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NHP Plc Annual Report & Accounts 2002

NHP Plc Annual Report & Accounts 2002

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.

Care Centres on the front cover:

Top: The Beeches
Care Centre, Dunfermline

Middle: St Margaret's
Care Centre, Durham City

Bottom: Crompton Court
Care Centre, Liverpool

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Financial highlights

The strategy to consolidate our tenant base has improved our earnings considerably this year and, more importantly, will improve the quality of future years' earnings. In addition, the formation of an operating business – Highfield Care – has created a potentially valuable asset for shareholders.

- Profit before tax of £16.4 million (2001: £10.0 million), after an exceptional credit of £0.2 million (2001: exceptional costs of £4.7 million)
- Earnings per Ordinary Share of 10.1p (2001: 8.1p, restated for the effects of the Rights Issue)
- Net asset value per Ordinary Share up by 58 per cent to 103.4p (2001: 65.5p, restated for the effects of the Rights Issue)
- Tenant consolidation successfully implemented – four tenants, including Highfield Care, manage 86 per cent of NHP beds
- National operating business, Highfield Care, has grown significantly. At 30 September 2002, Highfield Care managed 158 NHP homes and 23 homes owned by third parties
- A successful Rights Issue and a new bank facility were completed in July. Net recourse borrowings at year end were reduced by £42.3 million to £51.5 million (2001: £93.8 million)

Chairman's statement

The year under review saw the transformation of NHP into two distinct business units: the original property business and the new operating business, Highfield Care. Highfield Care provides NHP with a vehicle to manage its owned homes as well as a potential source of quality profits in the future.

Both businesses made steady progress this year. We have added 109 NHP homes to the operating business and the property business has seen a significant improvement in the rent collection from, and covenant strength of, its tenant base (including Highfield Care). This improvement has been reflected in greatly increased asset values.

The successful transformation of NHP was effected as planned despite the operating environment for the publicly funded care home industry generally continuing to be difficult in the UK. There have been significant fee increases paid by local authorities in some parts of the UK, generally triggered by a localised supply and demand imbalance. However, margin pressures caused by the rising costs of care provision have resulted in continuing home closures. The vast majority of local authorities across the UK will not link their fees to the rising cost of long term care for the elderly. These factors, combined with long NHS hospital waiting lists, have pushed care for the elderly up the political agenda.

Financial results

Turnover for the year to 30 September 2002 was significantly higher at £126.0 million (2001: £76.6 million), due to the substantial expansion in numbers of homes transferred into Highfield Care. Profit before taxation was £16.4 million (2001: £10.0 million) after a provision for bad debts of £4.8 million (2001: £10.3 million) and an exceptional credit of £0.2 million (2001: exceptional costs of £4.7 million). Earnings per Ordinary Share were up by 25 per cent to 10.1p (2001: 8.1p, restated for the effects of the Rights Issue during the year). There was a tax credit of £0.5 million (2001: credit of £2.4 million).

The net exceptional credit of £0.2 million comprises primarily tenant receivership costs of £1.5 million (2001: £0.5 million) and a credit of £1.5 million (2001: charge of £1.7 million) representing a write back of prior charges for permanent diminution of asset values.

The creation of our Highfield Care business to operate many of the care homes owned by NHP has meant that

our properties now fall into two asset classes: investment properties (leased to third parties) and operated properties (homes leased to Highfield Care). The investment properties are re-valued annually at 30 September by external, independent valuers. From 30 September 2002 onwards, the operated properties will also be re-valued annually at that date by the same external valuers. Taking the two asset classes together, the value of our properties at year-end was £643.3 million, representing a 9.5 per cent increase over last year's £587.7 million.

The uplift in the revaluation reserve of £56.6 million together with the retained profit for the year of £16.9 million and the receipt of £31.9 million (net) in proceeds from the Rights Issue produced a 103 per cent increase in shareholders' funds to £207.7 million (2001: £102.4 million). Net asset value per NHP Ordinary Share rose by 58 per cent to a year-end figure of 103.4p (2001: 65.5p, restated for the effects of the Rights Issue) and net recourse borrowings were reduced to £51.5 million (2001: £93.8 million).

Dividend

At the time of the Rights Issue, announced in May, we said that although the Board did not intend to recommend a dividend in respect of the year just ended, it was our intention to return to the dividend list as soon as possible thereafter. At that time, we intended to apply to the Courts for a reconstruction of capital to eliminate negative distributable reserves which existed as at 30 September 2001. This would have allowed us to resume dividend payments.

In the event, retained profit and the effect of the increase in the valuation of our properties have created positive distributable reserves in the holding Company. If trading remains at current levels, the Directors would expect to declare an interim dividend in June 2003 of 0.5p per Ordinary Share. In future we intend to pay dividends to shareholders based on the level of surplus funds available after satisfying the capital expenditure requirements of our care home portfolio.

Board and management

Our longest serving non-executive Director, Arthur Bergbaum, retired from the Board at the Annual General Meeting in February. We thank him for his contribution over the years and wish him a long and happy retirement.

In November, John Murphy became Chief Executive of Highfield Care with a brief to drive operational efficiency forward and to deliver the highest possible standards of care. John's achievements to date in the care home industry make him well qualified to fulfil our ambitious strategic aims for Highfield Care.

Outlook

We are successfully rebuilding value for NHP shareholders and we are grateful for their support of the successful Rights Issue to raise £31.9 million (net) during the year under review. A large part of the strategy to achieve the goal of rebuilding value was the creation of our own operating capability. The Board is encouraged with the progress made to date by the Highfield Care team and, with the appointment of John Murphy, believes we have begun to create a potentially valuable asset for NHP shareholders.

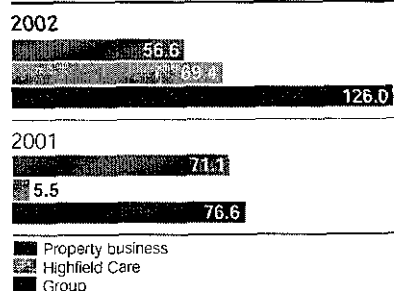
Our property-based activity has also improved this year and, looking forward, we believe that the level of tenant receiverships will significantly reduce. The property business will also continue to benefit from the smaller number of financially stronger tenants now in place who can afford the substantial investment necessary to keep our homes in top condition. At 30 September 2002, four tenants (including Highfield Care) operated 86 per cent of the total number of beds owned by NHP.

With both operating and property businesses continuing to perform to plan, I expect another year of progress for NHP despite the difficult economic environment within the publicly funded care home industry.



Sir Martin Laing
Chairman
16 December 2002

Turnover split £m



Property business

Owned 210 care homes at 30 September 2002, largely purpose built modern facilities, leased to third party operators throughout the UK.

Homes: 210

Beds: 10,557

Highfield Care

Formed in 2001, manages 158 NHP homes and 23 homes owned by third parties.

Homes: 181

Beds: 8,819

Chief Executive's review

NHP's financial performance has improved significantly in the year under review. Progress in both businesses has increased our reported earnings but more importantly, has increased the quality and predictability of future earnings.

Financial performance

For the year ended 30 September	2002	2001	Increase/ (decrease)
Turnover	£126.0m	£76.6m	64%
Pre-tax profits excluding exceptional income/(costs)	£16.1m	£14.7m	10%
Pre-tax profits including exceptional income/(costs)	£16.4m	£10.0m	64%
Basic earnings per Ordinary Share	10.1p	8.1p*	25%
Operating cash flow after interest	£14.8m	£7.3m	103%
Net assets per Ordinary Share	103.4p	65.5p*	58%
Shareholders' funds	£207.7m	£102.4m	103%
Beds	18,395	18,721	(2%)
Investment and operated properties at book value	£643.3m	£587.7m	9%
Investment and operated properties at cost	£659.6m	£662.1m	0%

*Restated for the effects of the Rights Issue in July 2002.

Introduction

NHP's financial performance has improved significantly in the year under review. The operating business, Highfield Care, has grown its operations to a national scale, allowing us to begin to examine how to create, and take full advantage of, operational efficiencies. The property business has successfully consolidated its tenant base into a smaller, financially stronger list. Progress in both businesses has increased our reported earnings but, more importantly, has increased the quality and predictability of future earnings.

The UK care home industry

Over the past year, the sector has had to deal with a number of changes in the regulatory regime facing care homes in the UK. The newly created Care Standards Commissions for England, Scotland, Wales and Northern Ireland (four separate organisations) this year took over the regulation of all care homes. Government policy with these bodies, and generally towards the sector, has unfortunately proved to be both confused and confusing, and has not addressed the fundamental problem of overall under-funding.

Left: Larchwood Care Centre,
Braintree, Essex

The National Care Standards Commission – regulating only England – was due to impose over the next five years a comprehensive package of physical property, staff and training requirements contained in the Care Standards legislation. Disappointingly, the property standards will for the time being only be applied to new-build homes after a change of mind by the Department of Health. This U-turn followed Government recognition that too many properties, with owners unable to afford catch-up investment, would close and possibly thousands of much needed care beds would be lost in addition to those already leaving the market. It remains to be seen what the situation will be in Scotland, Wales and Northern Ireland.

NHP believes that the UK public has a right to expect high national minimum standards in caring for our elderly citizens. However, we recognise that until the Government provides sufficient encouragement to local authorities to pay fees which fully reflect the cost of care, many operators will not be able to meet increased property and training standards. The vast majority of NHP beds meet the originally proposed

property standards. It is too early to tell how effective the new regulatory bodies will ultimately become but we hope that current problems and long delays in the registration and inspection processes will be addressed in the short term.

Turning to fee levels, the Government, in this year's Budget, increased the budgets of local authorities' social services departments by six per cent. However, none of the increase was ring-fenced for elderly care – it was merely hoped that additional funds would be made available at the home level. What this has meant in practice is that beds continue to be lost in the areas where publicly funded care home fees remain below the cost of care. Consequently, NHS bed blocking and long waiting lists continue to be serious national problems.

A huge problem facing care home operators throughout the UK is wage inflation as labour costs represent around 60 per cent of the total costs of running a care home. The rise in National Insurance contributions next April will also increase costs further. The Minimum Wage has increased this year only in line with inflation (compared to

last year's 11 per cent) but one of the most serious issues facing the care home industry is a shortage of care staff. Competition for staff to work in care homes from supermarkets, retail and hospitality outlets and the NHS is intense. Nursing wage costs are expected this year to outstrip inflation while additional NHS recruitment of nurses has created sometimes severe local shortages of trained staff. The level of fee increases therefore remains crucial with particularly low fee increases being the norm in central and northern England and Wales.

There is no doubt that the UK needs substantial on-going investment into the care home sector if it is to care properly for its growing elderly population. However, home closures are continuing and new-builds are likely to remain at very low levels because of the barriers to entry created by the application of the new physical property standards on new-build homes. Sooner or later we believe that the Government will have to address the problem of this disincentive to invest in new care homes, perhaps by recognising that premium quality homes should be able to charge fees which reflect the quality of care delivered.

This year has seen the start of some serious investment in the care centres. This will make such a difference to my residents and staff.

SANDRA GRIERSON HOME MANAGER

Operating business

Highfield Care

Our operating business has grown substantially during the year and comprised 181 homes at 30 September 2002, including 23 homes owned by third parties. This growth was due to the acquisition of Highfield Holdings Limited in December 2001 and the addition of NHP owned care homes previously operated by third party tenants that went into receivership. The management of Highfield Care has become skilled at minimising the disruption caused by the receivership process whilst keeping the homes open for business to ensure the welfare of residents and staff.

The new brochures do a great job in combining national branding with local relevance and sensitivity.

DEBBIE BARON HOME MANAGER

Fifteen homes were taken out of receivership during the year and assigned to Highfield Care. We are continuing the process of integrating them and bringing their standards up to ours. Three homes have been transferred from receivership into Highfield Care since 30 September 2002. The condition of many of the homes was disappointing but not surprising, given the lack of investment by their former operators. We have planned and are now implementing a substantial programme of works to improve the fabric of buildings, equipment, gardens and staff training.

Highfield Care, still in its development phase, not surprisingly recorded an operating loss for the year of £3.2 million after being charged full rent of £15.6 million by the property business. NHP properties with Highfield Care as the registered operator were valued at 30 September 2002 on an existing use basis at £159.9 million, representing an uplift of £15.1 million over last year's valuation of the same properties.

In order to build Highfield Care into an operator with national coverage and the necessary economies of scale, we have

deliberately increased the size of the operational management overhead to enable us to address the specific issues relating to receiverships and to integrate homes into our business quickly and efficiently. Once this period of rapid growth is over we will reduce the overhead level with consequent benefit to profitability. The review will be part of the responsibilities of Highfield Care's new Chief Executive, John Murphy.

This year saw the beginning of a series of initiatives to market the Highfield Care brand to national audiences. We have just completed the production of brochures for each Highfield Care centre – all with a common brand identity but tailored to individual properties to reflect the local nature of our business. Local marketing is vital for the individual homes and we have commenced a programme of community sponsorship of school sports and activities. In addition, we have undertaken a carefully targeted campaign of press advertisements aimed at care purchasers and staff recruitment.

