946)	13,545,126

† The options exercised in the year were a consequence of reductions in staffing levels.

Notes to the accounts continued

For the year ended 30 September 2003

23. Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 2002	190,891	(6,401)	21,238
Net surplus on revaluation of properties	–	92,233	–
Realisation of net valuation losses on disposal of fixed asset properties	–	1,597	(1,597)
Premium arising on issue of 2,523,660 Ordinary Shares	1,322	–	–
Transfer of the difference between an historical cost depreciation charge and the actual depreciation charge for the year	–	(1,123)	1,123
Retained profit for the year	–	–	19,224
At 30 September 2003	192,213	86,306	39,988

Company	Share premium account £'000	Revenue reserve £'000	Profit and loss account £'000
At 1 October 2002	190,891	914	30,653
Premium arising on issue of 2,523,660 Ordinary Shares	1,322	–	–
Retained loss for the year	–	–	(4,772)
At 30 September 2003	192,213	914	25,881

24. Net assets per Ordinary Share

	2003	2002
Basic		
Equity Shareholders' funds	£320,541,000	£207,737,000
Number of Ordinary Shares of 1p each in issue	203,375,555	200,851,895
Net assets per Ordinary Share	157.6p	103.4p

25. Gearing

	2003 £'000	2002 £'000
Consolidated		
Secured Notes*	559,000	559,000
Bank loans	34,950	53,388
Other loans	525	600
Finance leases	12	182
Deposit Swap Agreements and Zero Coupon Notes*	(139,478)	(132,406)
Short term investments, cash at bank and in hand less bank overdrafts	(19,104)	(20,208)
Net borrowings	435,905	460,556
Shareholders' funds	320,541	207,737
Consolidated gearing	136%	222%

* Relating to Care Homes 1, Care Homes 2 and Care Homes 3.

25. Gearing continued

	2003 £'000	2002 £'000
Excluding non-recourse financial assets and liabilities*		
Bank loans	34,950	53,388
Other loans	525	600
Finance leases	12	182
Short term investments, cash at bank and in hand less bank overdrafts	(1,040)	(2,705)
Net recourse borrowings	34,447	51,465
Shareholders' funds	320,541	207,737
Net indebtedness from securitisation companies	(34,415)	(34,405)
Adjusted Shareholders' funds	286,126	173,332
Gearing excluding non-recourse borrowings	12%	30%

* Relating to Care Homes 1, Care Homes 2 and Care Homes 3.

26. Reconciliation of operating profit to operating cash flows

	2003 £'000	2002 £'000
Operating profit	59,246	54,071
Depreciation of operated properties	5,407	2,879
Depreciation of other fixed assets	827	568
Amortisation of goodwill of subsidiary undertakings	114	104
Net write back of permanent diminution in value – fixed asset properties	(1,686)	(1,525)
Loss on disposal of properties held for resale	27	–
Share of associated undertakings' operating profits	(32)	(283)
Write down in value of properties held for resale	–	18
Increase in debtors	(3,435)	(1,985)
Increase in creditors	3,639	3,457
Increase in provisions	173	568
Net cash inflow from operating activities	64,280	57,872

27. Analysis of changes in net debt

	At 1 Oct 2002 £'000	Cash flow £'000	Non-cash changes £'000	At 30 Sept 2003 £'000
Cash at bank and in hand	2,339	(566)	–	1,773
Bank overdrafts	–	(2,000)	–	(2,000)
Net cash at bank and in hand	2,339	(2,566)	–	(227)
Short term investments	17,869	1,462	–	19,331
Bank loans due within one year	(38)	38	–	–
Bank loans due after one year (net of unamortised finance costs)	(51,722)	19,604	(2,512)	(34,630)
Other loans due within one year	(75)	75	(75)	(75)
Other loans due after one year	(525)	–	75	(450)
Finance leases due within one year	(105)	96	–	(9)
Finance leases due after one year	(77)	74	–	(3)
Secured Notes (net of unamortised issue and discount costs)	(531,366)	–	(1,177)	(532,543)
Total	(563,700)	18,783	(3,689)	(548,606)

Notes to the accounts continued

For the year ended 30 September 2003

28. Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Decrease in cash during the year	(2,566)	(2,297)
Net cash outflow from debt financing activities	19,887	43,817
Net cash outflow from management of liquid resources	1,462	5,460
Changes in net debt resulting from cash flows	18,783	46,980
Non-cash changes in net debt	(3,689)	(4,825)
Movement in net debt during the year	15,094	42,155
Net debt at the beginning of the year	(563,700)	(605,855)
Net debt at the end of the year	(548,606)	(563,700)

