

COMPANY REGISTRATION  
No. 02798607



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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Front cover, from top to bottom:  
 Culloden Court Care Home – Inverness  
 Carers and residents in the gardens of Drummohr Care Centre – East Lothian  
 Lounge at Drummohr Care Centre  
 Residents in the reminiscence room at Springfield Bank Care Centre – Bonnyrigg

## THE OFFER

The Offer by TBG CareCo Limited of 260p per share, announced on 29 November 2004, values the Group's equity at £563.5 million (after the exercise of all share options).\*

## Audited Results for the Year to 30 September 2004

### SUMMARY

Turnover up 15 per cent. to £198.1 million (2003: £171.9 million), driven by the growth of Highfield Care.

Profit before tax increased by 44 per cent. to £35.6 million (2003: £24.8 million) after exceptional operating income of £3.3 million (2003: £0.3 million) and profit on disposal of tangible fixed assets of £3.1 million (2003: £0.3 million).

Basic earnings per Ordinary Share up 23 per cent. to 15.5p (2003: 12.6p).

Net asset value per Ordinary Share increased by 54 per cent. to 242.7p (2003: 157.6p). Diluted net asset value per Ordinary Share increased by 55 per cent. to 235.5p (2003: 151.8p).

In light of the Offer, no final dividend is proposed. Total dividend for the year, paid as the interim dividend this year, of 3p (2003: 3p).

Highfield Care achieved higher profitability in the second half, recording an operating profit for the year as a whole of £2.3 million (2003: operating loss of £2.0 million), despite a loss of £0.6 million in the seasonally weaker first half.

Sir Martin Laing, Chairman of NHP, said, "The cash Offer gives all shareholders the opportunity to realise in full the gain in the value of their investments over the last four years and values NHP at a level which the Board believes represents a meaningful premium to the diluted net asset value."

Bill Colvin, Chief Executive, added, "The greatly improved profit for the year is mainly due to the tremendous work done by the entire team at Highfield Care. I am proud of the achievements of our Group over the past four years with the combined efforts of all staff contributing to our success."

\* "Offer" - The recommended cash offer made outside the United States by UBS Limited and Deutsche Bank AG London for and on behalf of TBG CareCo Limited and in the United States by TBG CareCo Limited to acquire all the issued and to be issued NHP Ordinary Shares on the terms and subject to the conditions set out in the offer document and the accompanying form of acceptance issued by and/or on behalf of TBG CareCo Limited including, where the context so requires, any subsequent revision, variation, extension or renewal of such offer and includes any election available in connection with it.

**Financial Performance**

For the year ended 30 September 2004

	2004	2003	Increase/ (decrease)
Turnover	£198.1m	£171.9m	15%
Profit before tax excluding exceptional operating income*	£32.3m	£24.5m	32%
Profit before tax	£35.6m	£24.8m	44%
Basic earnings per Ordinary Share	15.5p	12.6p	23%
Dividends per Ordinary Share	3.0p	3.0p	–
Operating cash flow after interest†	£36.5m	£24.7m	48%
Net assets per Ordinary Share	242.7p	157.6p	54%
Shareholders' funds	£503.9m	£320.5m	57%
Beds	17,443	17,754	(2%)
Investment and operated properties at book value	£892.1m	£736.5m	21%
Investment and operated properties at cost	£666.7m	£662.2m	1%

\* Profit before tax excluding exceptional operating income for the year ended 30 September 2004 is calculated as profit on ordinary activities before taxation of £35.6 million less net exceptional operating income of £3.3 million (2003: £24.8 million less £0.3 million).

† Operating cash flow after interest for the year ended 30 September 2004 is calculated as net cash inflow from operating activities of £74.2 million less net cash outflow from returns on investment and servicing of finance of £37.7 million (2003: £64.3 million less £39.6 million).

## Five Year Summary

<b>Consolidated Profit and Loss Account</b> For the years ended 30 September	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Property business	44,816	48,985	56,631	71,153	70,896
Highfield Care	153,234	122,907	69,333	5,473	-
<b>Total turnover</b>	<b>198,050</b>	<b>171,892</b>	<b>125,964</b>	<b>76,626</b>	<b>70,896</b>
Cost of sales	(107,001)	(87,321)	(47,836)	(3,806)	-
<b>Gross profit</b>	<b>91,049</b>	<b>84,571</b>	<b>78,128</b>	<b>72,820</b>	<b>70,896</b>
Provision for tenants' doubtful debts and related costs	-	-	(4,838)	(10,259)	(9,067)
Depreciation and amortisation	(9,898)	(6,348)	(3,551)	(817)	(155)
Other administrative expenses	(20,255)	(19,259)	(16,199)	(6,532)	(7,080)
Exceptional operating income/(costs)	3,300	250	248	(4,651)	(28,875)
<b>Administrative expenses</b>	<b>(26,853)</b>	<b>(25,357)</b>	<b>(24,340)</b>	<b>(22,259)</b>	<b>(45,177)</b>
<b>Group operating profit</b>	<b>64,196</b>	<b>59,214</b>	<b>53,788</b>	<b>50,561</b>	<b>25,719</b>
Share of associated undertakings' operating profits/(losses)	28	32	283	(210)	(5)
<b>Total operating profit</b>	<b>64,224</b>	<b>59,246</b>	<b>54,071</b>	<b>50,351</b>	<b>25,714</b>
Profit/(loss) on disposal of tangible fixed assets	3,110	337	371	(121)	45
Net interest payable and similar charges	(31,714)	(34,827)	(38,072)	(40,205)	(39,505)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>35,620</b>	<b>24,756</b>	<b>16,370</b>	<b>10,025</b>	<b>(13,746)</b>
Tax (charge)/credit on profit/(loss) on ordinary activities	(3,798)	556	509	2,407	(1,886)
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>31,822</b>	<b>25,312</b>	<b>16,879</b>	<b>12,432</b>	<b>(15,632)</b>
<b>Profit/(loss) for the year</b>	<b>31,822</b>	<b>25,312</b>	<b>16,879</b>	<b>12,432</b>	<b>(15,632)</b>
Dividends paid	(6,193)	(6,088)	-	(1)	(5)
<b>Retained profit/(loss) transferred to/(from) reserves</b>	<b>25,629</b>	<b>19,224</b>	<b>16,879</b>	<b>12,431</b>	<b>(15,637)</b>
<b>Consolidated Balance Sheet</b> As at 30 September	2004 £'000	2003 £'000	2002 £'000	2001 £'000	2000 £'000
Investment properties at valuation	529,900	464,640	483,330	535,430	586,400
Operated properties at valuation	362,235	271,810	159,920	52,248	-
Other net assets	155,975	151,264	148,215	137,538	158,376
Non-recourse borrowings – net Secured Notes	(533,710)	(532,543)	(531,366)	(530,094)	(529,797)
Other borrowings – net bank loans	(10,482)	(34,630)	(52,362)	(92,730)	(139,037)
<b>Total Shareholders' funds</b>	<b>503,918</b>	<b>320,541</b>	<b>207,737</b>	<b>102,392</b>	<b>75,942</b>
<b>Statistics</b>					
<b>Basic earnings/(loss) per Ordinary Share</b>	<b>15.5p</b>	<b>12.6p</b>	<b>10.1p</b>	<b>8.1p†</b>	<b>(10.6p)†</b>
<b>Operating cash flow after interest</b>	<b>£36.5m</b>	<b>£24.7m</b>	<b>£14.8m</b>	<b>£7.3m</b>	<b>£14.8m</b>
<b>Dividends per share</b>	<b>3.0p</b>	<b>3.0p</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets per share</b>	<b>242.7p</b>	<b>157.6p</b>	<b>103.4p</b>	<b>65.5p†</b>	<b>51.4p†</b>
<b>Gearing – Consolidated</b>	<b>80%</b>	<b>136%</b>	<b>222%</b>	<b>499%</b>	<b>675%</b>
<b>Gearing – excluding non-recourse borrowings</b>	<b>2%</b>	<b>12%</b>	<b>30%</b>	<b>135%</b>	<b>429%</b>
<b>Beds</b>	<b>17,443</b>	<b>17,754</b>	<b>18,395</b>	<b>18,721</b>	<b>19,002</b>
<b>Number of homes *</b>	<b>358</b>	<b>367</b>	<b>373</b>	<b>377</b>	<b>379</b>
<b>Investment and operated properties at cost</b>	<b>£666.7m</b>	<b>£662.2m</b>	<b>£659.6m</b>	<b>£662.1m</b>	<b>£669.2m</b>

\* Including nil homes held for resale at 30 September 2004 (2003: 2) (2002: 4) (2001: 4) (2000: 1).

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

# Chairman's Statement

In the past year, the Board and management of NHP have continued the strategic focus to build value for shareholders from our operating subsidiary, Highfield Care, while at the same time ensuring as far as possible that our investment assets are operated by substantial and profitable third party tenants.

The undoubted highlight of the year under review was the further progress made by Highfield Care, which recorded an operating profit for the year of £2.3 million. In 2002, the portfolio of homes that today comprises Highfield Care generated third party rental bad debts of approximately £4.8 million as well as operating losses of £3.2 million in respect of those homes operated by Highfield Care during that period. In only three years we have built one of the leading national operators of care homes in the UK, recruited one of the best management teams to run it and turned Highfield Care into the profitable and growing business that it is today.

The improved environment for the major care home operators across the UK has contributed to an increase in the profitability of our third party operated homes as well as Highfield Care. As asset values in our business are driven substantially by current profitability, this improvement has given rise to a 21 per cent. up-lift in the combined value of our investment and operated properties during the year.

## RESULTS

Turnover in the year to 30 September 2004 increased by 15 per cent. to £198.1 million as a result of higher fee revenues at Highfield Care and a small increase in the number of homes it operates. Profit before taxation was £35.6 million (2003: £24.8 million), representing an increase of 44 per cent. Stripping out exceptional operating income of £3.3 million (2003: £0.3 million), this year relating wholly to write-

Main picture: the reception at Chapel Level Care Centre – Kirkcaldy

Bottom left: carer joining in the fun with residents at Cradlehall Care Centre – Inverness

Bottom right: residents chatting to carer at Chapel Level Care Centre

**Chairman's Statement** (Continued)

backs of permanent diminution of property value provisions, and profit on disposal of tangible fixed assets of £3.1 million (2003: £0.3 million), profit before taxation still increased by 21 per cent. to £29.2 million (2003: £24.2 million).

Basic earnings per Ordinary Share increased by 23 per cent. to 15.5p (2003: 12.6p) after a tax charge of £3.8 million (2003: net credit of £0.6 million). Diluted earnings per share were 15.1p (2003: 12.2p).

The value of investment and operated properties increased by 21 per cent. to £892.1 million (2003: £736.5 million). The uplift in our annual independent valuation plus retained profits for the year has led to a 54 per cent. increase in net asset value per Ordinary Share to 242.7p (2003: 157.6p). Net recourse borrowings were significantly lower at £9.8 million (2003: £34.4 million), representing recourse gearing of 2 per cent. (2003: 12 per cent.).

**DIVIDENDS**

An interim dividend of 3p per Ordinary Share was paid in July this year. In light of the Offer, the NHP Board has not recommended a final dividend. However, the NHP Board will reconsider the dividend policy in the event that the Offer lapses or is withdrawn.

**MANAGEMENT AND STAFF**

The Board, on behalf of shareholders, would like to thank NHP's management team and staff for their hard work in restoring the fortunes of our Company. We owe particular thanks to the Highfield Care team – management team, professionals, carers and ancillary staff – for their dedication and successful efforts in building Highfield Care into one of the UK's premier care home operators.

**OUTLOOK**

The improved operating environment, albeit with the usual regional variations, has continued into the current year. Demand for care home places remains roughly constant but the supply of new beds is limited to those few areas where fee levels can absorb the increasing costs of new build. The care home industry, we believe, will continue its process of consolidation into a handful of well-funded, professional operators at the national level on the one hand and thousands of very much smaller operators on the other.

**SIR MARTIN LAING**

Chairman

7 December 2004



Main picture: carers and residents enjoying a game of dominoes in the gardens of Drummohr Care Centre – East Lothian

Bottom left: activities co-ordinator encouraging residents playing draughts at Chapel Level Care Centre – Kirkcaldy

Bottom right: a sensory garden at Cradlehall Care Centre – Inverness

# Chief Executive's Review

The performance of both our property and operating businesses in the financial year under review was very encouraging. Profits, associated cash flows and net assets all reached record levels for NHP, completing the turnaround of NHP begun in 2000 when Richard Midmer and I were appointed to our present positions.

Net borrowings (recourse and non-recourse) have fallen to £403.4 million (2003: £435.9 million), which coupled with the increase in shareholders' funds, has led to the reduction in gearing from 500 per cent. at 30 September 2001 to 80 per cent. at 30 September 2004. NHP's share price has increased 14 fold within the last four years.

The most significant contribution to profit growth was the substantially improved financial performance of Highfield Care, which progressed from an operating loss of £2.0 million in 2003 to an operating profit of £2.3 million for the year under review. Highfield Care's profitability improvement is partly due to the £24.7 million invested over the last three years in its physical assets.

The 21 per cent. increase in the value of investment and operated properties was the major contributing factor feeding through to the 54 per cent increase – to 242.7p – in undiluted net asset value per Ordinary Share. The overall rise in the value of our properties is substantially attributable to their current profitability, resulting from rises in average fees, increased occupancy and operational efficiency at Highfield Care and the other tenants, as well as improved market sentiment towards the sector.

## THE UK CARE HOME INDUSTRY

Allocation of funds by local authority social services' departments is not

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NHP Pic

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Main picture: Tranent Care Home — East Lothian  
Bottom left: Chapel Level Care Centre — Kirkcaldy  
Bottom right: St Dunstons Care Centre — Pontypool

Top right: Whittington Care Centre — Derbyshire

**Chief Executive's Review** (Continued)

consistent between the categories of care for which they are responsible. Operators of care homes that rely on fees paid by social services, which accounts for approximately 60 per cent. of all elderly residents, continue to be marginalised in favour of those categories perceived to be more deserving such as the provision of children's services. This public under-funding has resulted in the loss of several thousands of beds each year as owners have found themselves unable to trade profitably. Continued low fee rates has severely restricted the building of new homes in many areas of the country. However, the reduction in bed numbers has created capacity shortages in parts of the country and forced local authorities to realign fees upwards to preserve existing capacity.

In 2004, the average fee increase in the UK for publicly funded residents was approximately 6.5 per cent., representing a real increase above care home cost inflation. However, this average figure masks a wide range of settlements with almost half of all local authorities awarding increases at or below the increase in the cost of care provision.