With the growing size and importance of Highfield Care, we have upgraded incident reporting mechanisms and

Top left: The Vale Care Centre, Chesterfield.

Above right: The new branded marketing material for Highfield Care.

I'm looking forward to the challenge of turning Highfield Care into one of the UK's premier care home operators.

JOHN MURPHY CEO, HIGHFIELD CARE

Chief Executive's review continued

The Group's portfolio of care homes is represented across the UK with a growing proportion of the total managed by Highfield Care.

East Anglia Highfield	North Highfield	Yorkshire & Humberside Highfield
Homes –	Homes 27	Homes 15
Beds –	Beds 1,306	Beds 657
NHP Property	NHP Property	NHP Property
Homes 7	Homes 10	Homes 14
Beds 102	Beds 601	Beds 713
Scotland Highfield	South East Highfield	West Midlands Highfield
Homes 26	Homes 7	Homes 21
Beds 1,488	Beds 294	Beds 962
NHP Property	NHP Property	NHP Property
Homes 17	Homes 45	Homes 16
Beds 1,119	Beds 1,601	Beds 888
North West Highfield	South West Highfield	East Midlands Highfield
Homes 22	Homes 5	Homes 28
Beds 1,049	Beds 301	Beds 1,246
NHP Property	NHP Property	NHP Property
Homes 39	Homes 9	Homes 23
Beds 2,391	Beds 516	Beds 914
Wales Highfield	Northern Ireland Highfield	
Homes 4	Homes 3	
Beds 177	Beds 173	
NHP Property	NHP Property	
Homes 24	Homes 11	
Beds 1,314	Beds 583	

Scotland
Homes – 43
Beds – 2,607

North
Homes – 37
Beds – 1,907

North West
Homes – 61
Beds – 3,440

Y&H
Homes – 29
Beds – 1,370

West Midlands
Homes – 37
Beds – 1,850

East Midlands
Homes – 51
Beds – 2,160

Wales
Homes – 28
Beds – 1,491

East Anglia
Homes – 7
Beds – 102

South East
Homes – 52
Beds – 1,895

South West
Homes – 14
Beds – 817

as at 30 September 2002

I'm very proud of the achievements of my colleagues in reaching the demanding ISO 9001 standards.

DAVID McMAHON GROUP QUALITY ASSURANCE MANAGER

enhanced our quality control procedures. This has included an ISO 9001 home accreditation programme under which the first 22 Highfield Care homes have now received certification.

Looking ahead, one of our major financial priorities is planning and executing targeted investment in the Highfield Care homes. In the year to 30 September 2002, we invested £4.6 million in Highfield Care operated properties and a larger amount is planned for the current year. We will also invest in extensions and additions to selected homes and we currently have a number of extension and major refurbishment projects at various stages of the planning process. In addition, we have targeted specialist care (of the physically and mentally impaired) as a sector in which NHP will seek to grow a much larger presence. To this end, we have charged one of our senior management team, Saleem Asaria, with identifying opportunities in this area and bringing recommendations to the Board to build a significant specialist care business.

In the short term, Highfield Care will continue its in-house development through investment, training and improved efficiencies. In the medium term, we will examine all options open to us to realise value for shareholders from what, we believe, will become an increasingly valuable asset.

Left: Leeming Garth Care Centre, near Northallerton

Chief Executive's review continued

The training we're now receiving is vital for my staff to be able to provide the levels of care we aspire to.

MARY CURLY REGIONAL MANAGER

Right: Keresley Wood
Care Centre, Coventry

Middle right: Lavender Lodge
Care Centre, Farnborough

Far right: Kesteven Grange
Care Centre, Hull

Below far right: Fairview
Care Centre, Bannockburn

Below right: Brooklands
Care Centre, Grimsby

Below: Hygrove
Care Centre, Gloucester

Property business

NHP Property

NHP's original business, where we act as landlord to third party tenants, accounted for 75 per cent of the portfolio by value at 30 September 2002 and will account for 65 per cent of the portfolio by value when the remaining homes which are managed by Highfield Care are assigned out of the current receiverships. The business has shown improved financial performance during the year.

NHP owned 261 investment properties (2001: 324) leased to third parties which were valued at 30 September 2002 on an investment property basis at £483.3 million (2001: £535.4 million). On a like-for-like basis, these 261 properties increased in value by 9.7 per cent, largely due to improved covenants as two of our largest tenants, Southern Cross and Idun, were themselves acquired by venture capital backed companies.

Our strategy of tenant consolidation has proved effective in increasing the amount of rent collected (and therefore reducing bad debts). The charge for third party rent void in the property business was reduced to £4.4 million (2001: £10.3 million) reflecting the benefits of consolidating the tenant base and the inclusion of a number of currently less profitable homes within our own operating business. The NHP independently managed tenant base has more than halved over the last two years to eleven companies.

As we expected, there were a number of further receiverships. The largest of these were Harmony Care Homes Limited (with 16 homes) and six

subsidiaries of Union Healthcare Group Limited (with 41 homes in total). Although modestly disruptive in the very short term, the receiverships bring our properties under our direct control and we can ensure that from now on the assets are cared for appropriately to maintain and enhance their value.

The property business should continue to benefit this year from reduced numbers of receiverships and lower levels of rental voids. In addition, there is the upside available from those homes paying turnover rent (where NHP receives a percentage of tenant homes' turnover above a certain level) as occupancy and fee levels increase. Better performance is also expected at those homes where we have invested in refurbishment – with NHP funding £1.4 million in third party tenants' homes during the period under review in addition to the £4.6 million spent in homes operated by Highfield Care. We will study carefully opportunities for enlarging properties or even building new homes in selective parts of the UK with tenants we consider top class operators but we believe the economic case for new build is far from proven in many parts of the UK.

Staff

We have begun the process of creating a single unified team from the managers and staff who worked for the operating businesses which together form Highfield Care. The goodwill and desire to reach this objective was amply demonstrated at the recent inaugural Highfield Care Regional Managers' Conference and I am encouraged by the enthusiasm of our operational team.

During the year I have visited well over 100 of our care homes in all parts of the UK. The people I met who are vital to the successful operation of Highfield Care – from regional managers and matrons to nurses, carers and support staff – have all proved to be dedicated, professional and caring. Without their efforts, our progress this year would have been significantly reduced. I thank them all for their hard work and dedication.



Bill Colvin
Chief Executive
16 December 2002

Financial review

NHP is beginning to see the benefits of its high quality asset portfolio in the earnings it derives from it – a result of better management of our homes, both by the smaller number of stronger third party tenants and by Highfield Care.

This Review provides a commentary on the principal movements in the Group accounts for the year to 30 September 2002 and an analysis of the property business and Highfield Care.

Profit and loss account

In the property business, rent receivable from NHP care homes operated by third parties totalled £56.6 million (2001: £71.1 million) of which £3.4 million (2001: £3.6 million) represented turnover rent. Turnover from the operating business, Highfield Care, was £69.4 million (2001: £5.5 million). The two businesses produced a combined turnover of £126.0 million (2001: £76.6 million).

Profit before tax was £16.4 million (2001: £10.0 million) after a provision for bad debts of £4.8 million (2001: £10.3 million) and an exceptional credit of £0.2 million (2001: exceptional costs of £4.7 million). The depreciation charge for the Group increased to £3.4 million (2001: £0.8 million). The larger number of operated properties accounted for £2.9 million (2001: £0.6 million) of this charge.

The reduction of £5.4 million in provision for bad debt is a reflection of the financial strength of the smaller number of tenants of NHP properties and the rapid growth of Highfield Care. Whilst results from the poorer performing homes in our own operating business have improved, Highfield Care reported an operating loss for the year to 30 September 2002 of £3.2 million (2001: operating profit of £0.1 million) after NHP rent of £15.6 million (2001: £1.5 million) that included £1.2 million of turnover rent (2001: £nil).

The exceptional net credit for the period was £0.2 million (2001: exceptional costs of £4.7 million). The principal credits were a £0.2 million writeback from a provision made for closure support costs of the Ultima Group (2001: exceptional cost of £1.2 million) and the net writeback of £1.5 million (2001: exceptional cost of £1.7 million) from the charge for permanent diminution in value of the property portfolio made in the profit and loss account in 2000 and 2001. The cost element of £1.5 million related to tenant receiverships (2001: £0.5 million), of which a major element was wages and

salaries due to the care homes' staff at the date a Receiver was appointed and Highfield Care took over the management of the homes concerned.

During the year, four tenants went into receivership as a result of continuing difficult trading conditions. Two small tenants, Cherish Healthcare (MJN) Limited (with two NHP homes) and Loughbray Limited (one home) went into receivership in October 2001 and February 2002 respectively. Highfield Care immediately took over the management of the properties and their trading performance was largely unaffected. The two Cherish homes are now out of receivership and re-registered to Highfield Care.

Harmony Care Homes Limited and six subsidiaries of Union Healthcare Group Limited, were placed in receivership in January 2002 and late September 2002 respectively. Harmony operated 16 NHP homes and Union 41. In both cases, Highfield Care took on the management of the homes for the Receiver, minimising uncertainty for residents and staff. Of the Harmony and Union homes, 45 are still in receivership (principally the former Union homes) and 12 have been re-registered with Highfield Care as the operator at the date of this report. Since 30 September 2002, Healthcare Investments (No. 2) Limited, which operated four of our homes, went into receivership and Highfield Care are managing the homes.

Due to the change of re-registration responsibility to the new care regulatory bodies in April 2002, the timetable to complete the re-registration process has been subject to considerable delay that has had the effect of prolonging the receiverships with a corresponding increase in costs.

Net interest payable and similar charges reduced to £38.1 million (2001: £40.2 million), reflecting the lower bank borrowings resulting from repayment of bank debt from the proceeds of the Rights Issue and cash generation from the businesses. The average cost of bank borrowing for the year was 6.0 per cent compared with 7.3 per cent for 2001 as the Company benefited from lower UK base rates. The blended fixed rate of the unchanged £559.0 million of non-recourse secured notes currently outstanding, representing 91.2 per cent of the Group's total debt, is 6.7 per cent.

Earnings per Ordinary Share were 10.1p (2001: 8.1p, restated for the effects of the Rights Issue) after a tax credit of £0.5 million (2001: credit of £2.4 million). No provision has been made for Corporation Tax (2001: £nil) because available capital allowances exceed taxable profits for the year and the adoption of FRS 19, requiring us to make full provision for deferred taxation on all timing differences, has not resulted in a deferred tax charge for prior periods or for the period under review.

Balance sheet

At the year-end, the Group's property portfolio comprised 373 care homes (2001: 377 homes) with a total of 18,395 beds (2001: 18,721 beds). The formation of Highfield Care to operate many of the care homes owned by NHP has meant that our properties now fall into two distinct asset classes: investment properties (leased to third parties) and operated properties (homes leased to Highfield Care), the latter being depreciated.

The annual year-end independent valuation of investment properties extends to the operated properties which is a change in accounting policy.

The operated properties are now a significant part of our asset base and should be included in the balance sheet at market value on an existing use basis. The change in accounting policy has no impact on the prior year figures.

The homes operated by third parties (261 homes including those still in receivership) were valued on an investment property basis, consistent with previous years, at £483.3 million and are not depreciated. The investment property valuation is primarily based on the anticipated rental income due under the lease. The 108 operated properties were valued on an existing use basis at £159.9 million and these properties are depreciated. The existing use valuation is based on the trading prospects of the individual homes. Both forms of valuation follow the guidelines set out in the R.I.C.S. Appraisal & Valuation Manual.

Taking the two asset classes together, the value at £643.3 million, represents a 9.5 per cent increase over last year's £587.7 million. The total cost of the portfolio, including acquisition costs, was £659.6 million (2001: £662.1 million). In arriving at the portfolio valuation of £643.3 million, GVA Grimley International Property Advisers have separately assessed the market values of the individual properties and made an adjustment by way of a portfolio premium equating to around 5 per cent. This portfolio approach is consistent with that applied in previous years.

Although the valuation of individual assets reflects operator strength and performance, and the condition and siting of a home, significant regional differences were revealed. The best performing regions for NHP were Scotland, the South East of England

and Northern Ireland, with Yorkshire and Humberside, the north west of England and Wales at the bottom of the table. It is no coincidence that the best performing regions are those in which care purchasers have awarded meaningful fee increases this year.

The overall yield on the investment and operated properties, based on the full annual pavement rents of £67.4 million, was 10.5 per cent (2001: 11.6 per cent) ignoring normal investors' purchase costs of 5.75 per cent (2001: 5.75 per cent). When these costs are included, the yield is 9.9 per cent (2001: 10.9 per cent).

During the year, excluding the deposit swaps and zero coupon notes of the securitisation vehicles, net debt fell from £605.9m to £563.7m. The level of securitised debt was unchanged at £559 million but net recourse borrowings were reduced by £42.3 million to £51.5 million at year-end (2001: £93.8 million) as a result of net cash flow and the receipt in July of the net £31.9 million raised in the Rights Issue.

The terms of the Rights Issue were 3 for 8 at 62 pence per new Ordinary Share and the Issue was 88.6 per cent taken up by shareholders. At the same time as the Rights Issue, we completed a new facility that extended our bank financing arrangements to December 2004. The new facility provides the Group with committed revolving facilities of £90 million.