29. Operating lease commitments

The Group had the following annual commitments under non-cancellable operating leases:

	2003 £'000	2002 £'000
Land and buildings – expiring in less than one year	117	109
Land and buildings – expiring between one to five years	49	–
Land and buildings – expiring more than five years	1,540	1,483
Other – expiring between one to five years	224	68
	1,930	1,660

30. Disclosures relating to Care Homes 1

A summary of the financial statements of Care Homes 1 for the year ended 30 September 2003 and the year ended 30 September 2002, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 1	2003 £'000	2002 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	57,046	60,306
Deposit Swap Agreement, including accumulated compound interest	25,445	23,533
Net current assets	3,566	3,566
Creditors: amounts falling due after more than one year		
Class A1 and A2 Secured Notes, net of unamortised issue costs and discount	(97,334)	(97,180)
Shareholders' deficit	(11,277)	(9,775)
Profit and loss account		
Turnover and gross profit	12,150	11,510
Net operating costs	(7,439)	(6,808)
Net interest payable and similar charges	(6,213)	(6,347)
Taxation	–	–
Loss for the year	(1,502)	(1,645)
Cash flow statement		
Net cash inflow from operating activities	7,933	8,592
Servicing of finance – interest paid on Secured Notes	(8,200)	(8,200)
Management of liquid resources – short term deposit placement	(50)	(200)
(Decrease)/increase in cash in the year	(317)	192

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 1 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 £43,128,000 (2002: £40,878,000), on a mark-to-market basis.

31. Disclosures relating to Care Homes 2

A summary of the financial statements of Care Homes 2 for the year ended 30 September 2003 and the year ended 30 September 2002, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 2	2003 £'000	2002 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	165,116	173,640
Deposit Swap Agreement, including accumulated compound interest	71,376	68,035
Net current liabilities	(3,116)	(3,116)
Creditors: amounts falling due after more than one year		
Class A, M and B Secured Notes, net of unamortised issue costs and discount	(258,622)	(258,293)
Shareholders' deficit	(25,246)	(19,734)
Profit and loss account		
Turnover and gross profit	28,051	26,567
Net operating costs	(19,862)	(18,769)
Net interest payable and similar charges	(13,281)	(13,464)
Taxation	(420)	-
Loss for the year	(5,512)	(5,666)
Cash flow statement		
Net cash inflow from operating activities	16,524	17,785
Servicing of finance – interest paid on Secured Notes	(16,252)	(16,252)
Net cash (outflow)/inflow from investing activities:		
Management of liquid resources – short term deposit (placement)/withdrawal	(650)	(3,100)
Decrease in cash in the year	(378)	(1,567)

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 2 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 £70,977,000 (2002: £67,784,000), on a mark-to-market basis.

Notes to the accounts continued

For the year ended 30 September 2003

32. Disclosures relating to Care Homes 3

A summary of the financial statements of Care Homes 3 for the year ended 30 September 2003 and the year ended 30 September 2002, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 3	2003 £'000	2002 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	141,271	147,178
Zero Coupon Notes, including accumulated compound interest	42,657	40,838
Net current liabilities	(23,968)	(24,273)
Creditors: amounts falling due after more than one year		
Class A, M and B Secured Notes, net of unamortised issue costs and discount	(176,700)	(176,012)
Shareholders' deficit	(16,740)	(12,269)
Profit and loss account		
Turnover and gross profit	22,609	21,928
Net operating costs	(13,928)	(13,286)
Net interest payable and similar charges	(13,152)	(13,315)
Taxation	-	523
Loss for the year	(4,471)	(4,150)
Cash flow statement		
Net cash inflow from operating activities	13,366	12,413
Servicing of finance – Interest paid on Secured Notes	(12,812)	(12,812)
Net cash outflow from investing activities:		
Investment in overriding leases	(1,600)	-
Proceeds on disposal of overriding lease	1,550	-
Management of liquid resources – short term deposit placement	(1,000)	(500)
Decrease in cash in the year	(496)	(899)

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 3 are prepared under accounting principles generally accepted in the United States (US GAAP) under which the Zero Coupon Notes are valued in those accounts at £37,850,000 (2002: £38,362,000), on a mark-to-market basis.

33. Contingent liabilities and guarantees

(i) The Company guarantees the Bank of Scotland £60 million revolving credit facility referred to in note 19 of the financial statements.