Our tenant base has seen considerable corporate activity over the last two years. In 2003, Ashbourne Healthcare, the fifth largest provider of care beds in the UK, was the subject of a management buy-in backed by Electra Partners Europe. Also in 2003, Care Management Group, one of the leading providers of specialist care, was acquired by its management backed by ISIS Equity Partners. In the last six months, Allianz Capital Partners acquired Four Seasons Health Care, the largest care bed operator in the UK, and Southern Cross BidCo Limited, a company indirectly controlled by the BCP IV Funds, acquired Southern Cross Healthcare, the fourth largest operator. This spate of corporate activity means that our main third party tenants are now owned by well-funded financial organisations and are well placed to ensure that the care home assets they operate remain in good condition. From NHP's point of view, the consolidation in the sector has been positive – both in terms of tenants' financial covenants and their ability to maintain our care homes.

**PROPERTY BUSINESS**

At 30 September 2004, the investment portfolio of properties operated by nine third party tenants comprised 192 homes with some 9,500 beds. The top three third party tenants operate some 8,260 of these beds, representing 87 per cent. of the total.

The financial performance of our third party tenants continued to improve with profit per bed on their NHP-owned homes increasing over the year. Rent receivable from the homes operated by third party tenants during the year was £44.8 million (2003: £49.0 million) with the year-end number of homes reducing by 15 to 192. There were no bad debts during the year, reflecting the consolidation of the tenant base into a small number of financially robust operators. For the first time in five years, there were no homes in receivership at the year-end.

Main picture: residents and staff enjoying themselves at Cradlehall Care Centre — Inverness

Bottom: dining room and television room at Springfield Bank Care Centre — Bonnyrigg

**Chief Executive's Review** (Continued)

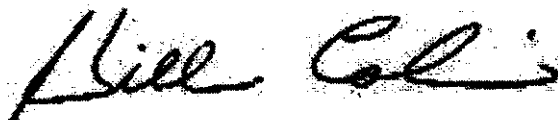
By 2003, we had converted over half of our third party leases (those with Ashbourne and Southern Cross) from pavement rents plus turnover rents to a higher, RPI-linked pavement rent. The first RPI escalator for these leases became effective in April this year and provided an annual increase of 2.5 per cent.

Consolidation of NHP's tenant base has now come to an end with the completion of two receiverships during the year. The first resulted in the addition of 14 leases in South Wales to Highfield Care's portfolio and the second saw nine specialist homes transferred to Southern Cross. Southern Cross today operates 104 NHP owned properties with 5,900 beds, representing 34 per cent. of our total beds.

Our increased focus on actively managing our property portfolio is reflected in a number of disposals, extensions and one care home acquisition. In March, following successful proof of concept, we disposed of six previously under-performing Highfield Care leases that had been converted to psychiatric rehabilitation hospitals. This sale generated £10.8 million in cash, including a gain on disposal of £2.4 million, and reduced central overheads by an annualised £0.7 million. A further four homes were sold during the year for a combined cash consideration of £6.1 million, producing a net gain on disposal of £0.7 million.

The additions and extensions to existing care homes have been concentrated on those operated by Highfield Care. Currently, approvals have been received for the building of 80 additional rooms, of which 20 have been completed. We are also in the process of building two extensions on homes operated by Ashbourne Healthcare to add 30 new rooms. One new-build home in the centre of York successfully gained planning approval in the year and is now under construction. This 80-bed home is expected to open in mid-2006 and will be operated by Highfield Care. Our ability to make profitable acquisitions of care homes has been constrained by industry economics in parts of the UK and by the current high prices being paid for such assets. However, the Group acquired the freehold of a 58-bed home in Paisley, Abbeycourt Care, for £2.2 million (including assumed debt) to add to Highfield Care's Scottish business.

NHP's tenanted investment portfolio now comprises well-funded, secure, long-term businesses with the ability to invest in NHP's assets. The improvement to date in profitability is reflected in the 19 per cent. average uplift in value of our homes operated by third party tenants.



**BILL COLVIN**  
Chief Executive  
7 December 2004

Main Picture: the manager celebrating a resident's 104th birthday at Drummohr Care Centre — East Lothian

Bottom left: resident with hairdresser at Springfield Bank Care Centre — Bonnyrigg

Bottom right: friends sharing memories of a cruise holiday in the 1960s in the lounge at Drummohr Care Centre

# Highfield Care Review

At 30 September 2004, Highfield Care operated or managed 186 care homes with 8,900 beds, of which 166 (with 7,900 beds) are owned by NHP, representing some 45 per cent. of the beds owned by NHP.

Highfield Care has made good progress on all fronts. After a much-reduced operating loss in the seasonally weaker first half, Highfield Care recorded an operating profit of £2.9 million in the second half, producing an operating profit for the year of £2.3 million (2003: loss of £2.0 million). Average fees per resident have increased by 6.8 per cent. to £395 per week, occupancy has increased from 91 per cent. to 94 per cent. for the comparable portfolios and the key profit-per-bed benchmark increased to an annualised £6,300 at the year-end (2003: £5,400). Highfield Care's increasing profitability is a direct reflection of NHP's substantial investment in its care homes, infrastructure and staff. The management team's focus on quality, training and marketing has created a profitable, stand-alone business that is today the fourth largest operator of care homes in the UK.

One of the major targets for the year was to reduce the use of expensive agency personnel to cover for absentees and to fill short-term vacancies in Highfield Care's homes. We have tackled this issue with a combination of centrally planned but locally organised recruitment drives, loyalty schemes, incentives and even competitions with high value prizes. Finding and retaining the additional high quality staff we need remains a challenge.

The year to 30 September 2004 saw the completion of the 'catch-up' capital expenditure programme by NHP to refurbish and upgrade Highfield Care's operated portfolio of NHP owned homes. This



Main picture: residents and staff being entertained at Chapel Level Care Centre — Kirkcaldy

Bottom left: carer and resident in the gardens at Springfield Bank Care Centre — Bonnyrigg

Bottom right: carers assisting resident on to the Highfield Care minibus at Drummoir Care Centre — East Lothian

**Highfield Care Review** (Continued)

programme was necessitated by previous tenants' failure to invest in the properties as they found themselves in financial difficulty. In the year under review, Group capital expenditure was £12.8 million (2003: £7.4 million) with the majority of this figure (£8.3 million) being incurred in the first half of the year. The expenditure covered the upgrade of buildings' exteriors and interiors, the purchase of special equipment such as electrically operated beds as well as specially adapted minibuses and new furniture.

Highfield Care sets great store by its homes playing an active role in their local communities. In 2002 we took the decision to provide financial support to our care homes so that they could raise their profiles in their local communities - improving the quality of life for residents, boosting staff morale and providing an effective channel for marketing. Funds raised by activities involving residents in the individual homes were matched - pound for pound - by NHP. So successful and popular has this programme become, that between Highfield Care's residents and staff, with NHP's financial support, a total of over £1 million has been raised to date. This money has gone to improving the lives of our residents and also to a variety of local causes championed by Highfield Care's homes across the UK.

Other initiatives include a sponsorship programme to provide sports equipment and strips for over 100 local state primary and secondary school sports teams and a partnership with Everton Football Club's Football in the Community programme to expand their Disability Football Programme. A more recent initiative has been to support community arts projects - mirroring our residents' arts competition that features once again on Highfield Care's 2005 Residents' Calendar. The first of these projects is with Hall Garth School, a state specialist college for arts in Middlesbrough.

**STAFF**

This successful and profitable business could not have been built without the efforts of all Highfield Care's managers, team leaders and staff. The care they provide throughout the UK is central to our success. I would like to thank all staff on behalf of the Board and shareholders.

**JOHN MURPHY**

Chief Executive Highfield Care  
7 December 2004

Main picture: residents recalling memories in the reminiscence room at Springfield Bank Care Centre — Bonnyrigg  
Bottom: close-ups of memorabilia in the reminiscence room

# Financial Review

*This review provides a commentary on the principal movements in the Group accounts for the year to 30 September 2004 and an analysis of the Group's businesses.*

## PROFIT AND LOSS ACCOUNT

Rents from our third party tenants of NHP care home assets totalled £44.8 million for the year (2003: £49.0 million). This included significantly reduced turnover rent of £2.5 million (2003: £4.3 million), as the majority of our leases have now had turnover rent consolidated into pavement rent and been moved onto RPI escalators. The decline in total third party rents receivable resulted from the transfer to Highfield Care during the period of 14 leases from a tenant in receivership and the sale of one home previously operated by Southern Cross. Notional rent charged to Highfield Care was £29.4 million (2003: £25.7 million). As a result of disposals made during the year, total rents receivable during the year from both third parties and Highfield Care (notional rent) reduced to £74.2 million (2003: £74.7 million).

Highfield Care's turnover increased by 25 per cent. to £153.2 million (2003: £122.9 million) largely due to the addition of a net seven NHP owned homes to the Highfield Care operated portfolio and higher occupancy and fee revenues per resident. Combined total Group turnover was £198.1 million (2003: £171.9 million). Cost of sales increased to £107.0 million (2003: £87.3 million), broadly in line with the growth of Highfield Care's turnover.

Highfield Care's financial performance again improved significantly during the year. The much-reduced first half operating loss of £0.6 million (2003: £2.7 million) was more than made up by an operating profit in the second half of £2.9 million (2003: £0.7 million). This produced an operating profit for the year of £2.3 million (2003: operating loss of £2.0 million).

Profit before tax was £35.6 million (2003: £24.8 million), which included exceptional operating income of £3.3 million (2003: a net income of £0.3 million). This year's exceptional operating income is from the write back of permanent diminution in value on fixed asset properties (2003: £1.7 million). Also included in the profit before tax is a net £3.1 million profit (2003: £0.3 million) on disposal of tangible fixed assets. This figure comprises a gain of £2.4 million on the disposal of our start-up psychiatric rehabilitation business (then called NHP Healthcare Partnerships), which comprised six under-performing leases previously operated by Highfield Care, and a net gain of £0.7 million relating principally to the sale of four other homes.

Group depreciation charged in the year was £9.8 million (2003: £6.2 million) including £8.8 million (2003: £5.4 million) for the Highfield Care operated properties.

Net interest payable and similar charges were further reduced to £31.7 million (2003: £34.8 million), reflecting the lower recourse borrowings and the benefits of the new banking facility put in place last year, on which bank loan interest of £1.4 million was payable in 2004 (2003: £2.6 million). Average cost of bank borrowing during the year was 5.37 per cent. (2003: 5.6 per cent.). The blended fixed rate of the £559 million (2003: £559 million) non-recourse secured notes outstanding was unchanged at 6.7 per cent. The secured notes represented 98 per cent. (2003: 94 per cent.) of the Group's total debt.

Basic earnings per Ordinary Share were 15.5p (2003: 12.6p) and diluted earnings per Ordinary Share were 15.1p (2003: 12.2p) after a tax charge for the year of £3.8 million (2003: credit of £0.6 million).

#### **BALANCE SHEET**

At 30 September 2004, there were 358 care homes in the Group's property portfolio (2003: 367 homes) with a total of 17,400 beds (2003: 17,700 beds). Highfield Care operated 166 of these homes with a total of 7,900 beds (2003: 159 homes with 7,500 beds).

GVA Grimley's annual year-end independent valuation of the 192 investment properties (2003: 207 homes, including those in receivership at the time) produced a value of £529.9 million (2003: £464.6 million). The principal reasons for the increase in value of the investment properties were the improved profitability of third party tenants' operated homes and the stronger covenants resulting from the acquisition, backed by well-funded financial organisations, of Southern Cross and Four Seasons – two of NHP's largest tenants.

The 166 operated properties (2003: 159 homes) were valued, on an existing use basis, at £362.2 million (2003: £271.8 million). The significant increase in the value of operated properties reflects the material improvement in profitability resulting from the substantial investment made in Highfield Care's homes and staff and, to a lesser extent, the 15 per cent. portfolio premium (2003: 5 per cent.) applied by GVA Grimley. This increased portfolio premium has been justified by GVA Grimley on the basis that it reflects 'current purchaser appetite for large care home groups of this nature'.

Taking the two asset classes together, the portfolio value has increased by 21 per cent. to £892.1 million (2003: £736.5 million). The overall yield on the investment property portfolio, based on the annualised receivable rents of £43.9 million (2003: £44.8 million), was 8.3 per cent. (2003: 9.6 per cent.). Using full annual pavement rents only, the yield reduces to 7.9 per cent. (2003: 9.3 per cent.).

**Financial Review** (Continued)

Total net debt, excluding the deposit swaps and zero coupon notes of the three securitisation vehicles, reduced to £524.8 million (2003: £548.6 million). Net recourse borrowings were £9.8 million (2003: £34.4 million) at the year-end. Consolidated gearing – including the non-recourse securitised debt – was 80 per cent. at 30 September 2004 (2003: 136 per cent.). Gearing calculated using only recourse borrowings fell for the fourth consecutive year to 2 per cent. (2003: 12 per cent.) as a result of lower bank debt, the increase in value of the asset base and retained profits.

**CASH FLOW**

Net cash inflow from operating activities improved to £74.2 million (2003: £64.3 million), primarily reflecting the improved operational performance and working capital management of Highfield Care. Net cash interest and finance costs reduced to £37.7 million (2003: £39.6 million), reflecting the lower bank borrowings and their reduced cost.

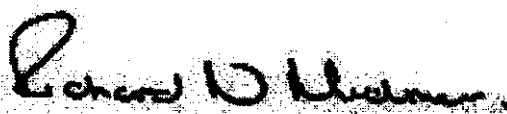
Capital expenditure for the year, excluding the £2.2 million acquisition of Abbeycourt Care Limited, totalled £17.8 million (2003: £11.3 million) and was concentrated in the first half when Highfield Care largely completed its 'catch up' investment programme. Disposal proceeds of £17.6 million (2003: £5.4 million) substantially offset this and were principally generated from the disposal of NHP Healthcare Partnerships, our start-up psychiatric rehabilitation business, and four further care 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 is accrued on a monthly basis until their maturity dates. At 30 September 2004, these investments were held at a book value in the consolidated balance sheet of £147.0 million (2003: £139.5 million).

**INTERNATIONAL ACCOUNTING STANDARDS (IAS)**

With effect from 1 October 2005, NHP, in common with other listed companies, will be required to publish its results using IFRS rather than the current UK accounting standards. The changeover to a different set of accounting standards will impact on reported balance sheets and profits. NHP has commenced the work necessary to prepare for this changeover and has identified that the most significant potential adjustment relates to the classification of NHP's leases between operating leases and finance leases in accordance with IAS 17, and their accounting treatment in accordance with IAS 40 (investment properties) and IAS 16 (operated properties). Determination of the classification of each of NHP's leases is currently underway.



**RICHARD MIDMER**  
Finance Director  
7 December 2004

## Company Information

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### REGISTERED NO. 02798607

### SECRETARY

Sheila Kaul

### STOCKBROKERS AND FINANCIAL ADVISER

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### INSURANCE BROKERS

GR Patrick & Co. Limited  
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230 Burlington Road  
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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

#### Nomination Committee

Sir Martin Laing (Chairman)  
W Colvin  
Lord Sutherland

# Board of Directors

## **SIR JOHN MARTIN KIRBY**

### **LAING CBE**

Non-executive Group Chairman, aged 62, has broad experience in and knowledge of the property sector, both in the UK and overseas. He holds and has held office in various industry, trade, academic and charitable organisations. He is a director of Eskmuir Properties Limited. 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 46, 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**

Group Finance Director, aged 50, 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 48, 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 16 years ago. He was appointed an executive Director of the Company on 30 January 2003.