Consolidated gearing improved to 222 per cent from 499 per cent during the period, and gearing excluding non-recourse securitised assets and liabilities improved to 30 per cent from 135 per cent. Both reductions are

primarily as a consequence of the reduction in bank debt and a doubling of shareholders' funds.

Cash flow

Net cash inflow from operating activities increased by £6.1 million from £51.8 million in 2001 to £57.9 million in 2002, largely as a result of increased rental receipts.

Net cash interest and finance costs fell by £1.4m to £43.1 million (2001: £44.5 million). This reduction is primarily a result of lower bank debt interest paid due to the reduced average net debt for the year of £595.6 million (2001: £606.8 million) and a lower average cost of bank borrowing for the year of 6.0 per cent (2001: 7.3 per cent).

Cash inflows from asset disposals exceeded cash outflows from capital expenditure by £0.2 million (2001: net £4.5 million inflow). Disposals during the year totalled £5.5 million (2001: £10.9 million) and principally comprised the sale of four homes, at a book profit to NHP of £0.1 million. Capital expenditure for the period was £5.3 million (2001: £6.5 million) as we began the programme of works to bring Highfield Care's properties up to the standards that will increase their value and occupancy levels. No property acquisitions were included in capital expenditure during the year (2001: £1.5 million).

Cash flow generated after financing, capital items, and taxation was £47.0 million (2001: £10.7 million, excluding the investment in Ultima Holdings Limited of £13.6 million) and was used principally to reduce bank debt. Financing included the net £31.9 million (2001: £2.6 million) of new equity.

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 notes remained in place throughout the period. These investments mature between 2021 and 2028 and provide for the repayment of £408 million of the non-recourse £559 million secured notes. In NHP's consolidated accounts, interest on these instruments accrues on a monthly basis over the instruments' various lives and they are held at a book value of £132.4 million in the consolidated balance sheet at 30 September 2002 (2001: £125.8 million).



Richard Midmer
Group Finance Director
16 December 2002

Company information

Registered office

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

Registered No. 02798607

Secretary

Sheila Kaul

Stockbrokers and Financial Adviser

Collins Stewart Limited
9th Floor, 88 Wood Street
London EC2V 7QR

Auditors

Deloitte & Touche
London

Solicitors

S J Berwin
222 Grays Inn Road
London WC1X 8XF

Eversheds
Holland Court
The Close
Norwich
Norfolk NR1 4DX

Principal Bankers

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

Registrars

Northern Registrars Limited
PO Box 30, 3rd Floor, Cresta House
Alma Street, Luton
Bedfordshire LU1 2PU

Insurance Brokers

G. R. Patrick & Co. Limited
Brittanic House
230 Burlington Road
New Malden
Surrey KT3 4NW

Valuers

GVA Grimley
3 Brindley Place
Birmingham B1 2JB

Committees

Audit Committee

R A Henderson
C H W Robson
Lord Sutherland

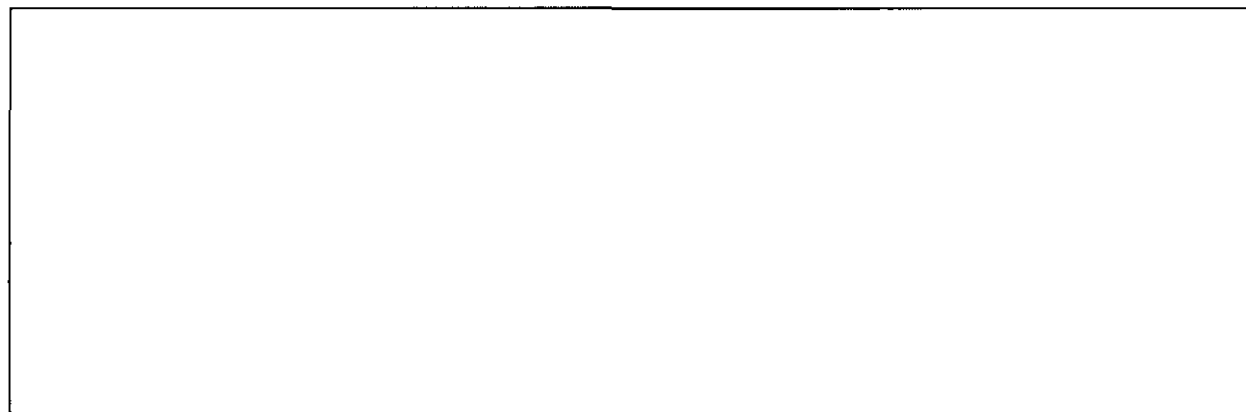
Remuneration Committee

C H W Robson
R A Henderson
Lord Sutherland

Nominations Committee

Sir Martin Laing
W Colvin
Lord Sutherland

Directors



**Sir John Martin Kirby
Laing CBE**

Non-executive Group Chairman, aged 60, has broad experience in and knowledge of the property sector, both in the UK and overseas. He joined the Laing Group in 1966, and was until recently Group Chairman and is now a non-executive Director of the Laing Group. He holds and has held office in various industry, trade, academic and charitable organisations. He was appointed a non-executive Director of the Company on 21 December 1998 and became Chairman on 2 March 1999.

William Colvin

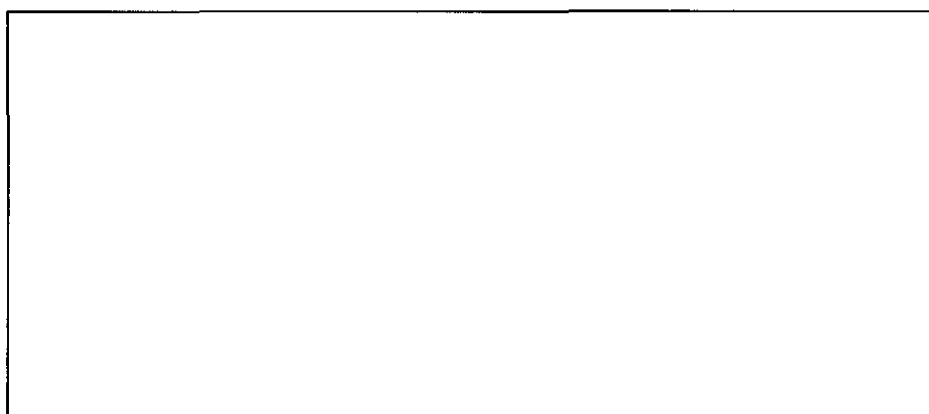
Chief Executive, aged 44, has overall executive responsibility to the Board for the Group's activities. He was Finance Director of British-Borneo Oil & Gas Plc from 1992 to 1999. He is a Scottish Chartered Accountant and has spent most of his career in the oil and gas industry. He was appointed an executive 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 48, is responsible for funding, investor relations and financial reporting. He was previously in the construction and oil and gas sectors. A civil engineer by training, he was Finance Director of British-Borneo Oil & Gas Plc. He was appointed an executive Director of the Company on 20 November 2000.

Daniel Fernley Francis

Executive Director, aged 53, is responsible for the accounting, management reporting and financial systems of the Group. He joined the management team of NHP in July 1993, having previously held a range of directorships in industry.

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

Non-executive Director, aged 70, has long and broad experience in the corporate finance and banking sectors. He is currently Chairman of Welsh Gold Plc. He is a member of the Company's Audit Committee and is Chairman of the Remuneration Committee. He was appointed a non-executive Director of the Company on 1 May 1996 and has been the senior non-executive Director since 16 February 2002.

Lord Sutherland

Non-executive Director, aged 61, has a wealth of knowledge and experience in education and healthcare. He is currently Chairman of the Quarry Products Association and was until recently the Principal and Vice-Chancellor of the University of Edinburgh. He was the Chairman of the Government's Royal Commission on Long-Term Care. He is a member of the Company's Audit, Remuneration and Nominations Committees. He was appointed a non-executive Director of the Company on 14 May 2001.

Ronald Andrew Henderson

Non-executive Director, aged 56, he is currently Group Finance Director of Network Rail and non-executive Director of Scipher plc. He was previously Chief Executive of Tuberail, a consortium bidding to London Underground Limited for their PPP initiative and prior to that was Group Finance Director for BICC plc. He is a member of the Company's Remuneration Committee and Chairman of the Audit Committee. He was appointed a non-executive Director of the Company on 6 December 2001.

Directors' report

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 30 September 2002.

Principal activities

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

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

Operational and financial review

A review of the development of the Group's business, including future prospects, is set out in the Chairman's statement on pages 2 and 3 and the Chief Executive's review and financial review on pages 4 to 14. Events occurring after the balance sheet date are reported in note 34 to the accounts on page 62.

Results

The results for the year ended 30 September 2002 are set out in the consolidated profit and loss account on page 30.

Dividends

The Directors have recommended that no dividend be paid to Ordinary Shareholders for the year ended 30 September 2002 (2001:£nil).

Directors

A brief statement on each of the current Directors, their responsibilities and experience is set out on page 16 and 17 of this report.

All the Directors served throughout the year ended 30 September 2002, except W J Davies, who resigned as executive Director on 29 November 2001, and A Bergbaum, the senior non-executive Director, who retired on 15 February 2002.

The Directors' beneficial shareholdings at 30 September 2002, and at 30 September 2001, were as follows:

	Ordinary Shares	
	Total 2002	Total 2001
Sir Martin Laing	9,049	2,945
W Colvin	10,000	—
R N Midmer	—	—
D F Francis	845,459	792,333
C H W Robson	44,520	32,378
Lord Sutherland	5,886	—
R A Henderson	5,000	—
Total	919,914	827,656

Details of the options granted to the executive Directors under the NHP Plc 2001 Executive Option Scheme are shown in the Report of the Remuneration Committee on page 22.

The market price of the Ordinary Shares at the end of the year was 83.0p and the quoted price during the year ranged from 37.5p to 92.5p.

In addition to his interests shown above, D F Francis has a beneficial interest in part of the NHP Executive Pension Scheme, which owned 45,519 Ordinary Shares of the Company at 30 September 2002.

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

There have been no changes to any of these Directors' interests between 30 September 2002 and the date of this report. Details of share options granted to the Directors are shown on page 22.

Except as stated in note 33 to the Accounts on page 62, 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.

W Colvin and R N Midmer retire by rotation at the Tenth 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 70 and is not due to retire by rotation, but in accordance with the Company's Articles of Association, Article 108, he feels that he should be re-elected annually. Therefore he offers himself for re-election at the Tenth Annual General Meeting.

Substantial shareholders

As at 29 November 2002 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	35,750,700	17.8%
Aviva/Morley Investment Management	24,022,818	12.0%
M&G Investment	21,096,763	10.5%
Gartmore Investment Management	13,986,924	7.0%
Artemis Investment Management	12,062,500	6.0%
Odey Asset Management	10,133,242	5.0%
Invesco Asset Management	9,356,169	4.7%

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 2002, calculated in accordance with the Companies Act 1985, were 27 (2001:26). Creditor days for the Company at 30 September 2002 were 25 (2001:17).

Employment policies

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

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

Directors' report continued

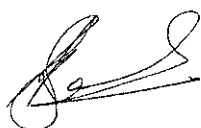
The Directors recognise the importance of good communications and relations with the Group's employees. Each part of the Group maintains employee relationships appropriate to its own particular needs and environment.

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

Auditors

Deloitte & Touche have expressed their willingness to be re-appointed as auditors to the Company, and a resolution for their re-appointment will be proposed at the Tenth Annual General Meeting to be held on 30 January 2003.

By Order of the Board



Sheila Kaul
Company Secretary
16 December 2002

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

Report of the remuneration committee

The Remuneration Committee, which sits at least three times in each year, deliberates and makes recommendations to the Board on the remuneration policy within the Group. The members of the Committee are the non-executive Directors, C H W Robson, Chairman, Lord Sutherland and R A Henderson. The Committee also consults with Sir Martin Laing, Chairman of NHP, when appropriate, and retains New Bridge Street Consultants for further advice on policy and pay. The three non-executive Directors are independent.

Remuneration policy

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

Salaries

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

Bonuses

Short term bonuses are offered annually to the executive Directors. These are based on the amount by which earnings per share exceed the budgeted figure agreed by the Board at the beginning of the year. These can rise to 50% of salary when the performance figures have been met. Senior managers are eligible for cash bonuses of up to 30% of salary, judged against performance, and these are recommended to the Committee by the Chief Executive.

Share Options

Executive Directors and other senior executives receive options under the Company's Executive Share Option Scheme which was approved by shareholders in August 2001. The first grants were made in September 2001. There were three tranches of options, and 50% of each is exercisable after three years and 50% after 5 years. To reflect the fact that senior executives had not received options for some time since their appointment and the progress that had already been made towards recovery, the first tranche of options did not have performance conditions. The other two tranches required that share prices of 50p and 75p were achieved over 30 consecutive dealing days.

In 2002, further grants were made to senior management. These options are exercisable after three years. Of the last options awarded 50% of each grant requires the achievement of a share price of 100p and 50% requires 105p.

Details concerning the grants made to the Directors are set out in the options table overleaf.