(ii) The Company has issued guarantees in favour of Care Homes 1, Care Homes 2, Care Homes 3 and IRG Capita Trustees Limited (formerly Royal Exchange Trust Company Limited) of performance by NHP Securities No.1 Limited, 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.

(iii) NHP Securities No.3 Limited ("NHPS3"), 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. The loan balance outstanding at 30 September 2003 and 30 September 2002 was £3.75 million. The Directors are of the opinion that the guarantee will not be called. The Company has also issued a letter of solvency support for recognised trading liabilities to the Ultima Group companies.

34. Related party transactions

(i) At 30 September 2003 and 30 September 2002 D F Francis, a Director of the Company until his retirement from its Board on 30 September 2003, was the Company's representative on the Boards of Ultima Holdings Limited, Ultima Healthcare Limited, Ultima Care Limited, Eton Hall Homes Limited and Platinum Healthcare Limited – collectively "the Ultima Group". No Directors fees are charged by NHP to Ultima Holdings Limited for D F Francis' services, who does not receive any remuneration or expenses from Ultima Group.

Of the 44 leases belonging to the Ultima Group at 30 September 2000, 39 leases were subsequently assigned to Southern Cross Healthcare Limited, 4 leases were assigned to the Highfield Care Group and NHP sold one home, leased by the Ultima Group, to a third party.

The Company purchased for cash 13,970,000 'C' Ordinary Shares in the Ultima Group which it held at 30 September 2003 and 30 September 2002. The cost of these shares was fully provided for in the accounts to 30 September 2000. See note 14.

In accounting periods up to 30 September 2002, NHP has made a net provision for financial support for the closure costs of the Ultima Group totalling £1,027,000, charged in exceptional costs within administrative expenses. A further sum of £147,000 has been charged in the year to 30 September 2003, and a provision of £110,000 remains in the balance sheet at that date. See also the solvency guarantee referred to in note 33(iii) above.

(ii) On 1 September 2000, D.F. Francis was appointed as the Company's representative on the Board of G.R. Patrick & Co. Limited ("GRP"). Details of the Group's interest in GRP are set out in note 14. Insurances relating to the Group's property portfolio are arranged through GRP and amounted to £679,000 (2002: £553,000), the premiums being recovered in full from the Group's tenants. The recovery made from the Highfield Care Group in the year to 30 September 2003 was £279,000 (2002: £149,000). During the year ended 30 September 2003, the Group paid to GRP premiums totalling £519,000 (2002: £279,000) in respect of non-property related insurances. Included in Group turnover for the same period are commissions recoverable from GRP totalling £70,000 (2002: £59,000) and Director's fees of £10,000 (2002: £10,000). At 30 September 2003, the Group owed a net amount of £nil to GRP (2002: £8,000).

35. Post balance sheet events

A property held for resale at 30 September 2003 with a book value of £1,664,000 was sold on 5 November 2003 for a gross consideration of £2,350,000.

Portfolio analysis

As at 30 September 2003

	Homes No.	Beds No.	Beds %	Cost £000	Minimum annual rent £000	Minimum annual rent %
England	283	12,993	73.2%	492,349	52,431	74.0%
Scotland	43	2,604	14.7%	106,018	11,095	15.7%
Wales	27	1,406	7.9%	42,627	4,730	6.7%
N Ireland	14	751	4.2%	23,553	2,576	3.6%
Total	367	17,754	100.0%	664,547	70,832	100.0%

Investment properties

Operated by third party tenants

Ashbourne	22	1,352	7.6%	46,798	5,300	7.5%
Avonpark	2	138	0.8%	6,555	684	1.0%
Britannia	7	430	2.5%	13,882	1,440	2.0%
Care Management Group	32	256	1.4%	18,718	1,943	2.7%
Craegmoor	4	270	1.5%	10,518	1,157	1.6%
Hillcroft	1	66	0.4%	2,028	239	0.3%
Idun	18	1,014	5.7%	32,168	3,498	4.9%
Methodist Homes for the Aged	2	121	0.7%	3,758	390	0.6%
Puretruce	14	661	3.7%	19,994	2,125	3.0%
Southern Cross	96	5,701	32.1%	208,860	24,614	34.8%
Total	198	10,009	56.4%	363,279	41,390	58.4%

Managed by Southern Cross Healthcare

Limited for third party tenant in receivership

Eastwood	9	229	1.3%	18,719	1,946	2.7%
Total	9	229	1.3%	18,719	1,946	2.7%
Total investment properties	207	10,238	57.7%	381,998	43,336	61.1%