## **CLAYTON HUGO WYNNE ROBSON**

Non-executive Director, aged 72, has long and broad experience in the corporate finance and banking sectors. He is currently Chairman of Welsh Gold Plc. 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. He is Chairman of the Company's Remuneration Committee and a member of its Audit Committee.

## **LORD SUTHERLAND**

Non-executive Director, aged 63, 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 was appointed a non-executive Director of the Company on 14 May 2001 and is a member of the Company's Audit, Remuneration and Nomination Committees.

## **RONALD ANDREW HENDERSON**

Non-executive Director, aged 58, he is currently Group Finance Director of Network Rail Limited and non-executive Director of Scipher plc. He was appointed a non-executive Director of the Company on 6 December 2001. He is Chairman of the Company's Audit Committee and a member of its Remuneration Committee.

## **NANCY JANE HOLLENDONER**

Non-executive Director, aged 49, is currently a healthcare sector consultant to the financial services industry. She was previously with UBS' equity research division in London as European healthcare sector analyst. She was non-executive Chairman of NHP Healthcare Partnerships Limited, our specialist care subsidiary, until its disposal on 23 March 2004. She was appointed a non-executive Director of the Company on 27 February 2003 and is a member of the Company's Audit Committee.



1 Sir John Martin Kirby Laing CBE

2 Bill Colvin

3 Richard Neil Midmer

4 John Murphy

5 Clayton Hugo Wynne Robson

6 Lord Sutherland

7 Ronald Andrew Henderson

8 Nancy Jane Hollender

## Directors' Report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30 September 2004.

### 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 by Highfield Care of nursing and residential homes.

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 4 to 6 and the Chief Executive's, Highfield Care and Financial Reviews on pages 8 to 20. Events occurring after the balance sheet date are reported in note 35 to the accounts on page 70.

### OFFER

On 29 November 2004, TBG CareCo Limited, an affiliated company of The Blackstone Group, made a formal Offer to acquire 100 per cent. of the issued and to be issued share capital of the Company at a cash price of 260.0p per Ordinary Share. The Offer document was mailed to shareholders on 9 December 2004.

### RESULTS

The results for the year ended 30 September 2004 are set out in the consolidated profit and loss account on page 38.

### DIVIDENDS

An interim dividend of 3.0p per Ordinary Share (2003: 0.75p) was paid to shareholders on 14 June 2004. The Directors do not propose a final dividend for the year ended 30 September 2004 (2003: 2.25p).

### DIRECTORS

A brief statement on each of the current Directors, their responsibilities and experience, is set out on page 22 of this report. All the Directors served throughout the year ended 30 September 2004.

The Directors' beneficial shareholdings at 30 September 2004, and at 30 September 2003, were as follows:

	Ordinary shares	
	2004	2003
	£'000	£'000
Sir Martin Laing	9,049	9,049
W Colvin	20,000	20,000
R N Midmer	5,000	5,000
J Murphy	14,705	14,705
C H W Robson	44,519	44,519
Lord Sutherland	5,886	5,886
R A Henderson	5,000	5,000
N J Hollendoner	3,500	—
Total	107,659	104,159

The market price of the Ordinary Shares at the end of the year was 234.5p and the quoted price during the year ranged from 128.0p to 248.0p.

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

There have been no changes to any of these Directors' interests between 30 September 2004 and the date of this report with the exception of C H W Robson whose wife has acquired 4,950 Ordinary Shares in the Company.

**Directors' Report** (Continued)

There were no grants to the executive Directors under the Company's Share Option Schemes during the year under review, details of their current holdings are shown in the Directors' remuneration report on page 31.

Except as stated in note 34 to the Accounts on page 69, 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.

R N Midmer and Lord Sutherland retire by rotation at the 12th 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 72 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. He offers himself for re-election.

In addition to the routine business, the following special business will be transacted at the 12th Annual General Meeting to be held on 24 February 2005 at 9.30 am:

**RESTRICTED DISAPPLICATION OF PRE-EMPTION RIGHTS (RESOLUTION 7)**

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 per cent. 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 7 will expire at the conclusion of the AGM to be held in 2006 or 30 April 2006, whichever is the earlier.

**PURCHASE BY THE COMPANY OF ITS OWN SHARES (RESOLUTION 8)**

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 per cent. of the issued ordinary shares of the Company at a price of not more than 105 per cent. 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 6 December 2004, 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 Ordinary Shares	% of issued share capital
Schroder Investment Management	23,415,944	11.3%
Barclays Global Investors	18,990,647	9.1%
Lansdowne Partners	14,383,214	6.9%
Merrill Lynch Investment Managers	10,508,821	5.1%
Morley Fund Management	10,111,164	4.9%
M & G Investment Management	10,039,338	4.8%
Henderson Global Investors	9,802,656	4.7%
Legal & General Investment Management	6,725,184	3.2%
F&C Asset Management	6,538,382	3.1%

**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 2004, calculated in accordance with the Companies Act 1985, were 25 (2003: 30). Creditor days for the Company at 30 September 2004 were 15 (2003: 26).

**EMPLOYMENT POLICIES**

The Group supports the principal of Equal Opportunities in employment and opposes all forms of unfair and unlawful discrimination. 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 also recognises the contribution of a highly motivated staff to its continued success. All staff are encouraged to develop their careers through the funding of appropriate training and qualifications.

**DISABLED STAFF**

It is the Group's policy that disabled persons should be considered for employment, training, career development on the basis of their abilities and aptitudes in common with all staff. The Group will take all steps practicable to ensure that staff who become disabled during the time they are employed by the Group are able to continue to perform their duties and are afforded the same training, career development and promotion opportunities as other staff members.

**EMPLOYEE COMMUNICATIONS**

The Directors recognise the importance of good communications and relations with the Group's staff. Internal newsletters are distributed regularly to keep staff informed at all levels. The operating division issues a newsletter each month to the Highfield Care homes.

The Group places great importance on keeping its staff informed of the Group's activities, financial performance and the economic and financial factors affecting the Group's performance by regular newsletters and formal and informal meetings. 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 employee interests in the Company's performance.

**CHARITABLE DONATIONS**

No political donations were made during the year (2003: £nil). Charitable donations made to third parties in 2004 totalled £21,570 (2003: £1,876).

Since 2002, the Company has matched pound for pound funds raised by the residents and staff of each care home operated by Highfield Care. These funds have been utilised to provide extra treats for the residents of the homes and also to support local community initiatives. So successful and popular has this programme become that, between Highfield Care's residents and staff and the Company's support, a total of over £1 million has been raised to date.

**AUDITORS**

Deloitte & Touche LLP have expressed their willingness to be reappointed as auditors to the Company, and a resolution for their appointment will be proposed at the 12th Annual General Meeting to be held on 24 February 2005.

**Directors' Report** (Continued)**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 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  
7 December 2004

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

## Directors' Remuneration Report

This report is presented by the Remuneration Committee under its delegated powers contained in its Terms of Reference (copy available on request from the Company Secretary) and has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 as well as the Listing Rules of the Financial Services Authority and the Companies Act 1985. A resolution to approve the report will be proposed at the Annual General Meeting.

The regulations require the external 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 28 to 30 containing the unaudited information and pages 30 and 31 containing the audited information.

### INTRODUCTION

The Remuneration Committee is directly responsible to the Company's shareholders and, as in previous years, its Chairman will be present at the AGM to answer any questions from shareholders and offer himself for re-election. The Committee sits at least three times in each year, deliberating and making recommendations to the Board on the remuneration policy of the Company Chairman and of the executive Directors. It also monitors the level and structure of the remuneration for senior staff. The Committee members' attendance is shown on page 33. The members of the Committee are the non-executive Directors, C H W Robson (Chairman), Lord Sutherland and R A Henderson. The Committee retains New Bridge Street Consultants LLP for independent advice on pay and remuneration policy and also consults with Sir Martin Laing, Chairman of NHP, when appropriate, except in matters concerning his own remuneration. New Bridge Street Consultants LLP do not provide advice on any other services to the Company. All the non-executive Directors are deemed to be independent notwithstanding their current participation in the 1998 NHP Plc Inland Revenue Approved Save As You Earn Share Option Scheme (the "SAYE Scheme") and their shareholdings in the Company as shown on pages 31 and 24 respectively.

### 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. In determining remuneration policy, the Committee's objective is to ensure the Group continues to be able to attract, motivate and retain individuals with the experience and skills required to operate the business competitively in the best interests of its shareholders. The executive Directors do not play any part in the determination of their own remuneration package and the fees of the non-executive Directors are set by the executive Directors reflecting the time commitment and the responsibility expected from them.

#### 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 whilst taking into account each individual's responsibilities, experience and performance. These are reviewed annually.

#### Bonuses

Short-term bonuses are offered annually. These are based on the amount by which key financial measures exceed the previous year's figures. These can be up to 50 per cent. 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.

#### Highfield bonus scheme – John Murphy

Following the growth of Highfield Care a separate cash bonus scheme has been introduced for John Murphy and his senior executive team for the 2004/5 financial year. The bonus will be triggered either by the change in control or the 2004/5 financial year results, whichever is the earliest to occur. The bonus payments are subject to challenging profit targets for Highfield determined by reference to the level of EBIT, being the profits of Highfield before rent, interest and tax. Save in respect of a change of control, the bonus payments will be paid after the 2004/5 financial year in three equal annual instalments, the first instalment to be made as soon as

## Directors' Remuneration Report (Continued)

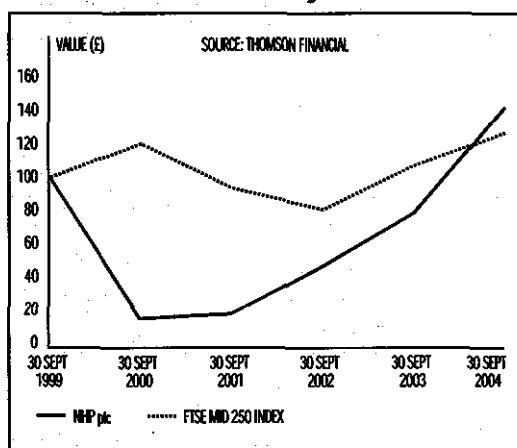
possible after the 2004/5 financial year end and the remaining two payments being made after the 2005/6 and 2006/7 financial year ends. On a change of control any bonus will be paid by the Company as soon as it is reasonably practicable to do so.

### Share options

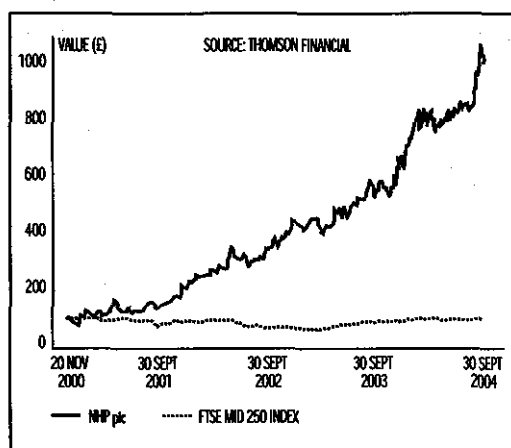
All executive Directors, along with all other staff, are entitled to participate in the Inland Revenue Approved Savings Related Share Option Scheme. There were no further grants of share options to the executive Directors under the NHP Plc 2001 Inland Revenue Approved and Unapproved Executive Share Option Scheme (the "2001 Scheme") in the period being reported. For previous grants, the Committee chose 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.

The performance graphs below show NHP's Total Shareholder Return performance compared to the FTSE mid-250 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 FTSE mid-250 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 since 20 November 2000



These graphs show the value by 30 September 2004 of £100 invested in NHP on 30 September 1999 or 20 November 2000 compared with the value of £100 invested in the FTSE Mid 250 Index for either period.

### EXECUTIVE DIRECTORS

The executive Directors have 12 month rolling contracts of employment subject to 12 months' notice on either side. The Company pays an extra 20 per cent. of their basic salaries only as a contribution to their defined benefit 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, death in service cover and personal medical insurance. The 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 per cent. pension contribution, use of Company car, and approved expenses.

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

W Colvin	9 November 2000
R N Midmer	9 November 2000
J Murphy	4 October 2002

## Directors' Remuneration Report (Continued)

### NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the executive Directors within the limits set out in the Articles of Association and is based upon independent surveys of fees paid to non-executive Directors. Non-executive Directors do not have contracts of employment but provide services pursuant to letters of appointment. They may be paid for professional services provided to the Group, but cannot participate in the Company's annual bonus plan or Executive Share Option Schemes, nor are they eligible to join the Company's pension scheme. In the past, non-executive Directors have been eligible to participate in the SAYE Scheme. However, on 29 January 2004 the Board decided the non-executive Directors would no longer be eligible to participate in any further offers under the SAYE Scheme. The existing grants held by non-executive Directors under the SAYE Scheme will continue to maturity. 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.

The following information has been audited.

Details of the Directors' emoluments for the year ended 30 September 2004, with comparative amounts for the year ended 30 September 2003, are as follows:

	Salary and fees £	Bonus £	Benefits £	Aggregate emoluments £	Pension contributions £	For the year ended 30 Sep 2004 Total emoluments £	For the year ended 30 Sep 2003 Total emoluments £
<b>Executive Directors</b>							
W Colvin	310,000	195,000	19,975	524,975	62,000	586,975	387,191
R N Midmer	250,000	160,000	23,160	433,160	50,000	483,160	312,708
J Murphy	220,000	142,000	25,224	387,224	44,000	431,224	255,425
D F Francis	-	-	-	-	-	-	176,903
<b>Non-executive Directors</b>							
Sir Martin Laing, Chairman	60,000	-	-	60,000	-	60,000	52,500
C H W Robson	30,000	-	-	30,000	-	30,000	25,000
Lord Sutherland	30,000	-	-	30,000	-	30,000	25,000
R A Henderson	30,000	-	-	30,000	-	30,000	25,000
N J Hollendoner*	57,500	-	-	57,500	-	57,500	16,874
<b>Total</b>	<b>987,500</b>	<b>497,000</b>	<b>68,359</b>	<b>1,552,859</b>	<b>156,000</b>	<b>1,708,859</b>	<b>1,276,601</b>

\* Included in the fees paid to N J Hollendoner are additional fees of £27,500 in her capacity as non-executive Chairman of the specialist division.

N J Hollendoner was appointed as non-executive Chairman for the Company's specialist division, NHP Healthcare Partnerships Limited, on 29 September 2003. This division was subsequently sold in March 2004.

In addition, W Colvin is a non-executive Director of Sondex Plc and CustomVis Plc. Mr Colvin has received fees of £21,666.68 from Sondex Plc and £43,533.00 from CustomVis Plc for the year to 30 September 2004, which he retains.