The Committee chose to use share price targets because it felt that this was the best way of aligning executives' and shareholders' interests during the Company's recovery. There are also no listed companies that in any way compare in composition to NHP. The Committee will keep this policy under review as the Company progresses and will ensure that all grants are linked to challenging performance targets, taking into account the Company's circumstances at the time.

Report of the remuneration committee continued

The Committee intends to grant options in future years, subject to the individual grant maximum of 150% of base salary per annum (or 400% in the case of options granted to facilitate recruitment).

NHP Share Schemes

NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme

Options granted to the Directors under the Savings scheme, and the subscription prices outstanding at the date of this report, including an adjustment to take account of the Rights Issue, are as follows:

Name	Term	Option price	Number of options granted and outstanding at 30 September 2001	Number of options granted and outstanding at 30 September 2002	Date from which exercisable	Expiry date
Sir Martin Laing	5 years	107p	15,770	15,770	01 Feb 2005	01 Jul 2005

NHP Plc 2001 Inland Revenue Approved and Unapproved Executive Share Option Schemes

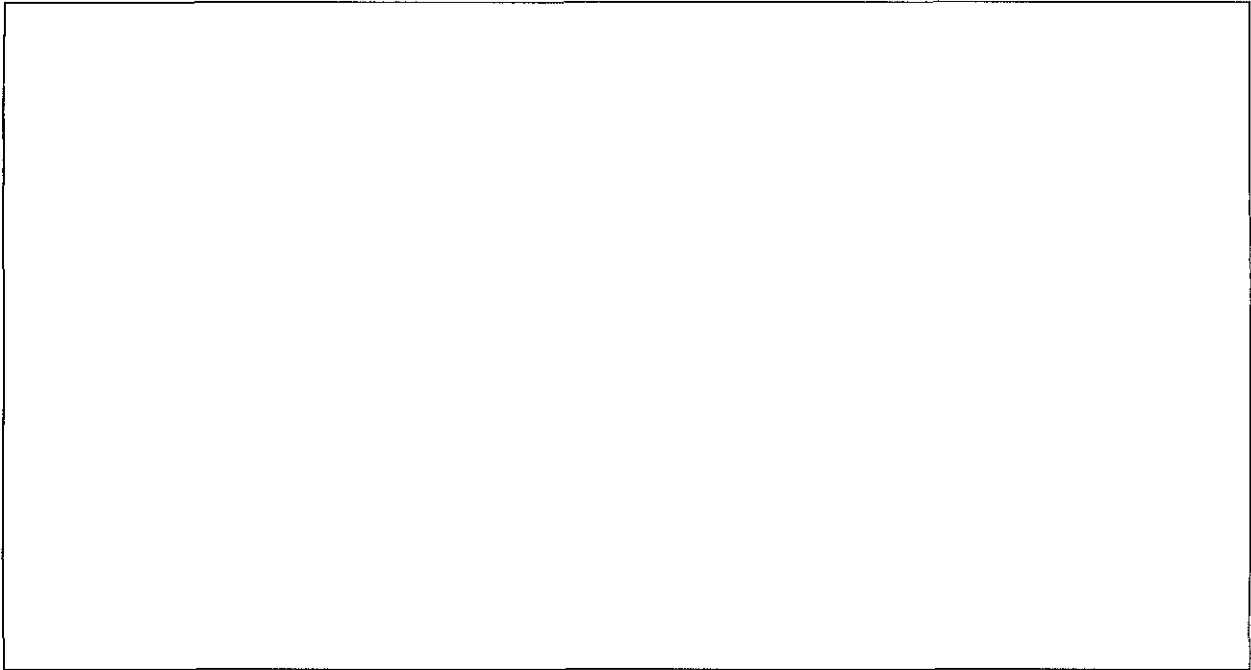
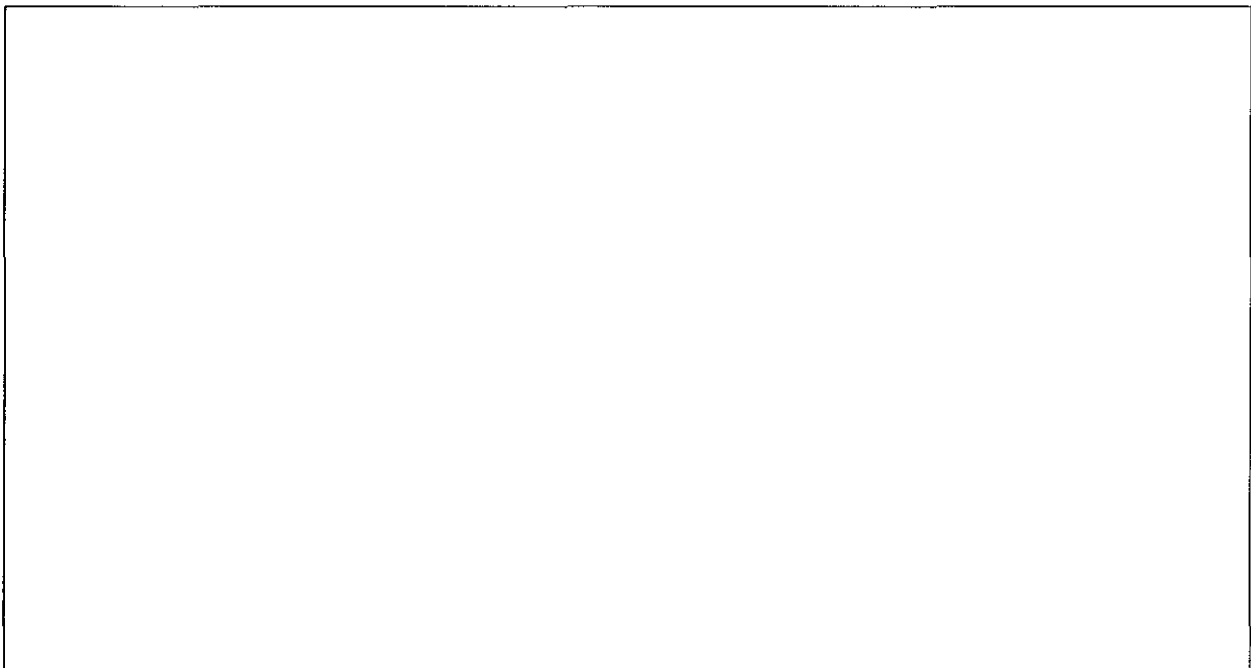
Options granted to the Directors under the 2001 Approved and Unapproved Executive schemes, and the subscription price, including an adjustment to take account of the Rights Issue, are as follows:

Name	Date option granted	Earliest exercise date	Exercise price	No. of shares unapproved	No. of shares approved
W Colvin	13 Sep 2001	14 Sep 2004	35p	2,060,928	—
W Colvin	12 Oct 2001	13 Oct 2004	36p	—	83,300
W Colvin	30 Sep 2002	01 Oct 2005	82p	457,300	—
R N Midmer	13 Sep 2001	14 Sep 2004	35p	1,373,952	—
R N Midmer	12 Oct 2001	13 Oct 2004	36p	—	83,300
R N Midmer	30 Sep 2002	01 Oct 2005	82p	365,800	—
D F Francis	30 Sep 2002	01 Oct 2005	82p	182,915	36,585

Details of the Directors' emoluments for the year ended 30 September 2002, with comparative amounts for the year ended 30 September 2001 are as follows:

	Salary and fees £	Bonus £	Benefits £	Aggregate emoluments £	Pension contributions £	For the year ended 30 September 2002 Total emoluments £	For the year ended 30 September 2001 Total emoluments £
Executive Directors							
W Colvin	250,000	145,000	20,225	415,225	50,000	465,225	616,253
R N Midmer	192,500	60,000	18,196	270,696	38,500	309,196	311,653
D F Francis	120,000	45,000	13,619	178,619	24,000	202,619	142,789
Non-executive Directors							
Sir Martin Laing, Chairman	52,500	—	—	52,500	—	52,500	52,500
A Bergbaum	10,417	—	—	10,417	—	10,417	18,000
C H W Robson	25,000	—	—	25,000	—	25,000	18,000
Lord Sutherland	25,000	—	—	25,000	—	25,000	4,500
R A Henderson	20,833	—	—	20,833	—	20,833	—
Total	696,250	250,000	52,040	998,290	112,500	1,110,790	1,163,695

W J Davies resigned on 29 November 2001. In accordance with his contract he received 12 months salary, 20% pension payment and 12 months company car and other benefits. His emoluments totalled £325,480.

Shareholder returns over the last five years**Shareholder returns over the last two years**

The two graphs above show total shareholder return for NHP over the past five years and since the appointment of W Colvin and R N Midmer in November 2000.

Report of the remuneration committee continued

Executive Directors

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

Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board within the limits set out in the Articles of Association and is based upon independent surveys of fees paid to non-executive directors. The remuneration paid to each non-executive Director in the years to 30 September 2001 and 2002 is shown on page 22 and was subject to Board approval. Non-executive Directors do not have contracts of employment. They may be paid for professional services provided to the Group, but cannot participate in the Company's Executive Share Option Scheme, nor are they eligible to join the Company's pension scheme.

Shareholders will be invited to vote on this report at the AGM.



C H W Robson

Chairman

Remuneration Committee

16 December 2002

Statement on corporate governance

Application of the principles of corporate governance

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

Board composition

The Board meets regularly throughout the year, with additional special meetings as required. The Board has a formal agenda and is responsible for the Group's strategy, acquisition and divestment policy and consideration of major financial matters.

The Board currently consists of the non-executive Chairman, Chief Executive, two other executive Directors and three other non-executive Directors. The Directors' respective biographies appear on pages 16 to 17.

The roles of Chairman and Chief Executive are separate and clearly defined. The Chairman is primarily responsible for the operation of the Board and the Chief Executive is responsible for the creation and implementation of the business strategy and policies approved at Board meetings.

All four non-executive Directors are independent. Directors appointed by the Board are required to submit themselves for election at the first opportunity after their appointment and thereafter for re-election at least every three years. Re-appointment is therefore not automatic.

On appointment Directors go through a business familiarisation process, primarily with the other Directors and the Group's managers, to give them a good understanding of the Group's business, procedures, management information systems and the performance of the Group's care homes operators.

Appointments to the Board

The Chairman, the Chief Executive and Lord Sutherland comprise the Nominations Committee and are responsible for finding and selecting candidates for appointment as Directors. Board approval is required before an appointment can be made.

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

Board information

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

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

Statement on corporate governance continued

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

Remuneration Committee

The Remuneration Committee, reporting to the Board under the Chairmanship of C H W Robson, includes two other non-executive Directors, namely Lord Sutherland and R A Henderson. Details of the Group's remuneration policy are set out in the Committee's report on pages 21 to 24.

Accountability and audit

The Audit Committee, reporting to the Board, under the Chairmanship of R A Henderson together with two other non-executive Directors, namely C H W Robson and Lord Sutherland, meets at least four times a year. The Group's auditors frequently attend for part or the whole of each meeting and have direct access to the members of the Committee. The Committee is responsible for reviewing a wide range of financial matters including the annual financial statement and accompanying reports, Group audit arrangements, accounting policies, financial reporting, internal control and the actions and procedures included in the management of risk throughout the Group. It also provides a forum through which the external auditors report to the non-executive Directors.

Internal control

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

The Company has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority for the year ended 30 September 2002 and to the date of this report.

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

With the growing size and importance of our operating business, incident reporting mechanisms and enhancements of our quality control procedures, including an ISO 9001 home accreditation programme, have been undertaken.

Internal financial control

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

The Board reviews the effectiveness of the Group's system of internal financial control on a regular basis, which is designed to ensure that proper accounting records are maintained, that the assets of the Group are safeguarded and that the financial information used for reporting and external publication is reliable and accurate.

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

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

Relations with shareholders

The Group maintains a regular dialogue with institutional shareholders and fund managers. All shareholders receive the Interim and Annual Report and Accounts.

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

The Annual General Meeting provides the Board with an opportunity to communicate with, and to answer questions from, private and institutional investors.

Details of the resolutions to be proposed at the Annual General Meeting on 30 January 2003 are in the Notice of Meeting on page 67. Prior to a vote being taken on a show of hands, as is recommended in the Combined Code, the number of proxy votes for and against each resolution are disclosed to the meeting.

Going Concern

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



R A Henderson

Chairman

Audit Committee

16 December 2002

Statement of Directors' Responsibilities

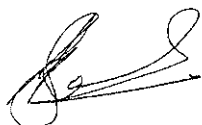
United Kingdom Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those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

- *Select suitable accounting policies and then apply them consistently;*
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have met the above requirements.