Operated properties

Highfield Care	157	7,401	41.7%	278,940	27,184	38.4%
Unoperated Homes	1	37	0.2%	1,281	133	0.2%
Total operated properties	158	7,438	41.9%	280,221	27,317	38.6%
Total investment and operated properties	365	17,676	99.6%	662,219	70,653	99.7%

Properties held for resale

Highfield Care	2	78	0.4%	2,328	179	0.3%
Total properties held for resale	2	78	0.4%	2,328	179	0.3%
Total property portfolio	367	17,754	100.0%	664,547	70,832	100.0%

Additional information – this page does not form part of the audited financial statements.

Properties managed by Highfield Care

As at 30 September 2003

	Homes No.	Beds No.	Beds %	Cost £000	Minimum annual rent £000	Minimum annual rent %
NHP homes managed by Highfield Care						
NHP owned and operated	157	7,401	41.7%	278,940	27,184	38.4%
Unoperated homes	1	37	0.2%	1,281	133	0.2%
Properties held for resale	2	78	0.4%	2,328	179	0.3%
At 30 September 2003	160	7,516	42.3%	282,549	27,496	38.9%

Third party landlords homes managed by Highfield Care

Leased homes	7	394	2.2%		1,402	
Homes under management contract	15	734	4.2%		–	
Total homes managed by Highfield Care	182	8,644	48.7%		28,898	

Notes

% expressed as % NHP's total property portfolio.

The NHP beds managed by Highfield Care are 369 less than previously reported, due to the application of changing care standards.

Since 30 September 2003:

- A receiver was appointed to Puretruce Care Limited on 14 October 2003. One home has been assigned to Highfield Care and Highfield Care have been appointed to manage the remaining thirteen homes.
- One home held for resale has been sold.
- The nine homes in receivership managed by Southern Cross Healthcare Limited have been assigned to Southern Cross Healthcare Limited.

Additional information – this page does not form part of the audited financial statements.

Bondholder information

Care Homes No. 1 Limited

	Sep 02	Oct 02	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03
Occupancy %	89.1	89.0	89.4	88.5	88.4	88.1	87.9	88.0	87.5	87.4	87.6	87.8	87.9
CH1 A Notes Cover	2.69	2.71	2.76	2.44	2.55	2.70	2.73	2.75	3.12	3.28	3.25	3.44	3.16
CH1 B Notes Cover	1.58	1.59	1.61	1.43	1.49	1.58	1.60	1.61	1.83	1.92	1.90	2.01	1.85
Rent Cover	1.24	1.22	1.24	1.10	1.15	1.22	1.23	1.17	1.33	1.43	1.37	1.45	1.33
Profit per bed £'000	4.30	4.33	4.40	3.89	4.09	4.34	4.38	4.41	5.02	5.27	5.22	5.53	5.07
Rent per bed £'000	3.47	3.54	3.54	3.54	3.56	3.56	3.56	3.81	3.81	3.81	3.81	3.81	3.81

Care Homes No. 2 Limited

	Sep 02	Oct 02	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03
Occupancy %	89.3	89.7	89.6	88.7	87.9	88.2	88.3	89.0	88.3	88.8	86.8	88.3	88.5
CH2 A Notes Cover	3.43	3.35	3.31	2.93	2.91	3.12	3.29	3.27	3.51	3.49	3.76	3.91	3.49
CH2 M Notes Cover	2.47	2.42	2.39	2.12	2.10	2.25	2.38	2.36	2.53	2.52	2.71	2.82	2.52
CH2 B Notes Cover	2.18	2.14	2.11	1.87	1.85	1.99	2.10	2.08	2.24	2.22	2.39	2.49	2.23
Rent Cover	1.42	1.39	1.37	1.21	1.20	1.29	1.36	1.26	1.35	1.33	1.44	1.50	1.34
Profit per bed £'000	5.35	5.23	5.16	4.57	4.53	4.87	5.13	5.09	5.47	5.43	5.85	6.09	5.44
Rent per bed £'000	3.76	3.77	3.77	3.77	3.77	3.77	3.77	4.06	4.06	4.06	4.06	4.06	4.06