**Directors' Remuneration Report** (Continued)

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

	Scheme (see below)	At 1 Oct 2003	Granted	Exercised	Lapsed	At 30 Sep 2004	Exercise price	Date from which exercisable	Expiry date
Sir Martin Laing	1	15,770	-	-	-	15,770	107.00p	01.02.05	01.08.05
W Colvin	1	17,733	-	-	-	17,733	89.80p	01.08.08	01.02.09
	2	83,300	-	-	-	83,300	36.00p	13.10.04	12.10.11
	3	2,060,928	-	-	-	2,060,928	35.00p	14.09.04	13.09.11
	3	457,300	-	-	-	457,300	82.00p	01.10.05	30.09.12
	3	320,500	-	-	-	320,500	120.50p	28.08.06	27.08.13
R N Midmer	1	10,300	-	-	-	10,300	89.80p	01.08.06	01.02.07
	2	83,300	-	-	-	83,300	36.00p	13.10.04	12.10.11
	3	1,373,952	-	-	-	1,373,952	35.00p	14.09.04	13.09.11
	3	365,800	-	-	-	365,800	82.00p	01.10.05	30.09.12
	3	256,400	-	-	-	256,400	120.50p	28.08.06	27.08.13
J Murphy	1	10,300	-	-	-	10,300	89.80p	01.08.06	01.02.07
	2	31,250	-	-	-	31,250	96.00p	10.12.05	09.12.12
	3	718,232	-	-	-	718,232	90.50p	10.12.05	09.12.12
	3	211,600	-	-	-	211,600	120.50p	28.08.06	27.08.13
C H W Robson	1	10,300	-	-	-	10,300	89.80p	01.08.06	01.02.07
R A Henderson	1	10,300	-	-	-	10,300	89.80p	01.08.06	01.02.07
Lord Sutherland	1	17,733	-	-	-	17,733	89.80p	01.08.08	01.02.09
N J Hollendoner	-	-	-	-	-	-	-	-	-

Schemes: 1. NHP Plc 1998 Inland Approved Savings Related Share Option Scheme – the non-executive Directors will complete their current contracts and then will no longer participate in the 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  
7 December 2004

## Statement on Corporate Governance

### COMPLIANCE STATEMENT

The Board of Directors considers that the Company has complied throughout the year ended 30 September 2004 with the provisions of the Combined Code, as annexed to The Listing Rules of the Financial Services Authority, as it applied prior to 1 November 2003. During the year, the Board has considered and largely implemented the additional actions that will ensure future compliance with the Combined Code, as it applies for reporting periods commencing on or after 1 November 2003 (the "Revised Combined Code").

This statement describes how the Board of Directors is applying the principles of corporate governance set out in both the existing and the Revised Combined Code. The headings in this statement, other than the final four, are taken from Section 1 of the Revised Combined Code that applies to listed companies.

### DIRECTORS

#### The Board

The Board currently comprises the Chairman plus three executive and four non-executive Directors. The respective biographies appear on page 22.

The Company Secretary maintains a list of the key matters and decisions reserved for approval by the Board. The latter includes formulation of the Group's business strategy; approval of annual budget and business plans; approval of reported financial statements and dividends; approval of major capital investment and disposal proposals; and formulation of Group policies. The full list is available upon request from the Company Secretary.

Responsibility for implementing the Group's business strategy is delegated to the executive Directors. The Board has also established three Board Committees, each with its own written terms of reference. The terms of reference of the Audit, Remuneration and Nomination Committees are available on request from the Company Secretary. The role of these Committees is described in more detail below.

#### Chairman and Chief Executive

The Chairman and Chief Executive have separate written accountabilities that are clearly defined and that have been approved by the Board. The Chairman is responsible for leadership of the Board, setting its agenda and ensuring its effectiveness. The Chief Executive is responsible for leadership of the business and implementation of the business strategy.

#### Board balance and independence

The Board comprises a balance of executive and non-executive Directors such that no individual or small group of individuals can dominate the Board's decision taking. The Board considers that it contains the requisite diversity of skills and experience to further the interests of the Company's shareholders and stakeholders.

The nominated 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 (9 years) Mr Robson remains independent in character and judgement and continues to be committed to the role he performs for the Company.

The Board considers that notwithstanding their shareholdings in the Company (see page 24), which are regarded as immaterial, and additional fees of £27,500 paid to NJ Hollendoner in her capacity as non-executive Chairman of the Company's specialist division (see page 30), all of the non-executive Directors are independent in character and judgement and are therefore independent within the meaning of the Revised Combined Code.

#### Appointments to the Board

The Nomination Committee appointed by the Board is responsible for ongoing review of the structure, size and composition of the Board; for making recommendations to the Board on the appointment of executive and non-executive Directors, and their re-appointment following retirement by rotation; and for ensuring that succession planning is in place.

## Statement on Corporate Governance (Continued)

The Nomination Committee meets formally at least once a year and at such other times as the Chairman of the Committee shall require. Membership of the Committee comprises of the Company Chairman, the Chief Executive and one independent non-executive Director, the latter currently being Lord Sutherland. The quorum for meetings is two.

### Information and professional development

Directors receive induction on joining the Board and all Directors are offered training to update their skills and knowledge.

The Board receives regular information in a form and of a quality that it considers appropriate to enable it to discharge its duties.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board and Committee procedures are followed and that the Group and Board operate within applicable legislation, rules and regulations. Procedures are in place for the Directors to take independent professional advice, at the Company's expense, should this be required.

### Performance evaluation

Under the guidance of the Company's Chairman, individual members of the Board recently completed a survey evaluating the activities and effectiveness of the Board and its Committees. The results of this survey were discussed at the Board meeting held in September 2004. Whilst the survey indicated that the Board and its Committees were operating effectively, it was agreed that an improved evaluation process should be developed and introduced in the course of the coming year.

### Re-election

The Revised Combined Code's requirement to submit Directors for reappointment at regular intervals is met by virtue of applying the Company's Articles of Association.

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. One third of the Directors are required to retire at the Annual General Meeting in every year, and every Director aged 70 years or more is to be re-elected annually.

The following table shows the number of scheduled Board and Committee meetings held in 2004 and the number attended by their respective members:

	Board	Non-executive Directors	Audit	Nomination	Remuneration
Number of meetings held	6	1	4	1	3
Number of meetings attended:					
Sir Martin Laing	6	n/a	n/a	1	n/a
W Colvin	6	n/a	n/a	1	n/a
R N Midmer	6	n/a	n/a	n/a	n/a
J Murphy	6	n/a	n/a	n/a	n/a
C H W Robson	6	1	4	n/a	3
R A Henderson	6	1	4	n/a	3
Lord Sutherland	6	1	3	1	3
N J Hollendoner	6	1	4	n/a	n/a

All Directors attended the Annual General Meeting held in January 2004.

## Statement on Corporate Governance (Continued)

### REMUNERATION

The Remuneration Committee appointed by the Board makes recommendations to and determines on the Board's behalf all aspects of pay and benefits of the Company Chairman and the executive Directors, and also sets the remuneration and incentive policies of the Group as a whole.

The Remuneration Committee comprises only non-executive Directors. The current Chairman of the Committee is CHW Robson and its other members are Lord Sutherland and RA Henderson. The Remuneration Committee meets formally at least three times a year and at such other times as the Chairman of the Committee shall require. The quorum for meetings is two.

Details of the Directors' remuneration required to be disclosed under the existing and Revised Combined Code and the Director's Remuneration Report Regulations 2002 are set out in the Directors' remuneration report on pages 28 to 31.

### ACCOUNTABILITY AND AUDIT

#### Financial reporting

The Board is satisfied that it continues to present a balanced and understandable assessment of the Company's financial position and prospects, not only in respect of statutory reports and accounts but also in respect of interim reports, reports to regulators and public disclosures of price sensitive information.

A summary of the Directors' responsibilities for the financial statements is set out on page 27.

The "going concern" statement required by the Revised Combined Code is set out on page 36.

#### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing the effectiveness of these controls. The system of internal control 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 Board considers that it has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Group's objectives. Lines of responsibility and limits of authority are clearly defined.

The Board has in place ongoing systems for the identification, evaluation and management of significant risks. The Board, through its Audit Committee, has conducted its annual review of the effectiveness of the Group's system of internal control and is satisfied that its review is compliant with the Turnbull Report for the period since 1 October 2003. The review included financial, operational and compliance controls and risk management systems.

The Group operates an internal audit function reporting to the Group Finance Director but subject to review by the Audit Committee. All internal audit reports are submitted to the Audit Committee for their review and consideration.

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.

## Statement on Corporate Governance (Continued)

### Audit Committee and auditors

Under the Revised Combined Code, the Board has an obligation to establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors. The Board meets this obligation through its Audit Committee.

The Audit Committee comprises only non-executive Directors. The current Chairman of the Committee is R A Henderson, who has the recent and relevant financial experience called for by the Revised Combined Code, and its other members are C H W Robson, Lord Sutherland and N J Hollendoner. The Audit Committee meets formally at least four times a year and at such other times as the Chairman of the Committee shall require. Senior representatives of the external auditors as well as members of the Group's executive management and internal audit function are invited to attend meetings on a regular basis. Meetings are held at appropriate times in the reporting and audit cycle, and are held at least two working days prior to a Board meeting where financial statements are to be approved. The quorum for meetings is two.

The Audit Committee monitors the integrity of the financial statements of the Company (including its annual and interim reports) and annually reviews the effectiveness of the Company's systems of internal control and risk management. It also considers the appointment, terms of engagement and remuneration of the external auditors, together with a review of their independence, objectivity and effectiveness. The Audit Committee receives reports on the system of internal financial controls from the Group's internal audit function.

The Company's external auditors, Deloitte & Touche LLP, also perform non-audit services for the Group over and above the external audit. The Audit Committee monitors the appointment of the external auditors for such purposes and remains confident that the objectivity and independence of the external auditors is not impaired in any way by reason of their further services.

The Audit Committee is satisfied that appropriate "whistle-blowing" arrangements are in place whereby staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

### RELATIONS WITH SHAREHOLDERS

#### Dialogue with institutional shareholders

The executive Directors are primarily responsible for investor relations and regularly making contact with institutional and other shareholders in an effort to maintain open and effective dialogue. The Chairman, the Senior Independent Director and the other non-executive Directors are also available to meet with shareholders to review strategy or to discuss corporate governance and other matters of concern.

Regular reports are made to the Board on the number and types of meetings between the Company and shareholders. Analyst and broker notes are also circulated to all members of the Board.

The Group maintains a website – [www.nhprops.co.uk](http://www.nhprops.co.uk) – which is regularly updated and contains live links to other sites containing up to date investor information. The website makes available the latest published accounts of the NHP Plc Group as well as information on the performance of the three bond issues involving the Group. The site has become the most frequently used channel of communication with private investors.

#### Constructive use of the AGM

The Company's Annual General Meeting is the principal opportunity for shareholders to question the Directors and Chairmen of the Board Committees, both formally and informally. All Directors of the Company are expected to attend the Annual General Meeting.

**Statement on Corporate Governance (Continued)**

Resolutions and proxy votes are dealt with at the Annual General Meeting in accordance with the provisions of the Revised Combined Code.

**SOCIAL AND ENVIRONMENTAL RESPONSIBILITY**

The Board is committed to building a responsible and sustainable business that always takes account of the social and environmental context in which it operates.

The Group is a major supporter of fundraising initiatives in the homes it operates and has also provided kit sponsorship to local youth sports teams in many of the communities in which it has a presence.

It is of the utmost importance to the Group that it interacts with the environment and uses resources in a responsible manner. The Group is committed to making the maximum practical use of recycling and sustainable resources.

**HEALTH AND SAFETY**

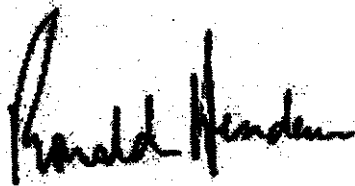
The Board is aware of its responsibilities towards its employees and all users of the Group's services in health and safety matters. Highfield Care's Health & Safety policy has been rolled out to all its care homes and the purpose of this policy is to ensure compliance with the appropriate legislative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

**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  
7 December 2004

## Independent Auditors' Report

to the members of NHP Plc

We have audited the financial statements of NHP Plc for the year ended 30 September 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in shareholders' funds, the 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 Directors' remuneration report 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. They are also responsible for the preparation of the other information contained in the annual report including the Directors' remuneration report. Our responsibility is to audit the financial statements and the part of the Directors' remuneration report 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 whether the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report 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 Directors' remuneration report 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

### OPINION

In our opinion:

the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2004 and of the profit of the Group for the year then ended; and the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

*Debitte & Touche LLP*

**DELOITTE & TOUCHE LLP**

Chartered Accountants and Registered Auditors

London

7 December 2004

**Consolidated Profit and Loss Account**

For the year ended 30 September 2004

	Note	2004 £'000	2003 £'000
Turnover	3	198,050	171,892
Cost of sales		(107,001)	(87,321)
<b>Gross profit</b>		<b>91,049</b>	<b>84,571</b>
Depreciation and amortisation	5	(9,898)	(6,348)
Other administrative expenses		(20,255)	(19,259)
Exceptional operating income	4	3,300	250
<b>Administrative expenses</b>		<b>(26,853)</b>	<b>(25,357)</b>
<b>Group operating profit</b>	5	<b>64,196</b>	<b>59,214</b>
Share of associated undertaking's operating profit	6	28	32
<b>Total operating profit</b>	3	<b>64,224</b>	<b>59,246</b>
Profit on disposal of tangible fixed assets		3,110	337
Net interest payable and similar charges	7	(31,714)	(34,827)
<b>Profit on ordinary activities before taxation</b>		<b>35,620</b>	<b>24,756</b>
Tax (charge)/credit on profit on ordinary activities	8	(3,798)	556
<b>Profit on ordinary activities after taxation</b>		<b>31,822</b>	<b>25,312</b>
<b>Profit for the year</b>		<b>31,822</b>	<b>25,312</b>
Dividends paid	9	(6,193)	(6,088)
<b>Retained profit transferred to reserves</b>	23	<b>25,629</b>	<b>19,224</b>
<b>Earnings per Ordinary Share</b>	10		
Basic		15.5p	12.6p
Diluted		15.1p	12.2p

Turnover, operating profit and profit on disposal of tangible fixed assets are derived wholly from continuing operations.