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

On behalf of the Board



Sheila Kaul
Company Secretary
16 December 2002

Independent Auditors' report to the members of NHP plc

We have audited the financial statements of NHP Plc for the year ended 30 September 2002 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 34. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules 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 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 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2002 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

London

16 December 2002

Consolidated profit and loss account

For the year ended 30 September 2002

	Note	Continuing operations £'000	Acquisitions (see note 3) £'000	2002 £'000	2001 £'000
Turnover	3	84,397	41,567	125,964	76,626
Cost of sales		(19,352)	(28,484)	(47,836)	(3,806)
Gross profit		65,045	13,083	78,128	72,820
Provision for doubtful debts and related costs		(4,587)	(251)	(4,838)	(10,259)
Other administrative expenses		(4,552)	(15,198)	(19,750)	(7,349)
Exceptional income/(costs)	4	248	–	248	(4,651)
Administrative expenses		(8,891)	(15,449)	(24,340)	(22,259)
Group operating profit	5	56,154	(2,366)	53,788	50,561
Share of associated undertakings' operating profits/(losses)	6	283	–	283	(210)
Total operating profit	3	56,437	(2,366)	54,071	50,351
Profit on disposal of investment properties and other tangible fixed assets		53	318	371	(121)
Net interest payable and similar charges	7	(37,970)	(102)	(38,072)	(40,205)
Profit on ordinary activities before taxation		18,520	(2,150)	16,370	10,025
Tax credit on profit on ordinary activities	8	509	–	509	2,407
Profit on ordinary activities after taxation		19,029	(2,150)	16,879	12,432
Profit for the year		19,029	(2,150)	16,879	12,432
Dividends paid and proposed	9	–	–	–	(1)
Retained profit transferred to reserves	23	19,029	(2,150)	16,879	12,431
Earnings per Ordinary Share	10				
Basic				10.1p	8.1p*
Diluted				9.9p	8.1p*

*Earnings per Ordinary Share for year ended 30 September 2001 have been restated for the effects of the Rights Issue in July 2002.

Consolidated balance sheet

As at 30 September 2002

	Note	2002 £'000	2001 £'000
Intangible fixed assets			
Goodwill	12	2,167	963
Tangible fixed assets			
Investment properties	13	483,330	535,430
Operated properties	13	159,920	52,248
Other fixed assets	13	1,782	496
Total tangible fixed assets		645,032	588,174
Investments	14	132,817	127,692
Total fixed assets		780,016	716,829
Current assets			
Properties held for resale		2,972	2,698
Debtors	15	14,877	8,037
Short term investments	16	17,869	12,409
Cash at bank and in hand		2,339	4,636
		38,057	27,780
Creditors			
Amounts falling due within one year	17	(25,558)	(27,309)
Net current assets		12,499	471
Total assets less current liabilities		792,515	717,300
Creditors			
Amounts falling due after more than one year	19	(583,690)	(614,388)
Provisions for liabilities and charges	20	(1,088)	(520)
Net assets	3	207,737	102,392
Capital and reserves			
Called up share capital	22	2,009	1,461
Share premium account	23	190,891	159,580
Revaluation reserve	23	(6,401)	(65,053)
Profit and loss account	23	21,238	6,404
Total equity Shareholders' funds		207,737	102,392
Net assets per Ordinary Share			
Basic	24	103.4p	65.5p*

*Restated for the effects of the Rights Issue in July 2002.

These financial statements were approved by the Board of Directors on 16 December 2002.

Signed on behalf of the Board of Directors.



W Colvin
Chief Executive



R N Midmer
Group Finance Director

Company balance sheet

As at 30 September 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Tangible fixed assets	13	–	2
Investments	14	199,521	163,810
Total fixed assets		199,521	163,812
Current assets			
Debtors	15	26,744	15,718
Cash at bank and in hand		–	3
		26,744	15,721
Creditors			
Amounts falling due within one year	17	(1,798)	(827)
Net current assets		24,946	14,894
Total assets less current liabilities		224,467	178,706
Provisions for liabilities and charges	20	–	(46,520)
Net assets		224,467	132,186
Capital and reserves			
Called up share capital	22	2,009	1,461
Share premium account	23	190,891	159,580
Revenue reserve	23	914	914
Profit and loss account	23	30,653	(29,769)
Total equity Shareholders' funds		224,467	132,186

These financial statements were approved by the Board of Directors on 16 December 2002.

Signed on behalf of the Board of Directors.



W Colvin
Chief Executive



R N Midmer
Group Finance Director

Consolidated cash flow statement

For the year ended 30 September 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	26	57,872	51,788
Returns on investments and servicing of finance			
Interest paid		(43,746)	(44,555)
Other similar charges paid (net)		(223)	(2,396)
Interest received		837	2,432
Dividends received		33	-
Net cash outflow from returns on investment and servicing of finance		(43,099)	(44,519)
Taxation			
Corporation tax repaid /(paid)		319	(8)
Capital expenditure and financial investment			
Purchase of investment properties, operated properties and other fixed assets		(5,280)	(6,483)
Proceeds on disposal of investment properties (net of disposal costs)		4,291	10,179
Proceeds on disposal of other tangible fixed assets		631	39
Proceeds on disposal of properties held for resale		533	718
Investment in Ultima Holdings Limited		-	(13,610)
Net cash inflow/(outflow) from investing activities		175	(9,157)
Acquisitions and disposals			
Acquisition of Highfield Care Homes No.3 Limited		-	(1,132)
Acquisition of Highfield Care Homes Limited		-	(420)
Net (bank overdraft)/cash acquired with subsidiaries		(73)	103
Investment in Highfield Holdings Limited		(73)	(1,590)
Net cash outflow from acquisitions		(146)	(3,039)
Net cash inflow/(outflow) before use of liquid resources and financing		15,121	(4,935)
Management of liquid resources			
Short term deposit (investment)/withdrawal (net)		(5,460)	51,504
Financing			
Equity			
Issue of Ordinary Shares		33,963	2,587
Less: Issue costs paid		(2,104)	-
Net cash inflow from equity financing		31,859	2,587
Hedging			
Premium paid for interest rate cap		-	(174)
Bank loans			
Bank loans drawn down		5,800	19,400
Bank loans repaid		(47,152)	(64,070)
Less: Financing costs paid		(2,336)	(1,406)
Net cash outflow from bank loan finance		(43,688)	(46,076)
Secured Notes			
Issue costs of Secured Notes		-	(409)
Net cash outflow from secured notes		-	(409)
Other loan repayments		(111)	-
Finance lease repayments		(18)	-
Net cash outflow from financing activities		(11,958)	(44,072)
(Decrease)/increase in cash in the year	28	(2,297)	2,497

Consolidated statement of total recognised gains and losses

For the year ended 30 September 2002

	Note	2002 £'000	2001 £'000
Profit for the year		16,879	12,432
Net surplus on revaluation of properties	23	56,607	11,432
Total recognised gains for the year		73,486	23,864

Consolidated reconciliation of movements in shareholders' funds

For the year ended 30 September 2002

	2002 £'000	2001 £'000
Profit for the year	16,879	12,432
Dividends paid and declared	–	(1)
Retained profit for the year	16,879	12,431
Net surplus on revaluation of properties	56,607	11,432
Issue of share capital net of costs	31,859	2,587
Net increase in shareholders' funds	105,345	26,450
Shareholders' funds at the beginning of the year	102,392	75,942
Shareholders' funds at the end of the year	207,737	102,392

Consolidated note of historical cost profits and losses

For the year ended 30 September 2002

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation	16,370	10,025
Realisation of net valuation (losses)/gains on disposal of investment properties	(2,045)	813
Historical cost profit on ordinary activities before taxation	14,325	10,838
Historical cost profit retained for the year	14,834	13,244

Notes to the accounts

For the year ended 30 September 2002

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 accounting standards, including the adoption of Financial Reporting Standards ("FRS") 19 'Deferred tax'. The particular accounting policies adopted are described below. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, investment properties are not depreciated.

In the year to 30 September 2002, the Directors have carefully considered a change in the accounting policy for operated properties (described as operational fixed assets in 2001 Annual Report and Accounts). FRS 15 'Tangible fixed assets' permits alternative valuation rules which allow for a regular revaluation of the assets. The Directors are of the opinion that annual revaluation of the operated properties presents the assets in the balance sheet at close to their true commercial value. Depreciation will be charged based on the revalued amount at the beginning of the year.

This change in accounting policy has not required a restatement of comparatives (see note 13).

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, 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 note 31 of the financial statements.

Goodwill

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

Valuation of land and buildings

Investment properties

The cost of investment properties is purchase cost, any incidental costs of acquisition and the cost of capital improvements. Investment properties represent freehold or long leasehold properties held for long term retention. In accordance with Statement of Standard Accounting Practice No.19, these investment properties are valued annually by qualified external valuers. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

Operated properties

Operated properties, which are initially transferred out of investment properties at the then existing use value, are valued annually at 30 September by qualified external valuers, the aggregate revaluation surplus or deficit being transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

Properties held for resale

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

Capital expenditure on the investment portfolio assets

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

Notes to the accounts continued

For the year ended 30 September 2002

1. Accounting policies continued

Depreciation

In accordance with Statement of Standard Accounting Practice No.19, no depreciation is provided in respect of investment properties. Under the terms of the Group's leases, freehold and long leasehold properties are required to be maintained to a high standard by its tenants. This treatment 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 revaluation reserve to profit and loss account. The estimated useful economic lives are as follows:

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

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

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

Investments

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

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

Deferred taxation

FRS 19 has been adopted for the first time in this accounting period. FRS 19 requires full provision for 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. The standard requires that 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. Previously, the Group's accounting policy had been to provide for deferred tax on timing differences to the extent that it was probable a liability or asset would crystallise in the future.

The adoption of FRS 19 has had no impact on either the current year or prior year results and hence no restatement has been made. See note 18 for restatement of unprovided amounts.

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.

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, is amortised over the lives of the Secured Notes.

1. Accounting policies continued

Leased assets

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

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

Pensions

The Group contributes to money purchase pension schemes, including contributions to the NHP Executive Pension Schemes, for the executive Directors at the rate of 20% of basic salary, which is charged monthly to the profit and loss account. The assets of the NHP Executive Pension Schemes are held in separate trustee administered funds.

The Company and its subsidiary undertaking, NHP Management Limited contribute to the personal pensions of their employees at rates from 10% to 20% of basic salary, which is charged monthly to the Profit and loss account.

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

Financial instruments

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

2. Information regarding Directors and employees

Disclosures on Directors' remuneration, share options and pension contributions required by the Companies Act 1985, and those specified by the UK Listing Authority, are included on page 22 within the Report of the Remuneration Committee and form part of these audited financial statements.

Staff costs

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

	2002 £'000	2001 £'000
Wages and salaries	39,424	5,020
Social security costs	2,464	413
Pension costs	429	300
	42,317	5,733

Average number of employees on a full time equivalent basis:

	2002 Number	2001 Number
Operational	3,455	264
Administrative	88	22
Directors	7	9
	3,550	295

The average number of employees for the year ended 30 September 2001 has been restated to include the number of operational employees omitted from the 2001 Annual report and accounts.

Notes to the accounts continued

For the year ended 30 September 2002

3. Analyses of turnover, operating profit and net assets by business segments

All operations are carried out wholly within the United Kingdom.

	Continuing operations £'000	Acquisitions £'000	2002 £'000	2001 £'000
Turnover				
Property business	56,631	–	56,631	71,153
Highfield Care	27,766	41,567	69,333	5,473
	84,397	41,567	125,964	76,626
Operating profit				
Property business	58,763	(1,519)	57,244	50,209
Highfield Care	(2,326)	(847)	(3,173)	142
	56,437	(2,366)	54,071	50,351

'Acquisitions' relates to the consolidated results of Highfield Holdings Limited from 11 December 2001 (the date on which NHP Plc acquired the remaining 51% of its equity) and includes within the property business depreciation of £1,519,000 charged on operated properties. Administrative expenses in continuing operations includes a credit of £8,566,000 for pavement and turnover rents charged to Highfield Holdings Limited in other administrative expenses, under Acquisitions.

The results of the Highfield Care segment include pavement and turnover rents payable under leases to the property business of £15,645,000 (2001: £1,510,000). Included in the property business is £2,879,000 (2001: £609,000) depreciation of the operated properties.

	Continuing operations £'000	Acquisitions £'000	2002 £'000	2001 £'000
Net assets				
Property business	210,206	–	210,206	102,291
Highfield Care	(2,531)	62	(2,469)	101
	207,675	62	207,737	102,392

The comparatives for 2001 have been restated to reflect the basis of segmental information shown in 2002.

4. Exceptional income/(costs)

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

	2002 £'000	2001 £'000
Net write back of permanent diminution in value – investment properties	625	–
Net write back/(write off) of permanent diminution in value – operated properties	900	(1,720)
Tenant receivership costs	(1,450)	(521)
Ultima Holdings Group closure support costs	173	(1,200)
Ultima Holdings Limited guarantees	–	752
Operator support – refurbishment costs of care homes	–	(721)
Operator support – provision for loan	–	(320)
Provision for losses on sales of properties	–	(400)
Costs of aborted merger with Southern Cross Healthcare Limited	–	(521)
Total exceptional income/(costs)	248	(4,651)

5. Group operating profit

Group operating profit is arrived at after charging:

	2002 £'000	2001 £'000
Depreciation of operated properties	2,879	609
Depreciation of other fixed assets	568	179
Amortisation of goodwill of subsidiary undertakings	104	29
Auditors' remuneration (including VAT):		
– Group audit fees to Group auditors current year	83	66
– Group audit fees to Group auditors prior year	24	–
– Group audit fees to other auditors	52	41
– Company audit fees	73	50
– other fees to Group auditors	185	382
– other fees to other auditors	–	7
Operating lease rentals:		
– buildings	1,264	60
– equipment	65	–

A further £117,500 (including VAT) has been paid to the Group auditors in respect of the Rights Issue costs (2001: £nil). This amount has been set off against the share premium account.