Care Homes No. 3 Limited

	Sep 02	Oct 02	Nov 02	Dec 02	Jan 03	Feb 03	Mar 03	Apr 03	May 03	Jun 03	Jul 03	Aug 03	Sep 03
Occupancy %	89.6	88.5	88.3	88.5	88.7	88.5	88.7	88.7	88.6	88.7	89.0	89.7	89.9
CH3 A Notes Cover	3.59	3.56	3.77	3.49	3.46	3.69	3.56	3.80	3.93	4.03	4.40	4.21	4.05
CH3 M Notes Cover	2.60	2.58	2.73	2.52	2.50	2.67	2.58	2.75	2.84	2.92	3.18	3.05	2.93
CH3 B Notes Cover	2.19	2.18	2.31	2.13	2.12	2.26	2.18	2.32	2.40	2.47	2.69	2.58	2.48
Rent Cover	1.39	1.38	1.46	1.35	1.34	1.43	1.38	1.42	1.47	1.51	1.64	1.57	1.51
Profit per bed £'000	5.32	5.28	5.59	5.17	5.18	5.53	5.33	5.68	5.87	6.03	6.58	6.30	6.06
Rent per bed £'000	3.83	3.83	3.83	3.83	3.86	3.86	3.86	4.01	4.01	4.01	4.01	4.01	4.01

Additional information – this page does not form part of the audited financial statements.

Shareholder information

Analysis of Ordinary Shareholdings at 28 November 2003

Investor type	Private	Directors and spouses*	Institutional and other	Totals
Number of holders	457	8	436	901
Percentage of holders	50.72%	0.89%	48.39%	100.00%
Shares held	6,368,425	107,660	196,899,470	203,375,555
Percentage of shares held	3.13%	0.05%	96.82%	100.00%

* Including The NHP Executive Pension Scheme and Directors' multiple holdings.

Shareholdings	1 to 1,000	1,001 to 50,000	50,001 to 250,000	250,001 to 500,000	500,000+
Number of holders	173	522	90	41	75
Percentage of holders	19.20%	57.94%	9.99%	4.55%	8.32%
Shares held	104,768	5,207,030	10,016,379	14,659,231	173,388,147
Percentage of shares held	0.05%	2.56%	4.93%	7.21%	85.26%

Financial calendar

29 January 2004	11th Annual General Meeting
6 February 2004	Final dividend record date
3 March 2004	Payment of final dividend
June 2004	Interim results announced
December 2004	Preliminary announcement of 2004 results

For further shareholder information or assistance please contact either the Registrars of the Company or NHP Plc at the addresses below. Alternatively, please visit the Company's website at www.nhprops.co.uk (which contains detailed information on the Company) and select the "contacts" option from the main menu.

Capita Registrars

Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
Tel: 01484 600900

NHP Plc

Block A
Upper Ground Floor
Dukes Court
Duke Street
Woking
GU21 5BH
Tel: 01483 754760
Email: info@nhprops.co.uk

Additional information – this page does not form part of the audited financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 11th Annual General Meeting of NHP Plc will be held at Block A, Upper Ground Floor, Dukes Court, Duke Street, Woking GU21 5BH at 9.30 a.m. on 29 January 2004 for the following purposes:

Ordinary business

1. To receive the Report of the Board of Directors and the Accounts for the year ended 30 September 2003.
2. To declare a final dividend the year ended 30 September 2003.
3. To re-elect Sir Martin Laing as Director.
4. To re-elect R A Henderson as Director.
5. To re-elect C H W Robson as Director.
6. To elect J Murphy as a Director.
7. To elect N J Hollendoner as a Director.

The biographies of the above Directors are shown on pages 18 and 19.

8. To re-appoint Deloitte & Touche LLP as Auditors and to authorise the Directors to fix their remuneration.
9. To approve the Report of the Remuneration Committee.

Special business

10. To consider, and if thought fit, pass the following resolution as a special resolution:

That the Directors of the Company be and are hereby authorised and empowered during the period expiring at the conclusion of the next AGM or 30 September 2005, whichever is the earlier, to exercise all powers of the Company to allot equity securities (within the meaning of Section 94 of the Companies Act 1985 ("the Act") as if Section 89(1) of the Act did not apply in the case of:

- a. allotments in connection with a rights issue to Shareholders where the Directors shall have the right make such exclusions or other arrangements as they may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of or requirements of any recognised regulatory body or any stock exchange in any territory, or otherwise howsoever;
- b. other allotments of equity securities for cash where this authority shall be limited in aggregate to the allotment of or involving equity share capital not exceeding (in nominal value) 5% of the nominal value of the issued share capital of the Company as at the date hereof.