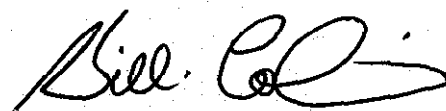
**Balance Sheet**

As at 30 September 2004

	Note	Group 2004 £'000	2003 £'000	Company 2004 £'000	2003 £'000
<b>Intangible fixed assets</b>					
Goodwill	12	1,938	2,053	-	-
<b>Tangible fixed assets</b>					
Investment properties	13	529,900	464,640	-	-
Operated properties	13	362,235	271,810	-	-
Other fixed assets	13	4,685	3,540	-	-
		896,820	739,990	-	-
Investments	14	147,318	139,880	191,561	191,589
<b>Total fixed assets</b>		<b>1,046,076</b>	<b>881,923</b>	<b>191,561</b>	<b>191,589</b>
<b>Current assets</b>					
Properties held for resale		-	2,328	-	-
Debtors	15	16,664	19,258	38,778	35,869
Short term investments	16	20,084	19,331	-	-
Cash at bank and in hand		539	1,773	-	-
		37,287	42,690	38,778	35,869
<b>Creditors</b>					
Amounts falling due within one year	17	(34,153)	(35,185)	(4,324)	(6,142)
<b>Net current assets</b>		<b>3,134</b>	<b>7,505</b>	<b>34,454</b>	<b>29,727</b>
<b>Total assets less current liabilities</b>		<b>1,049,210</b>	<b>889,428</b>	<b>226,015</b>	<b>221,316</b>
<b>Creditors</b>					
Amounts falling due after more than one year	19	(543,817)	(567,626)	-	-
<b>Provisions for liabilities and charges</b>	20	<b>(1,475)</b>	<b>(1,261)</b>	<b>(935)</b>	<b>(274)</b>
<b>Net assets</b>	3	<b>503,918</b>	<b>320,541</b>	<b>225,080</b>	<b>221,042</b>
<b>Capital and reserves</b>					
Called up share capital	22	2,076	2,034	2,076	2,034
Share premium account	23	194,619	192,213	194,619	192,213
Revaluation reserve	23	241,692	86,306	-	-
Revenue reserve	23	-	-	914	914
Profit and loss account	23	65,531	39,988	27,471	25,881
<b>Total equity Shareholders' funds</b>		<b>503,918</b>	<b>320,541</b>	<b>225,080</b>	<b>221,042</b>
<b>Net assets per Ordinary Share</b>					
Basic	24	242.7p	157.6p		
Diluted	24	235.5p	151.8p		

These financial statements were approved by the Board of Directors on 7 December 2004.

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 2004

	Note	2004 £'000	2003 £'000
<b>Net cash inflow from operating activities</b>	26	<b>74,200</b>	<b>64,280</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(38,671)	(40,321)
Other similar charges paid (net)		(181)	(74)
Interest received		1,095	787
Dividends received		39	32
<b>Net cash outflow from returns on investment and servicing of finance</b>		<b>(37,718)</b>	<b>(39,576)</b>
<b>Taxation</b>			
Corporation tax (paid)/repaid		(561)	190
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(17,806)	(11,326)
Proceeds on disposal of fixed asset properties (net of disposal costs)		13,863	3,128
Proceeds on disposal of other tangible fixed assets		347	1,124
Proceeds on disposal of properties held for resale		3,411	1,128
<b>Net cash outflow from investing activities</b>		<b>(185)</b>	<b>(5,946)</b>
<b>Acquisitions and disposals</b>			
Net cash acquired with subsidiary		158	—
Repayment of loan acquired with Abbeycourt Care Limited		(1,139)	—
Acquisition of Abbeycourt Care Limited		(1,061)	—
<b>Net cash outflow from acquisitions</b>		<b>(2,042)</b>	<b>—</b>
<b>Equity dividends paid</b>		<b>(10,769)</b>	<b>(1,512)</b>
<b>Net cash inflow before use of liquid resources and financing</b>		<b>22,925</b>	<b>17,436</b>
<b>Management of liquid resources</b>			
Short term deposit investment (net)		(753)	(1,462)
<b>Financing</b>			
<b>Equity</b>			
Issue of Ordinary Shares		2,448	1,347
<b>Net cash inflow from equity financing</b>		<b>2,448</b>	<b>1,347</b>
<b>Hedging</b>			
Premium paid for interest rate cap		(140)	—
<b>Bank loans</b>			
Bank loans drawn down		17,004	37,700
Bank loans repaid		(41,204)	(55,915)
Less: Financing costs paid		(197)	(1,204)
<b>Net cash outflow from bank loan finance</b>		<b>(24,397)</b>	<b>(19,419)</b>
<b>Other loan repayments</b>		<b>(56)</b>	<b>(298)</b>
<b>Finance lease repayments</b>		<b>(11)</b>	<b>(170)</b>
<b>Net cash outflow from financing activities</b>		<b>(22,156)</b>	<b>(18,540)</b>
<b>Increase/(decrease) in cash in the year</b>	27	<b>16</b>	<b>(2,566)</b>

**Consolidated Statement of Total Recognised Gains and Losses**

For the year ended 30 September 2004

	Note	2004 £'000	2003 £'000
Profit for the year		31,822	25,312
Net surplus on revaluation of properties	23	155,300	92,233
Total recognised gains for the year		187,122	117,545

**Consolidated Reconciliation of Movements in Shareholders' Funds**

For the year ended 30 September 2004

	2004 £'000	2003 £'000
Profit for the year	31,822	25,312
Dividends paid	(6,193)	(6,088)
Retained profit for the year	25,629	19,224
Net surplus on revaluation of properties	155,300	92,233
Issue of share capital	2,448	1,347
Net increase in shareholders' funds	183,377	112,804
Shareholders' funds at the beginning of the year	320,541	207,737
Shareholders' funds at the end of the year	503,918	320,541

**Consolidated Note of Historical Cost Profits and Losses**

For the year ended 30 September 2004

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	35,620	24,756
Realisation of net valuation losses on disposal of fixed asset properties	(1,164)	(1,597)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	1,078	1,123
Historical cost profit on ordinary activities before taxation	35,534	24,282
Historical cost profit retained for the year	25,543	18,750

**Notes to the Accounts**

For the year ended 30 September 2004

**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 and Highfield Care Homes No.3 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 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.

**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.

**Other fixed assets – land and buildings**

The residential properties are held to provide accommodation to care employees of Highfield Care and are revalued annually at 30 September by qualified external valuers.

**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.

**Notes to the Accounts (Continued)**

For the year ended 30 September 2004

**1 ACCOUNTING POLICIES (Continued)****Capital expenditure on the operated portfolio assets**

Capital expenditure incurred on an operated care home which enhances the property's value or replaces an asset which is fully depreciated 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 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 the revaluation reserve to the 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

Land and buildings within other fixed assets are depreciated in equal instalments over the estimated useful economic lives of each category of asset. The amount of depreciation, the calculation of which is based on the valuation less estimated residual value, is charged to the profit and loss account with an appropriate adjustment made to the revaluation reserve by the transfer of a sum from the revaluation reserve to profit and loss account. The estimated useful economic lives are as follows:

Freehold land	no depreciation
Freehold buildings	50 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:

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.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 1 ACCOUNTING POLICIES (Continued)

#### 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 substantively 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.

#### 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 an accruals basis over the life of the lease.

#### Pensions

The Group contributes to money purchase pension schemes for the executive Directors at the rate of 20 per cent. of basic salary, which is charged monthly to the profit and loss account.

The Company and its subsidiary undertaking, NHP Management Limited, contribute to the personal pensions of their staff at rates up to 15 per cent. of basic salary which is charged monthly to the profit and loss account.

A stakeholder pension scheme exists for all staff of the NHP Group.

#### 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.

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**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 pages 30 and 31 within the Directors' remuneration report and form part of these audited financial statements.

**Staff costs**

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

	2004 £'000	2003 (restated) £'000
Wages and salaries	82,753	69,292
Social security costs	7,411	5,356
Pension costs	487	571
	<b>90,651</b>	<b>75,219</b>

Average number of employees on a full time equivalent basis:

	2004 Number	2003 (restated) Number
Operational	5,949	5,589
Administrative	100	109
Directors	8	9
	<b>6,057</b>	<b>5,707</b>

Staff costs and the average number of employees have been restated to correct an error made for the year ended 30 September 2003. The figures as previously reported were: wages and salaries of £72,632,000, social security costs of £5,172,000 and the average number of operational employees of 6,019. The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from the Group by a separately administered fund. Contributions made in the year were £94,000 (2003: £86,000).

**3 SEGMENTAL ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS**

All operations are carried out wholly within the United Kingdom.

	2004 £'000	2003 £'000
<b>Turnover</b>		
Property business	44,816	48,985
Highfield Care	153,234	122,907
	<b>198,050</b>	<b>171,892</b>
<b>Operating profit</b>		
Property business	61,954	61,284
Highfield Care	2,270	(2,038)
	<b>64,224</b>	<b>59,246</b>

The results of Highfield Care include a notional rent charged by the Property business of £29,426,000 (2003: £25,712,000). The actual rent charged is £36,776,000 (2003: £25,712,000). The Directors believe that it is more appropriate to give segmental information on the basis of the notional rent, which reflects the total rents actually charged in 2002 on the current Highfield Care portfolio, as this provides a more consistent measure allowing comparison of the underlying results of the Highfield Care business year on year. The results of the Property business and Highfield Care include depreciation charged on operated properties of £7,829,000 (2003: £5,233,000) and £922,000 (2003: £174,000) respectively.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 3 SEGMENTAL ANALYSIS OF TURNOVER, OPERATING PROFIT AND NET ASSETS (Continued)

	2004 £'000	2003 £'000
<b>Net assets</b>		
Property business	505,906	325,248
Highfield Care	(1,988)	(4,707)
	<b>503,918</b>	<b>320,541</b>

### 4 EXCEPTIONAL OPERATING INCOME

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

	2004 £'000	2003 £'000
Net write back of permanent diminution in value – fixed asset properties	3,300	1,686
Tenant receivership costs	–	(1,289)
Ultima Holdings Group closure support costs	–	(147)
Total net exceptional operating income	<b>3,300</b>	<b>250</b>

### 5 GROUP OPERATING PROFIT

Group operating profit is arrived at after charging:

	2004 £'000	2003 £'000
Depreciation of operated properties	8,751	5,407
Depreciation of other fixed assets	1,032	827
Amortisation of goodwill of subsidiary undertakings	115	114
Depreciation and amortisation	<b>9,898</b>	<b>6,348</b>
Auditors' remuneration (including VAT):		
– Group audit fees to Group auditors	138	73
– Group audit fees to other auditors – current and prior years	4	74
– Company audit fees	48	62
– Other fees to Group auditors – Interim review	41	36
– Other accounting advice	20	–
– Tax services – Compliance	162	161
Operating lease rentals:		
– buildings	1,818	1,656
– equipment	9	188

### 6 SHARE OF ASSOCIATED UNDERTAKING'S OPERATING PROFIT

	2004 £'000	2003 £'000
Share of associated undertaking's operating profit	82	86
Amortisation of goodwill	(54)	(54)
	<b>28</b>	<b>32</b>



**Notes to the Accounts** (Continued)  
For the year ended 30 September 2004

**7 NET INTEREST PAYABLE AND SIMILAR CHARGES**

	2004 £'000	2003 £'000
<b>Group</b>		
Interest payable on Secured Notes	37,265	37,265
Interest payable on bank loans wholly repayable within 5 years	1,350	2,599
Other interest payable	52	72
Amortisation of issue costs and discount of Secured Notes	1,167	1,177
Finance costs, including amortisation of arrangement fees	459	1,586
<b>Associates</b>		
Interest payable	6	5
Interest payable and similar charges	40,299	42,704
<b>Group</b>		
Interest receivable on deposits	(1,059)	(776)
Interest receivable on Deposit Swap Agreements and Zero Coupon Notes	(7,473)	(7,073)
Other interest receivable	(36)	(8)
<b>Associates</b>		
Interest receivable	(17)	(20)
Interest receivable	(8,585)	(7,877)
Net interest payable and similar charges	31,714	34,827

**8 TAX (CHARGE)/CREDIT ON PROFIT ON ORDINARY ACTIVITIES**

	2004 £'000	2003 £'000
<b>Group</b>		
Corporation tax	(1,750)	–
Income tax	(445)	(420)
	(2,195)	(420)
Share of associate's tax	(35)	(24)
<b>Total current tax</b>	<b>(2,230)</b>	<b>(444)</b>
Income tax for prior years	(600)	–
Deferred tax (charge)/credit	(968)	1,000
<b>Total tax (charge)/credit on profit on ordinary activities</b>	<b>(3,798)</b>	<b>556</b>
Effective tax rate	10.7%	n/a

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 8 TAX (CHARGE)/CREDIT ON PROFIT ON ORDINARY ACTIVITIES (Continued)

	2004 £'000	2003 £'000
<b>Reconciliation of current year tax charge:</b>		
Profit on activities before tax	35,620	24,756
Tax on profit at standard rate of 30% (2003: 30%)	10,686	7,427
Factors affecting the charge:		
Disallowable expenses	1,970	1,095
Non-taxable income	(3,910)	(2,895)
Capital allowances for period in excess of depreciation	(2,200)	(2,924)
Increase in other short term timing differences	-	(1,540)
Utilisation of brought forward capital losses	(629)	-
Movement in revenue losses not recognised	-	(743)
Utilisation of brought forward revenue losses	(3,559)	-
Difference in rates of tax	(163)	-
Share of associate's tax	35	24
<b>Group tax charge for the current year</b>	<b>2,230</b>	<b>444</b>

### 9 DIVIDENDS PAID

	2004 £'000	2003 £'000
<b>Equity</b>		
Interim dividend paid of 3.0p per Ordinary Share (2003: 0.75p)	6,193	1,512
Final dividend proposed of £nil per Ordinary Share (2003: 2.25p)	-	4,576
	<b>6,193</b>	<b>6,088</b>

### 10 EARNINGS PER SHARE

The earnings per Ordinary Share of 15.5p for the year ended 30 September 2004 is calculated on the profit after taxation of £31,822,000 divided by 204,740,590 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 15.1p for the year ended 30 September 2004 is based on the profit after taxation of £31,822,000 divided by 210,265,142 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 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 were exercised.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 11 PARENT COMPANY PROFIT AND LOSS ACCOUNT

	2004 £'000	2003 £'000
Profit for the financial year, including dividends from subsidiary and associated undertakings, after taxation	7,783	1,316

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.

### 12 GOODWILL AND ACQUISITIONS

	Total £'000
Group	
Cost	
At 1 October 2003 and 30 September 2004	2,300
Amortisation	
At 1 October 2003	(247)
Amortisation for the year	(115)
At 30 September 2004	(362)
Net book value at 30 September 2004	1,938
Net book value at 30 September 2003	2,053

#### Acquisition of Abbeycourt Care Limited

Abbeycourt Care Limited was acquired on 1 April 2004 for £1,061,000 consideration. Net assets acquired are set out below. The accounts of Abbeycourt Care Limited have been consolidated using the acquisition method. The amount of goodwill is £nil using provisional assessments of fair values applied to the company's balance sheet.