6. Share of associated undertakings' operating profits/(losses)

	2002 £'000	2001 £'000
Share of associated undertakings' operating profits/(losses)	343	(100)
Amortisation of goodwill	(60)	(110)
	283	(210)

7. Net interest payable and similar charges

	2002 £'000	2001 £'000
Group		
Interest payable on Secured Notes	37,265	37,265
Interest payable on bank loans wholly repayable within 5 years	5,000	7,401
Other interest payable	148	174
Amortisation of issue costs and discount of Secured Notes	1,172	1,207
Finance costs	1,901	1,972
Interest receivable on deposits	(806)	(1,291)
Interest receivable on Deposit Swap Agreements and Zero Coupon Notes	(6,588)	(6,407)
Other interest receivable	(31)	(170)
Associates		
Interest payable	22	67
Interest receivable	(11)	(13)
	38,072	40,205

Notes to the accounts continued

For the year ended 30 September 2002

8. Tax credit on profit on ordinary activities

	2002 £'000	2001 £'000
Group		
Corporation tax	–	–
Income tax	523	2,415
Associates		
Corporation tax	(14)	(8)
	509	2,407
Effective tax rate	n/a	n/a

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

Reconciliation of current tax charge:

Profit on activities before tax	16,370	10,025
Tax on profit at standard rate of 30% (2001: 30%)	4,911	3,008
Factors affecting the charge:		
Permanent differences	(1,767)	921
Capital allowances for period in excess of depreciation	(5,286)	(3,680)
Increase in other short term timing differences	(952)	–
Utilisation of brought forward capital losses	(150)	–
Utilisation of brought forward revenue losses	–	(249)
Increase in revenue losses not recognised	3,244	–
Current Group tax charge for the year (excluding associates)	–	–

9. Dividends paid and proposed

	2002 £'000	2001 £'000
Equity		
Dividends for the year ended 30 September	–	–
Non-equity		
Dividends payable to minority interests	–	1
	–	1

10. Earnings per share

The earnings per Ordinary Share of 10.1p for the year ended 30 September 2002 is calculated on the profit after taxation, minority interest and non-equity dividends of £16,879,000 divided by 166,801,087 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year.

The diluted earnings per Ordinary Share of 9.9p for the year ended 30 September 2002 is based on the profit after taxation, minority interest and non-equity dividends of £16,879,000 divided by 170,592,472 Ordinary Shares of 1p each, being the weighted average number of Ordinary Shares in issue during the year and assuming the Directors' and employees' share options are exercised.

The earnings per Ordinary Share of 8.1p for the year ended 30 September 2001 is calculated on the earnings after taxation, minority interest and non-equity dividends of £12,431,000 divided by 152,807,869 Ordinary Shares of 1p each. The weighted average number of Ordinary Shares in issue during 2001 is restated for the effects of the Rights Issue in July 2002.

The diluted earnings per Ordinary Share of 8.1p for the year ended 30 September 2001 is based on the earnings after taxation, minority interest and non-equity dividends of £12,431,000 divided by 152,807,869 Ordinary Shares of 1p each. The weighted average number of Ordinary Shares in issue during 2001 is restated for the effects of the Rights Issue in July 2002 and assumed that the Directors' and employees' share options would not be exercised due to the level of the share price.

11. Parent company profit and loss account

	2002 £'000	2001 £'000
Profit for the financial year, including dividends from subsidiary undertakings, after taxation	60,422	35,804

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
Goodwill	
Group	
Cost	
At 1 October 2001	992
Additions – on acquisition of Highfield Holdings Limited	1,138
Additions – fair value adjustment in respect of acquisition of Highfield Care Homes Limited (formerly 'Palladium Healthcare Limited')	170
At 30 September 2002	2,300
Amortisation	
At 1 October 2001	(29)
Amortisation for the year	(104)
At 30 September 2002	(133)
Net book value at 30 September 2002	2,167
Net book value at 30 September 2001	963

The remaining 51% interest in Highfield Holdings Limited was acquired on 11 December 2001 for £1 consideration, increasing the Group's interest to 100%. Acquisition costs incurred at the date of acquisition were £72,769. Net assets acquired are set out below. The acquisition method of accounting has been used for this acquisition and the amount of goodwill arising is £1,137,576 using provisional assessment of fair value applied to the balance sheet of Highfield Holdings Limited.

Notes to the accounts continued

For the year ended 30 September 2002

12. Goodwill and acquisitions continued

	Book value and fair value £'000
Acquisition of Highfield Holdings Limited continued	
Tangible fixed assets	1,341
Current assets	
Debtors	3,368
Prepayments and rent deposits	1,539
Total assets	6,248
Creditors	
Trade and other creditors	(3,882)
Accruals	(1,014)
Bank overdraft	(73)
Loan	(656)
Total liabilities	(5,625)
Net assets	623
Goodwill	1,138
Total	1,761
Satisfied by:	
Transfer from 'Investments' of 49% interest on 11 December 2001 – see note 14	1,688
Acquisition costs	73
Total consideration	1,761

13. Tangible fixed assets

Investment properties

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Total £'000
Group			
Valuation at 1 October 2001	525,140	10,290	535,430
Additions at cost	1,378	–	1,378
Disposals of investment properties at valuation	(4,800)	–	(4,800)
Reclassification of properties to operated properties at valuation	(92,465)	(3,180)	(95,645)
Reclassification of property to properties held for resale at valuation	(650)	–	(650)
Net surplus on revaluation	46,052	940	46,992
Net write back to permanent diminution in value	625	–	625
Valuation at 30 September 2002	475,280	8,050	483,330

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2002, at Market Value on both portfolio and individual property bases in accordance with the RICS Appraisal and Valuation Manual.

Investment properties, reclassified to operated properties at valuation, were valued by GVA Grimley on an existing use basis at their respective dates of transfer.

13. Tangible fixed assets continued

The Directors have reviewed GVA Grimley's valuation at 30 September 2002 and have made a net write back to permanent diminution in value of £625,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's investment properties at 30 September 2002 was £473,707,000 (2001: £591,096,000). Freehold properties' historical cost was £466,503,000 at 30 September 2002 (2001: £580,192,000) and long leasehold properties' historical cost was £7,204,000 at 30 September 2002 (2001: £10,904,000).

92 homes (2001: 93) are subject to buy-back options by their respective operators that may be exercised in certain circumstances at purchase prices equivalent to the higher of a formulated figure or the "market value" (as defined in the respective leases) of the landlord's reversionary interest and of the landlord's fixtures and fittings.

Company

At 30 September 2002, the Company had investments in freehold investment properties totalling £31 (2001: £31), representing the consideration paid, including VAT, for the freehold reversions to 26 properties (2001: 26), the 999 year leasehold interests in which are held by NHP Securities No.3 Limited, a subsidiary undertaking.

Operated properties

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant, machinery, fixtures and fittings £'000	Total £'000
Group				
Cost or valuation				
At 1 October 2001	45,582	—	7,275	52,857
Reclassification of properties from investment properties at valuation	81,776	2,770	11,099	95,645
Reclassification of property from properties held for resale at carrying value	456	—	74	530
Reclassification of property to properties held for resale at valuation	(611)	—	(99)	(710)
Capital expenditure on operated properties	—	—	4,553	4,553
Net write back to permanent diminution in value	900	—	—	900
Net surplus on revaluation	7,448	190	—	7,638
At 30 September 2002	135,551	2,960	22,902	161,413
Depreciation				
At 1 October 2001	(120)	—	(489)	(609)
Depreciation for the year	(1,852)	(17)	(1,010)	(2,879)
Depreciation on transfer of property to properties held for resale	12	—	6	18
Transfer to revaluation reserve	1,960	17	—	1,977
At 30 September 2002	—	—	(1,493)	(1,493)
Net book value at 30 September 2002	135,551	2,960	21,409	159,920
Net book value at 30 September 2001	45,462	—	6,786	52,248

Notes to the accounts continued

For the year ended 30 September 2002

13. Tangible fixed assets continued

Operated properties represent properties held for long term retention. Operated properties have been valued by GVA Grimley, International Property Advisers, at 30 September 2002 at existing use value on both portfolio and individual property bases in accordance with the RICS Appraisal and Valuation Manual.

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

Although operated properties were not revalued as at 30 September 2001, the stated net book value at that date approximated to valuation by virtue of the fact that the properties were transferred from investment properties at existing use valuation.

The Directors have reviewed in detail the GVA Grimley valuation at 30 September 2002 and have made a net write back to permanent diminution in value of £900,000 which is credited to the profit and loss account. See note 4.

The historical cost of the Group's operated properties at 30 September 2002 was £185,904,000 (2001: £70,959,000). Freehold historical cost was £182,119,000 at 30 September 2002 (2001: £70,959,000) and long leasehold properties' historical cost was £3,785,000 at 30 September 2002 (2001: £nil). Depreciation charged for the year ended 30 September 2002 in respect of properties under leases was £24,000 (2001: £nil).

Other tangible fixed assets

	Short leasehold improvements £'000	Office equipment and fixtures £'000	Motor vehicles £'000	Total £'000
Group				
Cost or valuation				
At 1 October 2001	174	459	341	974
Additions in the year	51	535	257	843
Additions – on acquisition of Highfield Holdings Limited	–	1,075	266	1,341
Disposals	(174)	(279)	(98)	(551)
At 30 September 2002	51	1,790	766	2,607
Depreciation				
At 1 October 2001	(134)	(249)	(95)	(478)
Depreciation for the year	(42)	(326)	(200)	(568)
Depreciation on disposals	174	10	37	221
At 30 September 2002	(2)	(565)	(258)	(825)
Net book value at 30 September 2002	49	1,225	508	1,782
Net book value at 30 September 2001	40	210	246	496

At 30 September 2002 the net book values of assets held under finance leases and hire purchase contracts were £64,000 for office equipment and fixtures (2001: £nil) and £185,000 for motor vehicles (2001: £21,000). Depreciation charged in respect of assets held under finance leases and hire purchase contracts for the year ended 30 September 2002 was £196,894 (2001: £nil).

13. Tangible fixed assets continued

	Short leasehold improvements £'000	Office equipment and fixtures £'000	Total £'000
Company			
Cost			
At 1 October 2001	15	96	111
Disposals	(15)	(6)	(21)
At 30 September 2002	-	90	90
Depreciation			
At 1 October 2001	(15)	(94)	(109)
Depreciation for the year	-	(2)	(2)
Depreciation on disposals	15	6	21
At 30 September 2002	-	(90)	(90)
Net book value at 30 September 2002	-	-	-
Net book value at 30 September 2001	-	2	2

Capital commitments

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Contracted and committed	1,112	986	-	-

14. Investments

	2002 £'000	2001 £'000
Group		
Deposit Swap Agreement at cost	15,350	15,350
Accumulated compound interest	8,183	6,416
Deposit Swap Agreement – Care Homes 1	23,533	21,766
Deposit Swap Agreement at cost	57,180	57,180
Accumulated compound interest	10,855	7,670
Deposit Swap Agreement – Care Homes 2	68,035	64,850
Zero Coupon Notes at cost	36,010	36,010
Accumulated compound interest	4,828	3,192
Zero Coupon Notes – Care Homes 3	40,838	39,202
Investment in associate – G.R. Patrick & Co. Limited	411	479
Investment in associate – Highfield Holdings Limited	-	1,395
Investment in Ultima Holdings Limited – see below	-	-
	132,817	127,692

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.

Notes to the accounts continued

For the year ended 30 September 2002

14. Investments continued

The Deposit Swap Agreement of £57.18 million represents the premium paid by Care Homes 2 in respect of an AAA rated Deposit Swap Agreement with General Re Financial Products Corporation which, together with accumulated interest, guarantees to provide for the repayment of £180 million Class A Secured Notes in 2023.

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

G.R. Patrick & Co. Limited

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

	Goodwill £'000	Share of net assets £'000	Total £'000
At 1 October 2001	401	78	479
Retained profit to 30 September 2002	–	17	17
Dividends received	–	(33)	(33)
Amortisation to 30 September 2002	(52)	–	(52)
At 30 September 2002	349	62	411

G.R. Patrick & Co. Limited bought back 11,326 of its own shares from a third party shareholder on 30 September 2002, thereby increasing NHP's shareholding to 22.5%.