11. To consider, and if thought fit, pass the following resolution as a special resolution:

That, pursuant to Article 14 of the Company's Articles of Association, the Company be and is hereby granted authority to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 1p each in the capital of the Company provided that:

- a. the maximum number of ordinary shares hereby authorised to be purchased is 20,337,555, representing 10% of the issued ordinary capital at 30 September 2003;
- b. the minimum price which may be paid for each ordinary share is 1p;
- c. the maximum price which may be paid for each ordinary share is on any day an amount (exclusive of expenses) equal to 105% of the average of the mid-market quotations for an ordinary share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;

- d. the authority hereby conferred shall expire at the conclusion of the AGM to be held in 2005 or 30 April 2005, whichever is the earlier; save that the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be exercised wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired.

By Order of the Board



Sheila Kaul
Company Secretary
16 December 2003

Registered office:
Block A
Upper Ground Floor
Dukes Court
Duke Street
Woking
GU21 5BH

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, Capita Registrars, 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 at 9.30 a.m. on 27 January 2004 are entitled to attend or vote at the meeting. Changes to entries on the relevant register of securities after 9.30 a.m. on 27 January 2004 shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

Five year financial summary

Consolidated profit and loss account

For the years ended 30 September

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Property business	48,985	56,631	71,153	70,896	48,963
Highfield Care	122,907	69,333	5,473	-	-
Total turnover	171,892	125,964	76,626	70,896	48,963
Cost of sales	(87,321)	(47,836)	(3,806)	-	-
Gross profit	84,571	78,128	72,820	70,896	48,963
Provision for doubtful debts and related costs	774	(4,838)	(10,259)	(9,067)	(547)
Other administrative expenses	(26,381)	(19,750)	(7,349)	(7,235)	(4,619)
Exceptional income/(costs)	250	248	(4,651)	(28,875)	(501)
Administrative expenses	(25,357)	(24,340)	(22,259)	(45,177)	(5,667)
Group operating profit	59,214	53,788	50,561	25,719	43,296
Share of associated undertakings' operating profits/(losses)	32	283	(210)	(5)	1
Total operating profit	59,246	54,071	50,351	25,714	43,297
Profit/(loss) on disposal of tangible fixed assets	337	371	(121)	45	-
Net interest payable and similar charges	(34,827)	(38,072)	(40,205)	(39,505)	(25,303)
Profit/(loss) on ordinary activities before taxation	24,756	16,370	10,025	(13,746)	17,994
Tax credit/(charge) on profit/(loss) on ordinary activities	556	509	2,407	(1,886)	(954)
Profit/(loss) on ordinary activities after taxation	25,312	16,879	12,432	(15,632)	17,040
Equity minority interest	-	-	-	-	311
Profit/(loss) for the year	25,312	16,879	12,432	(15,632)	17,351
Dividends paid and proposed	(6,088)	-	(1)	(5)	(16,022)
Retained profit/(loss) transferred to/(from) reserves	19,224	16,879	12,431	(15,637)	1,329

Consolidated balance sheet

As at 30 September

Investment properties at valuation	464,640	483,330	535,430	586,400	720,590
Operated properties at valuation	271,810	159,920	52,248 [§]	-	-
Other net assets	151,264	148,215	137,538 [§]	158,376	82,950
Non-recourse borrowings - net Secured Notes	(532,543)	(531,366)	(530,094)	(529,797)	(353,839)
Other borrowings - net bank loans	(34,630)	(52,362)	(92,730)	(139,037)	(194,244)
Total Shareholders' funds	320,541	207,737	102,392	75,942	255,457

Statistics

Basic earnings/(loss) per Ordinary Share	12.6p	10.1p	8.1p [†]	(10.6p) [†]	11.8p [†]
Operating cash flow after interest	£24.7m	£14.8m	£7.3m	£14.8m	£16.7m
Dividends per share	3.0p	-	-	-	11.6p
Net assets per share	157.6p	103.4p	65.5p [†]	51.4p [†]	172.9p [†]
Gearing - Consolidated	136%	222%	499%	675%	183%
Gearing - excluding non-recourse borrowings	12%	30%	135%	429%	78%
Beds	17,754	18,395	18,721	19,002	17,955
Number of homes*	367	373	377	379	347
Investment and operated properties at cost	£662.2m	£659.6m	£662.1m	£669.2m	£630.0m

* Including two homes held for resale at 30 September 2003 (2002: 4) (2001: 4) (2000: 1) (1999: 4).

[†] Restated to reflect the effects of the Rights Issue in July 2002.

[§] Previously combined.



NHP Plc

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