	Book amount £'000	Fair value adjustments £'000	Fair value to the Group £'000
Tangible fixed assets	1,310	840	2,150
Current assets			
Debtors	127	(9)	118
Prepayments and accrued income	9	-	9
Cash at bank	158	-	158
Total assets	1,604	831	2,435
Current liabilities			
Bank loan	(1,139)	-	(1,139)
Trade and other creditors	(45)	34	(11)
Accruals	(30)	(162)	(192)
Deferred tax	(63)	31	(32)
Total liabilities	(1,277)	(97)	(1,374)
Net assets	327	734	1,061
Satisfied by:			
Cash consideration			1,061

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 12 GOODWILL AND ACQUISITIONS (Continued)

#### Acquisition of Ultima Holdings Limited

On 20 May 2004, Ultima Holdings Limited was acquired for £1 consideration. The acquisition method of accounting has been used for this acquisition and using the provisional assessment of fair value applied to the balance sheets of Ultima Holdings Limited and its subsidiaries, the net assets acquired at fair value are £nil.

### 13 TANGIBLE FIXED ASSETS

#### Investment properties

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Total £'000
<b>Group</b>			
Valuation at 1 October 2003	454,620	10,020	464,640
Reclassification	(1,930)	1,930	-
Additions at cost	234	-	234
Disposal of investment property at valuation	(700)	-	(700)
Reclassification of properties to operated properties at valuation	(19,780)	-	(19,780)
Net surplus on revaluation	82,656	2,350	85,006
Write back to permanent diminution in value	500	-	500
<b>Valuation at 30 September 2004</b>	<b>515,600</b>	<b>14,300</b>	<b>529,900</b>

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2004, at Market Value on both portfolio and individual property bases in accordance with The Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

The Directors have reviewed GVA Grimley's valuation at 30 September 2004 and have made a write back to permanent diminution in value of £500,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's investment properties at 30 September 2004 was £363,194,000 (2003: £397,803,000). Freehold properties' historical cost was £354,247,000 at 30 September 2004 (2003: £388,856,000 restated from £390,599,000) and long leasehold properties' historical cost was £8,947,000 at 30 September 2004 (2003: £8,947,000 restated from £7,204,000).

30 homes (2003: 41) are subject to discretionary buy-back options by their respective operators. A further 51 homes (2003: 51) 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).

#### Company

At 30 September 2004, the Company had investments in freehold investment properties totalling £31 (2003: £31), representing the consideration paid, including VAT, for the freehold reversions to 26 properties (2003: 26), the 999 year leasehold interests in which are held by NHP Securities No.3 Limited, a subsidiary undertaking.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 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
<b>Group</b>				
<b>Cost or valuation</b>				
At 1 October 2003	231,091	3,430	41,907	276,428
Reclassification of properties from investment properties at valuation	17,526	–	2,254	19,780
Additions at cost	1,809	–	–	1,809
Addition – on acquisition of Abbeycourt Care Limited	2,101	–	49	2,150
Reclassification	(410)	410	–	–
Capital expenditure on operated properties	–	–	12,779	12,779
Write back to permanent diminution in value	2,800	–	–	2,800
Disposals	(8,233)	–	(2,537)	(10,770)
Net surplus on revaluation	65,671	1,398	–	67,069
<b>At 30 September 2004</b>	<b>312,355</b>	<b>5,238</b>	<b>54,452</b>	<b>372,045</b>
<b>Depreciation</b>				
At 1 October 2003	–	–	(4,618)	(4,618)
Depreciation for the year	(3,217)	(48)	(5,486)	(8,751)
Disposals	66	–	294	360
Transfer to revaluation reserve	3,151	48	–	3,199
<b>At 30 September 2004</b>	<b>–</b>	<b>–</b>	<b>(9,810)</b>	<b>(9,810)</b>
<b>Net book value at 30 September 2004</b>	<b>312,355</b>	<b>5,238</b>	<b>44,642</b>	<b>362,235</b>
Net book value at 30 September 2003	231,091	3,430	37,289	271,810

Operated properties represent properties held for long term retention. Operated properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2004 at Existing Use Value on both portfolio and individual property bases in accordance with The Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

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 2004 and have made a write back to permanent diminution in value of £2,800,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's operated properties at 30 September 2004 was £303,477,000 (2003: £264,416,000). Depreciation charged for the year ended 30 September 2004 in respect of properties under leases was £48,000 (2003: £42,000).

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 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
<b>Group</b>					
<b>Cost or valuation</b>					
At 1 October 2003	309	47	3,039	1,244	4,639
Additions in the year	215	—	1,343	969	2,527
Disposals	—	—	(591)	(405)	(996)
Surplus on revaluation	21	—	—	—	21
<b>At 30 September 2004 – total at cost and valuation</b>	<b>545</b>	<b>47</b>	<b>3,791</b>	<b>1,808</b>	<b>6,191</b>
<b>At 30 September 2004 – at cost</b>	<b>220</b>	<b>47</b>	<b>3,791</b>	<b>1,808</b>	<b>5,866</b>
<b>At 30 September 2004 – at valuation</b>	<b>325</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>325</b>
<b>Depreciation</b>					
At 1 October 2003	(1)	(6)	(997)	(95)	(1,099)
Depreciation for the year	(10)	(5)	(655)	(362)	(1,032)
Depreciation on disposals	—	—	420	200	620
Transfer to revaluation reserve	5	—	—	—	5
<b>At 30 September 2004</b>	<b>(6)</b>	<b>(11)</b>	<b>(1,232)</b>	<b>(257)</b>	<b>(1,506)</b>
<b>Net book value at 30 September 2004</b>	<b>539</b>	<b>36</b>	<b>2,559</b>	<b>1,551</b>	<b>4,685</b>
<b>Net book value at 30 September 2003</b>	<b>308</b>	<b>41</b>	<b>2,042</b>	<b>1,149</b>	<b>3,540</b>

Land and buildings at valuation represent residential properties held to provide accommodation to care employees of the Highfield Care Group. Residential properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2004, at Market Value in accordance with The Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

At 30 September 2004 the net book values of assets held under finance leases and hire purchase contracts were £nil (2003: £20,000) in respect of motor vehicles. Depreciation charged in respect of assets held under finance leases and hire purchase contracts for the year ended 30 September 2004 was £4,000 (2003: £11,000).

#### Capital commitments

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Contracted and committed	2,114	2,028	—	—

# Notes to the Accounts (Continued)

For the year ended 30 September 2004

## 14 INVESTMENTS

	2004 £'000	2003 £'000
<b>Group</b>		
Deposit Swap Agreement at cost	15,350	15,350
Accumulated compound interest	12,161	10,095
Deposit Swap Agreement – Care Homes 1	27,511	25,445
Deposit Swap Agreement at cost	57,180	57,180
Accumulated compound interest	17,702	14,196
Deposit Swap Agreement – Care Homes 2	74,882	71,376
Zero Coupon Notes at cost	36,010	36,010
Accumulated compound interest	8,548	6,647
Zero Coupon Notes – Care Homes 3	44,558	42,657
Investment in associate – G.R. Patrick & Co. Limited	367	402
	<b>147,318</b>	<b>139,880</b>

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.

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 in G.R. Patrick & Co. Limited represents an effective 25.01 per cent. share in that company, the principal activity of which 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 2003	275	127	402
Retained profit to 30 September 2004	–	58	58
Dividends received	–	(39)	(39)
Amortisation to 30 September 2004	(54)	–	(54)
<b>At 30 September 2004</b>	<b>221</b>	<b>146</b>	<b>367</b>

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 14 INVESTMENTS (Continued)

Company	Shares in subsidiary undertakings £'000	Investment in associated undertaking £'000	Subordinated loan notes to subsidiary undertakings £'000	Total £'000
<b>Cost</b>				
At 1 October 2003	3,159	502	187,928	191,589
Acquisition of Highfield Care Plc	12	—	—	12
De-registration of NHP Europa S.A., Spain	(40)	—	—	(40)
<b>At 30 September 2004</b>	<b>3,131</b>	<b>502</b>	<b>187,928</b>	<b>191,561</b>
Net book value at 30 September 2003	3,159	502	187,928	191,589

At 30 September 2004, the Company held investments in the following principal subsidiary and associated undertakings:

Name	Country of incorporation	% Holding	Principal activity
<b>Subsidiary undertakings</b>			
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%	Parent company of NHP Securities No.9 Limited
NHP Securities No. 14 Limited	Great Britain	100.00%	Investment in overriding leases of care home properties
NHP Management Limited	Great Britain	100.00%	Management of care home property portfolios
NHP Operations (York) Limited	Great Britain	100.00%	Care home property development
LLNH Limited	Great Britain	100.00%	Partner in LLNHP Partnership
Highfield Care Plc	Great Britain	100.00%	Care home operator
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
Highfield Cymru Limited	Great Britain	100.00%	Care home operator
Abbeycourt Care Limited	Great Britain	100.00%	Care home operator
Ultima Holdings Limited	Great Britain	100.00%	Immediate parent company of Ultima Group companies
Ultima Healthcare Limited	Great Britain	100.00%	Care home operator
Eton Hall Homes Limited	Great Britain	100.00%	Care home operator
Ultima Care Limited	Great Britain	100.00%	Care home operator
Platinum Healthcare Limited	Great Britain	100.00%	Care home operator
<b>Associated undertaking</b>			
G.R. Patrick & Co. Limited	Great Britain	25.01%	Insurance brokerage specialising in healthcare



**Notes to the Accounts** (Continued)  
For the year ended 30 September 2004

**15 DEBTORS**

	2004 £'000	2003 £'000
<b>Group</b>		
Trade debtors	12,649	12,625
Other debtors	1,856	3,847
Deferred tax	–	1,000
Corporation tax	6	7
Prepayments and accrued income	2,153	1,779
	<b>16,664</b>	<b>19,258</b>
<b>Company</b>		
Amounts owed by Group companies	38,559	35,836
Other debtors	65	3
Corporation tax	–	3
Prepayments and accrued income	154	27
	<b>38,778</b>	<b>35,869</b>

**16 SHORT TERM INVESTMENTS**

	2004 £'000	2003 £'000
<b>Group</b>		
Short term deposits held by Care Homes 1	7,842	7,750
Short term deposits held by Care Homes 2	4,245	3,750
Short term deposits held by Care Homes 3	6,166	6,000
Rent deposits held by Highfield Care Group	1,831	1,831
	<b>20,084</b>	<b>19,331</b>

£3,644,000 (2003: £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**

	2004 £'000	2003 £'000
<b>Group</b>		
Bank loan due within one year – see below	750	–
Loan from third party to Highfield Holdings Limited – see note 19	94	75
Obligations under finance leases and hire purchase contracts	1	9
Bank overdrafts	750	2,000
Interest payable	9,755	9,759
Other creditors	7,917	8,227
Taxation and social security	3,646	2,079
Corporation tax	1,191	–
Income tax	1,465	420
Accruals and deferred income	8,584	8,040
Proposed dividend payable to Equity Shareholders	–	4,576
	<b>34,153</b>	<b>35,185</b>

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (Continued)

At 30 September 2004, a £750,000 loan was drawn on the £3 million revolving credit facility entered into with The Royal Bank of Scotland plc on 26 April 2004. This loan bears interest at LIBOR plus 0.50 per cent. and is only available whilst there is a minimum of £3 million headroom on the £60 million revolving credit facility referred to in note 19.

	2004 £'000	2003 £'000
<b>Company</b>		
Bank overdraft	11	3
Amount due to Care Homes 1	-	21
Amount due to Care Homes 2	5	36
Amount due to Care Homes 3	3	50
Amounts due to Group companies	1,341	806
Other creditors	1,222	414
Taxation and social security	1,092	131
Accruals and deferred income	650	105
Proposed dividend payable to Equity Shareholders	-	4,576
	<b>4,324</b>	<b>6,142</b>

### 18 DEFERRED TAXATION

	Provided		Unprovided	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Group</b>				
Accelerated capital allowances	-	(1,000)	(4,667)	(9,122)
Losses created by capital allowances	-	-	(69)	-
Short term timing differences	-	-	952	-
Revaluation of investment properties	-	-	69,609	49,335
	-	(1,000)	<b>65,825</b>	<b>40,213</b>

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 2004, unprovided deferred tax assets of £4,667,000 (2003: £9,122,000) in respect of accelerated capital allowances and £69,000 (2003: £nil) in respect of revenue losses. The unrecognised accelerated capital allowance asset would be recovered if in future they reverse in the same periods and entities in which suitable taxable profits arise.

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds and long leaseholds of £69,609,000 (2003: £49,335,000) 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.

**Notes to the Accounts** (Continued)  
For the year ended 30 September 2004

**19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2004 £'000	2003 £'000
<b>Group</b>		
Bank loans due between two and five years	10,000	–
Less: Unamortised finance costs	(268)	–
Bank loans due after more than five years	–	34,950
Less: Unamortised finance costs	–	(320)
<b>Net bank loans</b>	<b>9,732</b>	<b>34,630</b>
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	(1,983)	(2,103)
Unamortised discount on issue	(530)	(563)
<b>Net Secured Notes – Care Homes 1</b>	<b>97,487</b>	<b>97,334</b>
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	(5,750)	(6,063)
Unamortised discount on issue	(405)	(428)
<b>Net Secured Notes – Care Homes 2</b>	<b>258,845</b>	<b>258,509</b>
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	(14,509)	(15,097)
Unamortised discount on issue	(2,113)	(2,203)
<b>Net Secured Notes – Care Homes 3</b>	<b>177,378</b>	<b>176,700</b>
Loan from third party to Highfield Holdings Limited	375	450
Obligations under finance leases and hire purchase contracts	–	3
	<b>543,817</b>	<b>567,626</b>

**Bank Loans**

At 30 September 2004, a £10 million loan was drawn on the £60 million revolving credit facility entered into with a syndicate led by Bank of Scotland on 30 September 2003. The facility matures on 31 December 2008. The loan bears interest at LIBOR plus 1.2 per cent. 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 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 2004 amounted to £27,511,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2004 amounted to £7,844,000.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Continued)

The Care Homes 2 Secured Notes are non-recourse to NHP 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 2004 amounted to £74,882,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2004 amounted to £4,317,000.

The Care Homes 3 Secured Notes are non-recourse to NHP 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 2004 amounted to £44,558,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2004 amounted to £6,264,000.

### Loan from third party to Highfield Holdings Limited

A loan of £469,000 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 per cent. above base rate. £94,000 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 2003 £'000	Costs incurred in the year £'000	Profit and loss account £'000	At 30 Sep 2004 £'000
<b>Group</b>				
Ultima Holdings Group closure support costs	110	(35)	(75)	-
Receivership support costs	754	(17)	(377)	360
National Insurance Contributions payable on exercise of share options	397	(660)	1,378	1,115
<b>Total</b>	<b>1,261</b>	<b>(712)</b>	<b>926</b>	<b>1,475</b>
<b>Company</b>				
National Insurance Contributions payable on exercise of share options	274	(359)	1,020	935

At 30 September 2003 the provision for Ultima Holdings Group closure support costs was based on the expected financial support to be provided to the Ultima Group of companies to settle trading liabilities. On 20 May 2004 Ultima Holdings Limited was acquired by NHP Securities No.3 Limited, a subsidiary undertaking of the Company. At 30 September 2004 the Directors have reviewed the remaining trading liabilities of Ultima Group and have considered that the outstanding amounts are negligible. In their opinion, a write back to the provision of £75,000 is appropriate which is credited to the profit and loss account.