Highfield Holdings Limited

The investment in Highfield Holdings Limited, a care home operator and tenant of the Group, was made on 24 January 2001 and represented an effective 49% interest in that company. On 11 December 2001 the company became a 100% owned subsidiary undertaking of NHP Plc as a result of the acquisition of the remaining 51% issued equity in that company. The carrying value of the investment is analysed as follows:

	Goodwill £'000	Share of net assets £'000	Total £'000
At 1 October 2001	1,608	(213)	1,395
Goodwill adjustment on 49% interest	(217)	217	–
Retained profit to 11 December 2001	–	301	301
Amortisation to 11 December 2001	(8)	–	(8)
Transfer to 'Goodwill and acquisitions' on becoming 100% subsidiary undertaking— see note 12	(1,383)	(305)	(1,688)
At 30 September 2002	–	–	–

Ultima Holdings Limited

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

	Cost £'000
Cost	
At 1 October 2001	13,970
At 30 September 2002	13,970
Provision for impairment	
At 1 October 2001	(13,970)
At 30 September 2002	(13,970)
Net book value at 30 September 2002	–
Net book value at 30 September 2001	–

14. Investments continued

Company	Shares in subsidiary undertakings £'000	Investment in associated undertakings £'000	Subordinated loan notes to subsidiary undertakings £'000	Total £'000
Cost				
At 1 October 2001	1,653	2,157	163,711	167,521
Dividends received	—	(33)	—	(33)
Transfer of 49% interest in Highfield Holdings Limited to 'Shares in subsidiary undertakings' on becoming 100% subsidiary undertaking	1,590	(1,590)	—	—
Net additions during the year	73	—	32,117	32,190
Reclassification	(157)	—	157	—
Repayment	—	—	(157)	(157)
At 30 September 2002	3,159	534	195,828	199,521
Provision for impairment				
At 1 October 2001	—	—	(3,711)	(3,711)
Reversal of impairment provision	—	—	3,711	3,711
At 30 September 2002	—	—	—	—
Net book value at 30 September 2002	3,159	534	195,828	199,521
Net book value at 30 September 2001	1,653	2,157	160,000	163,810

The reversal of impairment provision of £3,711,000 is principally as a result of improvements in the valuation of the assets in the subsidiary undertakings.

At 30 September 2002, the Company held investments in the following principal subsidiary and associated undertakings:

Name	Country of incorporation	% Holding	Principal activity
Subsidiary undertakings			
NHP Securities No.1 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.2 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.3 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.4 Limited	Great Britain	100.00%	Partner in LLNHP Partnership
NHP Securities No.6 Limited	Great Britain	100.00%	Investment in care home properties
NHP Securities No.9 Limited	Jersey	100.00%	Investment in overriding leases of care home properties
NHP Securities No.11 Limited	Jersey	100.00%	Holding company of NHP Securities No.9 Limited
NHP Management Limited	Great Britain	100.00%	Management of care home property portfolios
LLNH Limited	Great Britain	100.00%	Partner in LLNHP Partnership
Highfield Care Homes No.3 Limited (formerly 'Somerford Leased Homes Limited')	Great Britain	100.00%	Care home operator
Highfield Care Homes Limited (formerly 'Palladium Healthcare Limited')	Great Britain	100.00%	Care home operator
Highfield Care Homes No.2 Limited (formerly 'Palladium Leased Homes 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
Associated undertaking			
G.R. Patrick & Co. Limited	Great Britain	22.50%	Insurance brokerage specialising in healthcare

Notes to the accounts continued

For the year ended 30 September 2002

15. Debtors

	2002 £'000	2001 £'000
Group		
Trade debtors	8,715	4,521
Other debtors	1,794	902
Corporation tax	197	516
Prepayments and accrued income	4,171	2,098
	14,877	8,037
Company		
Other debtors	176	—
Corporation tax	193	512
Amounts owed by Group companies	26,357	14,536
Prepayments and accrued income	18	670
	26,744	15,718

16. Short term investments

	2002 £'000	2001 £'000
Group		
Short term deposit held by Care Homes 1	7,700	7,500
Short term deposit held by Care Homes 2	3,100	—
Short term deposit held by Care Homes 3	5,000	4,500
Rent deposits held by Highfield Care Group	1,766	409
Cash collateral held on deposit	303	—
	17,869	12,409

£3,644,000 (2001: £3,644,000) of the short term deposits in Care Homes 1 are reserved against long term eventualities and are reinvested six monthly. 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

	2002 £'000	2001 £'000
Group		
Bank loans due within one year – see note 19	–	8,480
Mortgage on freehold property owned by Highfield Care Homes Limited – see note 19	38	–
Loan from third party to Highfield Care Homes Limited	–	24
Loan from third party to Highfield Holdings Limited – see note 19	75	–
Obligations under finance leases and hire purchase contracts	105	8
Interest payable	10,144	11,477
Income tax	–	523
Taxation and social security	1,291	385
Other creditors	8,465	1,880
Accruals and deferred income	5,440	4,532
	25,558	27,309
Company		
Bank overdraft	35	–
Amount due to Care Homes 1	11	–
Amount due to Care Homes 2	13	–
Amount due to Care Homes 3	39	–
Amounts due to Group companies	1,114	261
Other creditors	501	437
Accruals and deferred income	85	129
	1,798	827

18. Deferred taxation

	Provided		Unprovided	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Group				
Accelerated capital allowances	–	–	(14,009)	(20,946)
Losses created by capital allowances	–	–	(4,538)	(2,588)
Short term timing differences	–	–	952	–
Revaluation of investment properties	–	–	29,506	8,295
	–	–	11,911	(15,239)

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 2002, unprovided deferred tax assets of £14,009,000 in respect of accelerated capital allowances (2001: £20,946,000) and £4,538,000 in respect of revenue losses (2001: £2,588,000). These assets would be recovered if in future they reverse in the same periods and entities in which suitable taxable profits arise.

In the prior year the Group reported an unprovided deferred tax liability of £16,057,000 in respect of accelerated capital allowances. As a result of the implementation of FRS 19, the underlying basis for determining the carrying value of assets qualifying for capital allowances has been revised to more accurately reflect the historic transactions undertaken by the Group. The prior year comparatives have been restated to reflect this.

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £29,506,000 (2001: £8,295,000) is not recognised as the Group has no intention to sell these properties at this time and there is no binding agreement.

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 2002

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

	2002 £'000	2001 £'000
Group		
Bank loans due between one and two years	-	86,000
Bank loans due between two and five years	53,165	-
Less: Unamortised finance costs	(1,628)	(2,010)
Net bank loans	51,537	83,990
Class A1 Secured 8% Notes due 2021	60,000	60,000
Class A2 Secured 8.5% Notes due 2021	40,000	40,000
Less: Unamortised issue costs	(2,225)	(2,346)
Unamortised discount on issue	(595)	(627)
Net Secured Notes – Care Homes 1	97,180	97,027
Class A Secured 5.75% Notes due 2023	180,000	180,000
Class M Secured 6.65% Notes due 2025	60,000	60,000
Class B Secured 7.65% Notes due 2025	25,000	25,000
Less: Unamortised issue costs	(6,376)	(6,714)
Unamortised discount on issue	(450)	(472)
Net Secured Notes – Care Homes 2	258,174	257,814
Class A Secured 6.125% Notes due 2028	128,000	128,000
Class M Secured 7.125% Notes due 2030	42,000	42,000
Class B Secured 8.25% Notes due 2030	24,000	24,000
Less: Unamortised issue costs	(15,693)	(16,361)
Unamortised discount on issue	(2,295)	(2,386)
Net Secured Notes – Care Homes 3	176,012	175,253
Mortgage on freehold property owned by Highfield Care Homes Limited	185	260
Loan from third party to Highfield Care Homes Limited	-	31
Loan from third party to Highfield Holdings Limited	525	-
Net loans owed by Highfield Care	710	291
Obligations under finance leases and hire purchase contracts	77	13
	583,690	614,388

Bank loans

At 30 September 2002, a £53,165,000 loan was drawn on the £90 million (2001: £101 million) revolving credit facility from a syndicate led by Bank of Scotland which matures on 31 December 2004. The loan bears interest at LIBOR plus 1.75% and is secured by a fixed charge on certain of the freehold and long leasehold properties held in NHP Securities No.3 Limited, together with a floating charge on its other assets and an unlimited guarantee from NHP Plc.

Secured Notes

The Care Homes 1 Secured Notes are non-recourse to NHP Plc and its subsidiaries, and are secured, inter alia, by charges over the overriding leases and the rents receivable thereunder, over the Deposit Swap Agreement with General Re Financial Products Corporation, which at 30 September 2002 amounted to £23,533,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2002 amounted to £8,148,000.

The Care Homes 2 Secured Notes are non-recourse to NHP Plc and its subsidiaries, and are secured, inter alia, by charges over the overriding leases and the rents receivable thereunder, over the Deposit Swap Agreement with General Re Financial Products Corporation, which at 30 September 2002 amounted to £68,035,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2002 amounted to £3,739,000.

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

The Care Homes 3 Secured Notes are non-recourse to NHP Plc and its subsidiaries, and are secured, inter alia, by charges over the overriding leases and the rents receivable thereunder, over the Zero Coupon Notes with European Investment Bank, which at 30 September 2002 amounted to £40,838,000 including accrued interest (see note 14), and over cash and short term investment balances, which at 30 September 2002 amounted to £5,616,000.

Mortgage on freehold property owned by Highfield Care Homes Limited

The bank mortgage of £222,708 (2001: £259,225) from Bank of Scotland is secured on the assets of Highfield Care Homes Limited and bears interest at 1.5% over base bank rate with a minimum interest rate of 6.5%. The mortgage is repayable in equal monthly instalments with the final repayment date on 12 September 2007. £37,600 is reported within 'Creditors falling due within one year' (see note 17).

Loan from third party to Highfield Holdings Limited

A loan of £600,000 due to Highfield Group Limited (in administration) is repayable in equal instalments over eight years. Interest is charged on the loan at 2% above base rate. £75,000 of the total outstanding is reported within 'Creditors falling due within one year' (see note 17).

20. Provisions for liabilities and charges

	At 1 Oct 2001 £'000	Income/(cost) incurred in the year £'000	Profit and loss account £'000	At 30 Sep 2002 £'000
Group				
Ultima Holdings Limited closure costs	120	116	(173)	63
Receivership support costs	400	(825)	1,450	1,025
Total	520	(709)	1,277	1,088
Company				
Provision against loans to subsidiary undertakings	46,520	–	(46,520)	–
At 30 September 2002	46,520	–	(46,520)	–

At 30 September 2001, the provision against loans to subsidiary undertakings of £46,520,000 principally existed as a result of temporary downward movements in the valuation of properties below their original cost in the year ended 30 September 2000. At 30 September 2002, the Directors consider a write back of the full amount is appropriate as a result of improvements in the valuation of the assets in the relevant subsidiary undertakings. In both 2002 and 2001, the valuation of the portfolio of properties has recovered reducing the provision by £46,520,000 at 30 September 2002 (2001: £12,607,000).

Notes to the accounts continued

For the year ended 30 September 2002

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.

Currency profile

All of the Group's financial liabilities and assets at 30 September 2002 and 30 September 2001 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 £'000	Secured Notes £'000	Other loans and finance leases £'000	Total 2002 £'000	Total 2001 £'000
In one year or less or on demand	38	–	180	218	8,512
More than one year but not more than two years	38	–	152	190	86,013
More than two years but not more than five years	53,279	–	225	53,504	–
More than five years	33	559,000	225	559,258	559,291
	53,388	559,000	782	613,170	653,816

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

	2002 £'000	2001 £'000
Expiring in less than one year	–	8,885
Expiring in more than one year but not more than two years	15,000	–
Expiring in more than two years but not more than five years	21,835	–
	36,835	8,885

Maturity profile of financial assets

At 30 September 2002, the Group held two Deposit Swap Agreements and Zero Coupon Notes with a combined carrying value of £132,406,000 (2001: £125,818,000) 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 (2001: £408,000,000) of the Secured Notes as more fully described in note 14.

At 30 September 2002, the Group held short term deposits and cash at bank and in hand totalling £20,208,000 (2001: £17,045,000).

None of the deposits had a maturity date beyond 30 October 2002.

Interest rate profile of financial liabilities

The interest rate profile of the Group's gross financial liabilities at 30 September 2002 was as follows:

	2002 £'000	2001 £'000
Fixed rate	559,182	559,021
Floating rate	53,988	94,795
	613,170	653,816

With respect to the £53,988,000 of floating rate debt, in order to hedge against adverse changes in interest rates NHP plc purchased a £60,000,000 interest rate cap at 6.25% in November 2000. This amortised to £30,000,000 on 8 November 2001, and expired on 8 November 2002.

21. Financial instruments continued

Interest rate profile of financial liabilities continued

At 30 September 2002, the weighted average interest rate on the fixed rate financial liabilities of the Group was 6.67% (2001: 6.67%) and the weighted average period for which the rate is fixed was 22 years (2001: 23 years).

The floating rate financial liabilities at 30 September 2002 principally comprised bank borrowings bearing interest at rates based on one month LIBOR.

Interest rate profile of financial assets

The interest rate profile of the Group's financial assets at 30 September 2002 was as follows:

	2002 £'000	2001 £'000
Fixed rate	132,406	125,818
Floating rate	20,208	17,045
	152,614	142,863

At 30 September 2002, the weighted average interest rate on the fixed rate financial assets of the Group was 5.26% and the weighted average period for which the rate is fixed was 22 years.