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 would have been incurred in the current 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 234.5p. The rate of NIC used is 12.8 per cent.

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**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 2004 and 30 September 2003 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 2004 £'000	Total 2003 £'000
In one year or less or on demand	1,500	—	95	1,595	2,084
More than one year but not more than two years	—	—	75	75	78
More than two years but not more than five years	10,000	—	225	10,225	225
More than five years	—	559,000	75	559,075	594,100
	11,500	559,000	470	570,970	596,487

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

	2004 £'000	2003 £'000
Expiring in more than one year but not more than two years	—	—
Expiring in more than two years but not more than five years	49,250	—
Expiring in more than five years	—	25,050
	49,250	25,050

**Maturity profile of financial assets**

At 30 September 2004, the Group held two Deposit Swap Agreements and Zero Coupon Notes with a combined carrying value of £146,951,000 (2003: £139,478,000) 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 (2003: £408,000,000) of the Secured Notes as more fully described in note 14.

At 30 September 2004, the Group held short term deposits and cash at bank and in hand totalling £20,623,000 (2003: £21,104,000).

None of the deposits had a maturity date beyond 31 October 2004.

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**21 FINANCIAL INSTRUMENTS** (Continued)**Interest rate profile of financial liabilities**

The interest rate profile of the Group's gross financial liabilities at 30 September 2004 was as follows:

	2004 £'000	2003 £'000
Fixed rate	559,001	559,012
Floating rate	11,969	37,475
	<b>570,970</b>	<b>596,487</b>

With respect to the £11,969,000 of floating rate debt, in order to hedge against adverse changes in interest rates, the Group purchased a £10 million interest rate cap at 6.0 per cent. on 3 November 2003. The cap expires on 28 November 2007.

At 30 September 2004, the weighted average interest rate on the fixed rate financial liabilities of the Group was 6.67 per cent. (2003: 6.67 per cent.) and the weighted average period for which the rate is fixed was 20 years (2003: 21 years).

The floating rate financial liabilities at 30 September 2004 principally comprised bank borrowings bearing interest at rates based on LIBOR.

**Interest rate profile of financial assets**

The interest rate profile of the Group's financial assets at 30 September 2004 was as follows:

	2004 £'000	2003 £'000
Fixed rate	146,951	139,478
Floating rate	20,623	21,104
	<b>167,574</b>	<b>160,582</b>

At 30 September 2004, the weighted average interest rate on the fixed rate financial assets of the Group was 5.26 per cent. and the weighted average period for which the rate is fixed was 20 years.

The floating rate financial assets at 30 September 2004 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 2004:

	Book value £'000	Fair value £'000
<b>Primary financial instruments held or issued to finance the Group's operations</b>		
Bank loans & overdrafts	(11,500)	(11,500)
Secured Notes	(559,000)	(625,721)
Other loans and finance leases	(470)	(470)
Gross financial liabilities	<b>(570,970)</b>	<b>(637,691)</b>
Deposit Swap Agreements and Zero Coupon Notes	146,951	156,101
Short term deposits	20,084	20,084
Cash at bank and in hand	539	539
Interest rate Cap £10 million	111	32
Gross financial assets	<b>167,685</b>	<b>176,756</b>

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 2004

**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. The gains and losses highlighted in the table below represent the difference between the book values and market values of Care Homes 1, Care Homes 2 Deposit Swaps, Care Homes 3 Zero Coupon Notes and the NHP Securities No. 3 Limited £10 million interest rate cap.

	Unrecognised			Carried forward		
	Gains £'000	Losses £'000	Net £'000	Gains £'000	Losses £'000	Net £'000
Gains and losses brought forward at 1 October 2003	17,683	(5,206)	12,477	—	—	—
Gains and losses recognised in the year	(2,066)	(5,407)	(7,473)	—	—	—
Gains and losses arising before 1 October 2003 that were not recognised before 30 September 2004	15,617	(10,613)	5,004	—	—	—
Gains and losses arising in the year	780	3,287	4,067	—	—	—
<b>Gains and losses carried forward at 30 September 2004</b>	<b>16,397</b>	<b>(7,326)</b>	<b>9,071</b>	<b>—</b>	<b>—</b>	<b>—</b>
To be recognised before 30 September 2005	2,126	5,355	7,481	—	—	—
To be recognised after 30 September 2005	14,271	(12,681)	1,590	—	—	—

**22 CALLED UP SHARE CAPITAL**

	Authorised		Called up, allotted and fully paid	
	Number	£'000	Number	£'000
Ordinary shares of 1p each				
At 1 October 2003	370,000,000	3,700	203,375,555	2,034
Issued during the year	—	—	4,239,659	42
<b>At 30 September 2004</b>	<b>370,000,000</b>	<b>3,700</b>	<b>207,615,214</b>	<b>2,076</b>

The shares issued during the year were issued for a consideration of £2,448,000 to employees exercising share options under share option schemes.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 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 2003	Granted in the year	Exercised in the year*	Lapsed in the year	In issue 30 Sep 2004
<b>1998 Inland Revenue Approved Executive Share Option Scheme</b>								
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	—	(21,400)	(10,700)	—
<b>1998 Inland Revenue Approved Savings Related Share Option Scheme</b>								
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	—	(2,227)	(10,133)	135,136
1 Aug 2003	89.8	1 Aug 2008	1 Feb 2009	74,478	—	—	(17,733)	56,745
1 Aug 2004	153.4	1 Aug 2007	1 Feb 2008	—	13,144	—	—	13,144
				237,744	13,144	(2,227)	(27,866)	220,795
<b>2001 Unapproved Executive Share Option Scheme</b>								
13 Sep 2001	35.0	14 Sep 2004	13 Sep 2011	5,839,296	—	(2,060,928)	—	3,778,368
8 Oct 2001	35.0	9 Oct 2004	8 Oct 2011	343,488	—	(343,488)	—	—
25 Jul 2002	69.0	26 Jul 2005	25 Jul 2012	415,205	—	(260,585)	(46,740)	107,880
30 Sep 2002	82.0	1 Oct 2005	30 Sep 2012	1,764,619†	—	(721,035)	—	1,043,584
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	—	(37,346)	—	29,484
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	—	(329,429)	(31,120)	1,186,330
2 Feb 2004	153.5	3 Feb 2007	2 Feb 2014	—	65,146	—	—	65,146
2 Jul 2004	192.5	2 Jul 2007	2 Jul 2014	—	6,233	—	—	6,233
27 Aug 2004	198.8	27 Aug 2007	27 Aug 2014	—	20,126	—	—	20,126
15 Sep 2004	213.5	15 Sep 2007	15 Sep 2014	—	47,416	—	(5,621)	41,795
				11,149,359	138,921	(3,752,811)	(201,659)	7,333,810
<b>2001 Approved Executive Share Option Scheme</b>								
12 Oct 2001	36.0	13 Oct 2004	12 Oct 2011	583,100	—	(166,600)	—	416,500
25 Jul 2002	74.5	26 Jul 2005	25 Jul 2012	924,668	—	(201,068)	(241,200)	482,400
30 Sep 2002	82.0	1 Oct 2005	30 Sep 2012	201,211†	—	(36,585)	—	164,626
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	—	(58,968)	—	29,484
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	—	—	(23,668)	187,766
2 Feb 2004	177.0	3 Feb 2007	2 Feb 2014	—	16,949	—	—	16,949
2 Jul 2004	192.3	2 Jul 2007	1 Jul 2014	—	15,604	—	—	15,604
27 Aug 2004	199.0	27 Aug 2007	26 Aug 2014	—	15,075	—	—	15,075
15 Sep 2004	231.5	15 Sep 2007	14 Sep 2014	—	168,467	—	(12,959)	155,508
				2,125,923	216,095	(463,221)	(305,099)	1,573,698
<b>Total</b>				<b>13,545,126</b>	<b>368,160</b>	<b>(4,239,659)</b>	<b>(545,324)</b>	<b>9,128,303</b>

\* Options exercised prior to the date from which they become exercisable were a consequence of reductions in staffing levels.

† Restated to reflect the correct classifications between the 2001 Unapproved and Approved Executive Share Option Schemes.



**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**23 RESERVES**

Group	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 2003	192,213	86,306	39,988
Net surplus on revaluation of properties	—	155,300	—
Realisation of net valuation losses on disposal of fixed asset properties	—	1,164	(1,164)
Premium arising on issue of 4,239,659 Ordinary Shares	2,406	—	—
Transfer of the difference between an historical cost depreciation charge and the actual depreciation charge for the year	—	(1,078)	1,078
Retained profit for the year	—	—	25,629
<b>At 30 September 2004</b>	<b>194,619</b>	<b>241,692</b>	<b>65,531</b>

Company	Share premium account £'000	Revenue reserve £'000	Profit and loss account £'000
At 1 October 2003	192,213	914	25,881
Premium arising on issue of 4,239,659 Ordinary Shares	2,406	—	—
Retained profit for the year	—	—	1,590
<b>At 30 September 2004</b>	<b>194,619</b>	<b>914</b>	<b>27,471</b>

**24 NET ASSETS PER ORDINARY SHARE**

	2004	2003
<b>Basic</b>		
Equity shareholders' funds	£503,918,000	£320,541,000
Number of Ordinary Shares of 1p each in issue	207,615,214	203,375,555
Net assets per Ordinary Share	242.7p	157.6p
<b>Diluted</b>		
Equity shareholders' funds	£510,523,000	£329,292,000
Number of Ordinary Shares of 1p each in issue	216,743,517	216,920,681
Net assets per Ordinary Share	235.5p	151.8p

Diluted net assets per Ordinary Share assumes all the Directors' and employees' share options are exercised.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 25 GEARING

	2004 £'000	2003 £'000
<b>Consolidated</b>		
Secured Notes (excluding issue costs and discount of secured notes)*	559,000	559,000
Bank loans	10,750	34,950
Other loans	469	525
Finance leases	1	12
Deposit Swap Agreements and Zero Coupon Notes*	(146,951)	(139,478)
Short term investments, cash at bank and in hand less bank overdrafts	(19,873)	(19,104)
Net borrowings	403,396	435,905
Shareholders' funds	503,918	320,541
Consolidated gearing	80%	136%

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

	2004 £'000	2003 £'000
<b>Excluding non-recourse financial assets and liabilities*</b>		
Bank loans	10,750	34,950
Other loans	469	525
Finance leases	1	12
Short term investments, cash at bank and in hand less bank overdrafts	(1,396)	(1,040)
Net recourse borrowings	9,824	34,447
Shareholders' funds	503,918	320,541
Net indebtedness from securitisation companies	(29,803)	(32,999)
Adjusted Shareholders' funds	474,115	287,542
Gearing excluding non-recourse borrowings	2%	12%

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

### 26 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2004 £'000	2003 £'000
Operating profit	64,224	59,246
Depreciation of operated properties	8,751	5,407
Depreciation of other fixed assets	1,032	827
Amortisation of goodwill of subsidiary undertakings	115	114
Write back of permanent diminution in value – fixed asset properties	(3,300)	(1,686)
Loss on disposal of properties held for resale	–	27
Share of associated undertaking's operating profit	(28)	(32)
Decrease/(increase) in debtors	1,256	(3,435)
Increase in creditors	1,936	3,639
Increase in provisions	214	173
Net cash inflow from operating activities	74,200	64,280

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**27 ANALYSIS OF CHANGES IN NET DEBT**

	At 1 Oct 2003 £'000	Cash flow £'000	Non-cash changes £'000	At 30 Sep 2004 £'000
Cash at bank and in hand	1,773	(1,234)	-	539
Bank overdrafts	(2,000)	1,250	-	(750)
Net cash at bank and in hand	(227)	16	-	(211)
Short term investments	19,331	753	-	20,084
Bank loans due within one year	-	(750)	-	(750)
Bank loans due after one year (net of unamortised finance costs)	(34,630)	25,147	(249)	(9,732)
Other loans due within one year	(75)	56	(75)	(94)
Other loans due after one year	(450)	-	75	(375)
Finance leases due within one year	(9)	9	(1)	(1)
Finance leases due after one year	(3)	2	1	-
Secured Notes (net of unamortised issue and discount costs)	(532,543)	-	(1,167)	(533,710)
Total	(548,606)	25,233	(1,416)	(524,789)

**28 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	2004 £'000	2003 £'000
Increase/(decrease) in cash during the year	16	(2,566)
Net cash outflow from debt financing activities	24,464	19,887
Net cash outflow from management of liquid resources	753	1,462
Changes in net debt resulting from cash flows	25,233	18,783
Non-cash changes in net debt	(1,416)	(3,689)
Movement in net debt during the year	23,817	15,094
Net debt at the beginning of the year	(548,606)	(563,700)
Net debt at the end of the year	(524,789)	(548,606)

**29 OPERATING LEASE COMMITMENTS**

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

	2004 £'000	2003 £'000
Land and buildings – expiring in less than one year	166	117
Land and buildings – expiring between one to five years	129	49
Land and buildings – expiring more than five years	1,511	1,540
Other – expiring between one to five years	-	224
	1,806	1,930

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**30 DISCLOSURES RELATING TO CARE HOMES 1**

A summary of the financial statements of Care Homes 1 for the year ended 30 September 2004 and the year ended 30 September 2003, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 1	2004 £'000	2003 £'000
<b>Balance sheet</b>		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	53,786	57,046
Deposit Swap Agreement, including accumulated compound interest	27,511	25,445
Net current assets	3,567	3,566
Creditors: amounts falling due after more than one year		
Class A1 and A2 Secured Notes, net of unamortised issue costs and discount	(97,487)	(97,334)
Shareholders' deficit	(12,623)	(11,277)
<b>Profit and loss account</b>		
Turnover and gross profit	12,888	12,150
Net operating costs	(8,224)	(7,439)
Net interest payable and similar charges	(6,010)	(6,213)
Taxation	-	-
Loss for the year	(1,346)	(1,502)
<b>Cash flow statement</b>		
Net cash inflow from operating activities	8,162	7,933
Servicing of finance – interest paid on Secured Notes	(8,200)	(8,200)
Management of liquid resources – short term deposit placement	(92)	(50)
Decrease in cash in the year	(130)	(317)

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 £43,908,000 (2003: £43,128,000), on a mark-to-market basis.

**Notes to the Accounts** (Continued)

For the year ended 30 September 2004

**31 DISCLOSURES RELATING TO CARE HOMES 2**

A summary of the financial statements of Care Homes 2 for the year ended 30 September 2004 and the year ended 30 September 2003, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 2	2004 £'000	2003 £'000
<b>Balance sheet</b>		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	155,567	165,116
Deposit Swap Agreement, including accumulated compound interest	74,882	71,376
Net current liabilities	(2,094)	(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	(258,952)	(258,622)
Shareholders' deficit	(30,597)	(25,246)
<b>Profit and loss account</b>		
Turnover and gross profit	30,380	28,051
Net operating costs	(21,890)	(19,862)
Net interest payable and similar charges	(12,793)	(13,281)
Taxation	(1,045)	(420)
Loss for the year	(5,348)	(5,512)
<b>Cash flow statement</b>		
Net cash inflow from operating activities	17,170	16,524
Servicing of finance – interest paid on Secured Notes	(16,252)	(16,252)
Net cash outflow from investing activities:		
Investment in overriding leases	(4,788)	–
Proceeds on disposal of overriding leases	4,175	–
Management of liquid resources – short term deposit placement	(495)	(650)
Decrease in cash in the year	(190)	(378)

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 £72,548,000 (2003: £70,977,000), on a mark-to-market basis.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 32 DISCLOSURES RELATING TO CARE HOMES 3

A summary of the financial statements of Care Homes 3 for the year ended 30 September 2004 and the year ended 30 September 2003, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 3	2004 £'000	2003 £'000
<b>Balance sheet</b>		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	135,634	141,271
Zero Coupon Notes, including accumulated compound interest	44,558	42,657
Net current liabilities	(23,941)	(23,968)
Creditors: amounts falling due after more than one year		
Class A, M and B Secured Notes, net of unamortised issue costs and discount	(177,378)	(176,700)
Shareholders' deficit	(21,127)	(16,740)
<b>Profit and loss account</b>		
Turnover and gross profit	25,290	22,609
Net operating costs	(16,842)	(13,928)
Net interest payable and similar charges	(12,835)	(13,152)
Taxation	-	-
Loss for the year	(4,387)	(4,471)
<b>Cash flow statement</b>		
Net cash inflow from operating activities	12,974	13,366
Servicing of finance – Interest paid on Secured Notes	(12,812)	(12,812)
Net cash outflow from investing activities:		
Investment in overriding lease	(422)	(1,600)
Proceeds on disposal of overriding lease	404	1,550
Management of liquid resources – short term deposit placement	(166)	(1,000)
Decrease in cash in the year	(22)	(496)

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 £39,645,000 (2003: £37,850,000), on a mark-to-market basis.

**Notes to the Accounts** (Continued)  
For the year ended 30 September 2004

**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 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) The Company guarantees the Barclays Bank Plc £1.5 million overdraft facility issued to Highfield Care Homes Limited.
- (iv) The Company guarantees the Bank of Scotland £0.5 million overdraft facility and £0.1 million corporate credit card facility issued to Highfield Homes Properties Limited and Highfield Care Homes No.2 Limited respectively.
- (v) The Company guarantees the potential liabilities of Highfield Care to the Learning + Skills Council. Highfield Care are to receive grants from the Learning + Skills Council for the purpose of providing training to operational care home staff.

**34 RELATED PARTY TRANSACTIONS**

- (i) On 1 January 2004, W Colvin 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 £728,000 (2003: £679,000), 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 2004 was £319,000 (2003: £279,000). During the year ended 30 September 2004, the Group paid to GRP premiums totalling £1,281,000 (2003: £519,000) in respect of non-property related insurances. Included in Group turnover for the same period are commissions recoverable from GRP totalling £87,000 (2003: £70,000) and director's fees of £nil (2003: £10,000). At 30 September 2004, the Group owed a net amount of £nil to GRP (2003: £nil).
- (ii) On 1 April 2004, Highfield Home Properties Limited acquired 100 per cent. of the issued ordinary share capital of Abbeycourt Care Limited for £1,061,000 consideration. J Murphy, who is an executive Director of the Company, held a 50 per cent. interest in Abbeycourt Care Limited. Details of the acquisition are set out in note 12. No transactions occurred to the date of the acquisition that require disclosure in these financial statements.
- (iii) On 20 May 2004, NHP Securities No.3 Limited, a wholly owned subsidiary of the Company, acquired 100 per cent. of the issued ordinary share capital of Ultima Holdings Limited, the parent company of the Ultima Group, for £1 consideration. No transactions occurred to the date of the acquisition that require disclosure in these financial statements.

## Notes to the Accounts (Continued)

For the year ended 30 September 2004

### 35 POST BALANCE SHEET EVENTS

- (i) The Fountains Tetney, an operated property with a book value of £1.6 million, was sold on 28 October 2004 for an equivalent consideration.
- (ii) On 1 November 2004, NHP Operations (York) Limited, a wholly owned subsidiary of NHP, completed the purchase of a site in the centre of York for a total cost of £536,000, including VAT. Works on the 80 bed care home to be developed on the site commenced on 22 November 2004. The estimated cost of the total project is £3.2 million.
- (iii) A 5 bed residential property in Sovereign Park, York was acquired by NHP Securities No. 3 Limited on 26 November 2004 for a cost of £270,000. The property will be used to provide accommodation to care employees of Highfield Care.
- (iv) On 29 November 2004, TBG CareCo Limited, a company formed at the request of the Blackstone Funds, announced a formal offer to acquire the entire issued and to be issued share capital of NHP at a price of 260 pence in cash for each NHP share. Details of the offer were mailed to shareholders on 9 December 2004 and are also available from the Company Secretary.
- (v) Avonpark Care Centre, an investment property with a book value of £6.2 million, was sold on 3 December 2004 for a gross consideration of £8.3 million.
- (vi) On 3 December 2004, Highfield Home Properties Limited acquired 100 per cent. of the issued share capital of Nightingale Private Nursing Home Limited ("Nightingale") for a gross consideration of £1.85 million. The principal asset of Nightingale is a 48 bed care home located in Northern Ireland.
- (vii) On 3 December 2004, Highfield Home Properties Limited acquired 100 per cent. of the issued share capital of Dunlary Home Limited ("Dunlary") for a gross consideration of £1.25 million, which excludes bank debt acquired of £0.75 million. The principal asset of Dunlary is a 58 bed care home located in Northern Ireland.



## Bond-holder Information

Below are monthly summaries of the financial performance of the Care Homes No.1 Limited, Care Homes No.2 Limited and Care Homes No.3 Limited portfolios together with debt service coverage ratios relating to each class of secured notes. These tables are a summary of the financial performance information supplied by each tenant and include the performance of NHP's in-house operator, Highfield Care. The figures are not audited.

### CARE HOMES No. 1 LIMITED

	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04
Profit per bed* £'000	5.07	4.82	4.67	4.36	4.52	4.75	5.13	5.13	5.75	5.47	5.59	6.13	5.63
Rent per bed* £'000	3.81	3.83	3.83	3.83	3.83	3.83	3.83	3.88	3.88	3.88	3.88	3.88	3.88
Rent Cover	1.33	1.26	1.22	1.14	1.18	1.24	1.34	1.32	1.48	1.41	1.44	1.58	1.45
Occupancy %	87.9	87.9	87.0	87.6	86.3	86.9	87.3	86.7	87.3	87.0	87.8	88.2	88.4
A Notes Cover	3.16	2.99	2.89	2.71	2.80	2.94	3.18	3.18	3.56	3.39	3.47	3.80	3.49
B Notes Cover	1.85	1.75	1.69	1.58	1.64	1.72	1.86	1.86	2.08	1.99	2.03	2.23	2.04

### CARE HOMES No. 2 LIMITED

	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04
Profit per bed* £'000	5.44	5.80	5.72	5.09	5.59	5.72	6.14	5.81	6.96	6.92	7.30	7.09	7.17
Rent per bed* £'000	4.06	4.20	4.20	4.20	4.20	4.20	4.20	4.24	4.24	4.24	4.24	4.24	4.24
Rent Cover	1.34	1.38	1.36	1.21	1.33	1.36	1.46	1.37	1.64	1.63	1.72	1.67	1.69
Occupancy %	88.5	90.9	90.9	91.3	90.1	90.1	90.6	90.8	90.9	90.9	91.5	91.8	92.7
A Notes Cover	3.49	3.60	3.55	3.16	3.47	3.55	3.81	3.63	4.34	4.31	4.55	4.42	4.47
M Notes Cover	2.52	2.60	2.56	2.28	2.51	2.56	2.75	2.62	3.13	3.11	3.29	3.19	3.23
B Notes Cover	2.23	2.29	2.26	2.01	2.21	2.26	2.43	2.31	2.76	2.75	2.90	2.82	2.85

### CARE HOMES No. 3 LIMITED

	Sep 03	Oct 03	Nov 03	Dec 03	Jan 04	Feb 04	Mar 04	Apr 04	May 04	Jun 04	Jul 04	Aug 04	Sep 04
Profit per bed* £'000	6.06	6.28	5.63	4.91	5.84	5.96	6.16	6.19	6.48	7.14	7.14	7.59	7.34
Rent per bed* £'000	4.01	4.05	4.05	4.05	4.05	4.05	4.05	4.10	4.10	4.10	4.10	4.10	4.10
Rent Cover	1.51	1.55	1.39	1.21	1.44	1.47	1.52	1.51	1.58	1.74	1.74	1.85	1.79
Occupancy %	89.9	91.1	91.1	90.2	89.4	89.3	89.8	90.2	90.5	90.9	91.2	91.1	91.2
A Notes Cover	4.05	4.16	3.73	3.25	3.87	3.95	4.08	4.10	4.27	4.70	4.70	5.00	4.84
M Notes Cover	2.93	3.01	2.70	2.35	2.80	2.86	2.95	2.97	3.09	3.40	3.40	3.62	3.50
B Notes Cover	2.48	2.55	2.28	1.99	2.37	2.41	2.50	2.51	2.61	2.88	2.88	3.06	2.96

\* Profit per bed and rent per bed figures are annualised. Rent covers should be viewed in conjunction with the rent per bed figures.

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

**Portfolio Analysis**

As at 30 September 2004

	Homes No.	Beds No.	Beds %	Cost £'000	Minimum annual rent £'000	Minimum annual rent %
England	274	12,683	72.7%	489,169	52,968	73.4%
Scotland	43	2,600	14.9%	109,278	11,546	16.0%
Wales	27	1,404	8.1%	44,367	4,991	6.9%
N Ireland	14	756	4.3%	23,857	2,658	3.7%
<b>Total</b>	<b>358</b>	<b>17,443</b>	<b>100.0%</b>	<b>666,671</b>	<b>72,163</b>	<b>100.0%</b>

**Investment Properties****Operated by third party tenants**

Ashbourne	22	1,352	7.7%	46,798	5,433	7.5%
Avonpark	2	138	0.8%	6,578	684	0.9%
Britannia	7	430	2.5%	13,940	1,481	2.1%
Care Management Group	32	256	1.5%	18,799	2,000	2.8%
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	5.8%	32,168	3,522	4.9%
Methodist Homes for the Aged	2	121	0.7%	3,758	434	0.6%
Southern Cross	104	5,897	33.8%	226,925	27,124	37.6%
<b>Total investment properties</b>	<b>192</b>	<b>9,544</b>	<b>54.7%</b>	<b>361,512</b>	<b>42,074</b>	<b>58.3%</b>

**Operated Properties**

Highfield Care	166	7,899	45.3%	305,159	30,089	41.7%
<b>Total operated properties</b>	<b>166</b>	<b>7,899</b>	<b>45.3%</b>	<b>305,159</b>	<b>30,089</b>	<b>41.7%</b>
<b>Total property portfolio</b>	<b>358</b>	<b>17,443</b>	<b>100.0%</b>	<b>666,671</b>	<b>72,163</b>	<b>100.0%</b>

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

**Properties Managed by Highfield Care**

As at 30 September 2004

	Homes No.	Beds No.	Beds %	Cost £'000	Minimum annual rent £'000	Minimum annual rent %
<b>Group homes operated by Highfield Care</b>						
Total	166	7,899	45.3%	305,159	30,089	41.7%
<b>Third party landlords' homes managed by Highfield Care</b>						
Leased homes	7	394			1,373	
Homes under management contract	13	633			—	
<b>Total homes managed by Highfield Care</b>	<b>186</b>	<b>8,926</b>			<b>31,462</b>	

**Notes**

% expressed as % of NHP Group's total property portfolio.

Since 30 September 2004:

- One operated property and one investment property have been sold.
- Two operated properties have been purchased.

**Performance of homes owned by NHP at 30 September 2004  
and managed by third party tenants and Highfield Care**

**Note** All values are 3 month averages to the end of each quarter.

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

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 12th 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 am on 24 February 2005 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 2004.
2. To re-elect R N Midmer as a Director.
3. To re-elect Lord Sutherland as a Director.
4. To re-elect C H W Robson as a Director.

The biographies of the above Directors are shown on page 22.

5. To re-appoint Deloitte & Touche LLP as auditors and to authorise the Directors to fix their remuneration.
6. To approve the Directors' remuneration report.

### SPECIAL BUSINESS

7. To consider and, if thought fit, to 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 2006, 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 to 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 per cent. of the nominal value of the issued share capital of the Company as at the date hereof.

8. To consider and, if thought fit, to pass the following resolution as a special resolution;

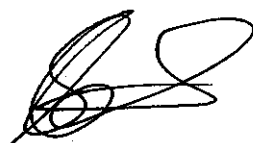
That, pursuant to Article 14 of the Company's Articles of Association, the Company be and is hereby granted authority to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 1p each in the capital of the Company provided that:

- a. the maximum number of ordinary shares hereby authorised to be purchased is 20,761,521, representing 10 per cent. of the issued ordinary capital at 30 September 2004;
- 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 per cent. 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;

**Notice of Annual General Meeting** (Continued)

- d. the authority hereby conferred shall expire at the conclusion of the AGM to be held in 2006 or 30 April 2006, 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  
7 December 2004

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 notorially 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 am on 22 February 2005 are entitled to attend or vote at the meeting. Changes to entries on the relevant register of securities after 9.30 am on 22 February 2005 shall be disregarded in determining the rights of any person to attend and/or vote at the meeting.

## Shareholder Information

## ANALYSIS OF ORDINARY SHAREHOLDINGS AT 6 DECEMBER 2004

Investor type	Private	Directors and spouses	Institutional and other	Totals
Number of holders	395	9	413	817
Percentage of holders	48.35%	1.10%	50.55%	100.00%
Shares held	3,049,425	107,659	204,462,640	207,619,724
Percentage of shares held	1.47%	0.05%	98.48%	100.00%

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	168	449	91	35	74
Percentage of holders	20.56%	54.96%	11.14%	4.28%	9.06%
Shares held	95,575	4,326,041	10,946,392	12,399,687	179,852,029
Percentage of shares held	0.05%	2.08%	5.27%	5.97%	86.63%

## FINANCIAL CALENDAR

12th Annual General Meeting	24 February 2005
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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 [www.nhprops.co.uk](http://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  
Telephone: 01484 600 900

## NHP PLC

Block A  
Upper Ground Floor  
Dukes Court  
Duke Street  
Woking  
GU21 5BH  
Telephone: 01483 754 760  
Email: [info@nhprops.co.uk](mailto:info@nhprops.co.uk)

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