The floating rate financial assets at 30 September 2002 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 2002:

	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations		
Bank loans	(53,388)	(53,388)
Secured Notes	(559,000)	(581,079)
Other loans and finance leases	(782)	(782)
Gross financial liabilities	(613,170)	(635,249)
Deposit Swap Agreements and Zero Coupon Notes	132,406	147,024
Short term deposits	17,869	17,869
Cash at bank and in hand	2,339	2,339
Interest rate cap £30 million	5	—
Gross financial assets	152,619	167,232

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 2002

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.

	Gains £'000	Unrecognised Losses £'000	Net £'000	Gains £'000	Carried forward Losses £'000	Net £'000
Gains and losses brought forward at 1 October 2001	13,511	(14,583)	(1,072)	—	—	—
Gains recognised in the year	(1,768)	(4,820)	(6,588)	—	—	—
Gains and losses arising before 1 October 2001 that were not recognised before 30 September 2002	11,743	(19,403)	(7,660)	—	—	—
Gains and losses arising in the year	5,602	16,671	22,273	—	—	—
Gains and losses carried forward at 30 September 2002	17,345	(2,732)	14,613	—	—	—
To be recognised before 30 September 2003	1,832	4,950	6,782	—	—	—
To be recognised after 30 September 2003	15,513	(7,682)	7,831	—	—	—

22. Called up share capital

	Number	£'000
Authorised:		
Ordinary Shares of 1p each		
At 1 October 2001	185,000,000	1,850
Increase 185,000,000 Ordinary Shares of 1p each	185,000,000	1,850
At 30 September 2002	370,000,000	3,700
Called up, allotted and fully paid:		
Ordinary Shares of 1p each		
At 1 October 2001	146,074,106	1,461
UK Rights Issue Offer on 3 July 2002 at 1p nominal value and 61p premium per share	4,516,129	45
UK Rights Issue Offer on 5 July 2002 at 1p nominal value and 61p premium per share	18,683,871	187
UK Rights Issue Offer on 8 July 2002 at 1p nominal value and 61p premium per share	25,352,106	254
UK Open Offer on 5 July 2002 at 1p nominal value, 61p premium per share and 10.25p lapse right price	6,225,683	62
At 30 September 2002	200,851,895	2,009

Under the NHP Plc 1998 Inland Revenue Approved Executive Share Option Scheme, employees of the Group held options at 30 September 2002 to subscribe for 32,100 unissued Ordinary Shares of the Company (2001: 64,500) as follows:

Date granted	Number of shares	Option price per share (p)	Date from which exercisable	Expiry date
09 Sep 1998	10,700	128.5	09 Sep 2001	09 Sep 2008
05 Jul 1999	10,700	158.0	05 Jul 2002	05 Jul 2009
18 Jan 2000	10,700	126.0	18 Jan 2003	18 Jan 2010

22. Called up share capital continued

Under the NHP Plc 1998 Inland Revenue Approved Savings Related Share Option Scheme, employees of the Group held options at 30 September 2002 to subscribe for 19,390 unissued Ordinary Shares of the Company (2001: 61,692) as follows:

Option date	Term	Number of shares	Option price per share (p)	Date from which exercisable	Expiry date
01 Feb 2000	Three years	3,620	107	01 Feb 2003	01 Aug 2003
01 Feb 2000	Five years	15,770	107	01 Feb 2005	01 Aug 2005

Under the NHP Plc 2001 Unapproved Executive Share Option Scheme, employees of the Group held options at 30 September 2002 to subscribe for 10,824,496 unissued Ordinary Shares of the Company (2001: 6,182,784) as follows:

Date granted	Number of shares	Option price per share (p)	Date from which exercisable	Expiry date
13 Sep 2001	6,182,784	35.0	14 Sep 2004	13 Sep 2011
08 Oct 2001	343,488	35.0	09 Oct 2004	08 Oct 2011
13 Dec 2001	1,472,704	40.0	14 Dec 2004	13 Dec 2011
25 Jul 2002	682,250	69.0	26 Jul 2005	25 Jul 2012
30 Sep 2002	2,143,270	82.0	01 Oct 2005	30 Sep 2012

Under the NHP Plc 2001 Approved Executive Share Option Scheme, employees of the Group held options at 30 September 2002 to subscribe for 1,991,890 unissued Ordinary Shares of the Company (2001: Nil) as follows:

Date granted	Number of shares	Option price per share (p)	Date from which exercisable	Expiry date
12 Oct 2001	666,400	36.0	13 Oct 2004	12 Oct 2011
13 Dec 2001	134,000	44.8	14 Dec 2004	13 Dec 2011
25 Jul 2002	1,085,400	74.5	26 Jul 2005	25 Jul 2012
30 Sep 2002	106,090	82.0	01 Oct 2005	30 Sep 2012

The above tables have been restated to reflect the effects of the Rights Issue in July 2002.

Notes to the accounts continued

For the year ended 30 September 2002

23. Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 October 2001	159,580	(65,053)	6,404
Net surplus on revaluation of properties	–	56,607	–
Realisation of net valuation losses on disposal of investment properties	–	2,045	(2,045)
Premium arising on Rights Issue of 54,777,789 Ordinary Shares at 61p per share	33,415	–	–
Less: Issue costs incurred	(2,104)	–	–
Retained profit for the year	–	–	16,879
At 30 September 2002	190,891	(6,401)	21,238

Company	Share premium account £'000	Revenue reserve £'000	Profit and loss account £'000
At 1 October 2001	159,580	914	(29,769)
Premium arising on Rights Issue of 54,777,789 Ordinary Shares at 61p per share	33,415	–	–
Less: Issue costs incurred	(2,104)	–	–
Retained profit for the year	–	–	60,422
At 30 September 2002	190,891	914	30,653

24. Net assets per Ordinary Share

	2002	2001
Basic		
Equity Shareholders' funds	£207,737,000	£102,392,000
Number of Ordinary Shares of 1p each in issue	200,851,895	156,299,293
Net assets per Ordinary Share	103.4p	65.5p*

*Basic net assets per Ordinary Share at 30 September 2001 has been restated for the effects of the Rights Issue in July 2002.

25. Gearing

	2002 £'000	2001 £'000
Consolidated		
Secured Notes*	559,000	559,000
Bank loans	53,388	94,740
Other loans	600	55
Finance leases	182	21
Deposit Swap Agreements and Zero Coupon Notes*	(132,406)	(125,818)
Short term investments and cash at bank and in hand	(20,208)	(17,045)
Net borrowings	460,556	510,953
Shareholders' funds	207,737	102,392
Consolidated gearing	222%	499%
Excluding non-recourse financial assets and liabilities*		
Bank loans	53,388	94,740
Other loans	600	55
Finance leases	182	21
Short term investments and cash at bank and in hand	(2,705)	(1,016)
Net recourse borrowings	51,465	93,800
Shareholders' funds	207,737	102,392
Net indebtedness from securitisation companies	(34,405)	(32,863)
Adjusted Shareholders' funds	173,332	69,529
Gearing excluding non-recourse borrowings	30%	135%

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

26. Reconciliation of operating profit to operating cash flows

	2002 £'000	2001 £'000
Operating profit	54,071	50,351
Depreciation of operated properties	2,879	609
Depreciation of other fixed assets	568	179
Amortisation of goodwill of subsidiary undertakings	104	29
Net write back of permanent diminution in value – investment properties	(625)	–
Net (write back)/write off of permanent diminution in value – operated properties	(900)	1,720
Loss on disposal of other tangible fixed assets	–	7
Provision for losses on sale of properties	–	400
Share of associated undertakings' operating (profits)/losses	(283)	210
Write down in value of properties held for resale	18	–
Increase in debtors	(1,985)	(461)
Increase in creditors	3,457	479
Increase/(decrease) in provisions	568	(1,735)
Net cash inflow from operating activities	57,872	51,788

Notes to the accounts continued

For the year ended 30 September 2002

27. Analysis of changes in net debt

	At 1 Oct 2001 £'000	Cash flow £'000	Non-cash changes £'000	At 30 Sep 2002 £'000
Cash at bank and in hand	4,636	(2,297)	–	2,339
Short term investments	12,409	5,460	–	17,869
Bank loans due within one year	(8,480)	8,480	(38)	(38)
Bank loans due after one year (net of unamortised finance costs)	(84,250)	35,208	(2,680)	(51,722)
Other loans due within one year	(24)	80	(131)	(75)
Other loans due after one year	(31)	31	(525)	(525)
Finance leases due within one year	(8)	8	(105)	(105)
Finance leases due after one year	(13)	10	(74)	(77)
Secured Notes (net of unamortised issue and discount costs)	(530,094)	–	(1,272)	(531,366)
Total	(605,855)	46,980	(4,825)	(563,700)

28. Analysis of changes in cash

	2002 £'000	2001 £'000
Cash at bank and in hand at the beginning of the year	4,636	2,139
(Decrease)/increase in cash during the year	(2,297)	2,497
Cash at bank and in hand at the end of the year	2,339	4,636

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

	2002 £'000	2001 £'000
(Decrease)/increase in cash during the year	(2,297)	2,497
Net cash outflow from debt financing activities	43,817	46,485
Net cash outflow/(inflow) from management of liquid resources	5,460	(51,504)
Changes in net debt resulting from cash flows	46,980	(2,522)
Non-cash changes in net debt	(4,825)	(551)
Movement in net debt during the year	42,155	(3,073)
Net debt at the beginning of the year	(605,855)	(602,782)
Net debt at the end of the year	(563,700)	(605,855)

30. Operating lease commitments

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

	2002 £'000	2001 £'000
Land and buildings – expiring in less than one year	235	45
Land and buildings – expiring between one to five years	550	–
Land and buildings – expiring more than five years	1,708	–
Other – expiring between one to five years	68	3
	2,561	48

31. Disclosures relating to Care Homes 1, Care Homes 2 and Care Homes 3

A summary of the financial statements of Care Homes 1 for the year ended 30 September 2002 and the year ended 30 September 2001, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 1	2002 £'000	2001 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	60,306	63,565
Deposit Swap Agreement, including accumulated compound interest	23,533	21,766
Net current assets	3,566	3,566
Creditors: amounts falling due after more than one year		
Class A1 and A2 Secured Notes, net of unamortised issue costs and discount	(97,180)	(97,027)
Shareholders' deficit	(9,775)	(8,130)
Profit and loss account		
Turnover and gross profit	11,510	11,015
Net operating costs	(6,808)	(7,186)
Net interest payable and similar charges	(6,347)	(6,375)
Taxation	-	777
Equity dividends payable	-	-
Loss for the year	(1,645)	(1,769)
Cash flow statement		
Net cash inflow from operating activities	8,592	7,324
Servicing of finance – interest paid on Secured Notes	(8,200)	(8,200)
Management of liquid resources – short term deposit (placement)/ withdrawal	(200)	1,000
Increase in cash in the year	192	124

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 £40,878,000 (2001: £35,277,000), on a mark-to-market basis.

Notes to the accounts continued

For the year ended 30 September 2002

31. Disclosures relating to Care Homes 1, Care Homes 2 and Care Homes 3 continued

A summary of the financial statements of Care Homes 2 for the year ended 30 September 2002 and the year ended 30 September 2001, which have been included in the consolidated financial statements of the Group, is as follows:

Care Homes 2	2002 £'000	2001 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	173,640	182,165
Deposit Swap Agreement, including accumulated compound interest	68,035	64,849
Net current liabilities	(3,116)	(3,143)
Creditors: amounts falling due after more than one year		
Class A, M and B Secured Notes, net of unamortised issue costs and discount	(258,293)	(257,939)
Shareholders' deficit	(19,734)	(14,068)
Profit and loss account		
Turnover and gross profit	26,567	26,236
Net operating costs	(18,769)	(20,206)
Net interest payable and similar charges	(13,464)	(13,494)
Profit on disposal of overriding lease	-	370
Taxation	-	1,638
Loss for the year	(5,666)	(5,456)
Cash flow statement		
Net cash inflow from operating activities	17,785	13,585
Servicing of finance – interest paid on Secured Notes	(16,252)	(16,252)
Net cash (outflow)/inflow from investing activities:		
Investment in overriding leases	-	(1,234)
Proceeds on disposal of overriding lease	-	1,650
Management of liquid resources – short term deposit (placement)/withdrawal	(3,100)	3,750
(Decrease)/increase in cash in the year	(1,567)	1,499

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 £67,784,000 (2001: £58,172,000), on a mark-to-market basis.

31. Disclosures relating to Care Homes 1, Care Homes 2 and Care Homes 3 continued

A summary of the financial statements of Care Homes 3 for the year ended 30 September 2002 and the year ended 30 September 2001, which has been included in the consolidated financial statements of the Group, is as follows:

Care Homes 3	2002 £'000	2001 £'000
Balance sheet		
Fixed asset investments:		
Overriding lease premiums, net of amortisation	147,178	152,800
Zero Coupon Notes, including accumulated compound interest	40,838	39,202
Net current liabilities	(24,273)	(24,346)
Creditors: amounts falling due after more than one year		
Class A, M and B Secured Notes, net of unamortised issue costs and discount	(176,012)	(175,253)
Shareholders' deficit	(12,269)	(7,597)
Profit and loss account		
Turnover and gross profit	21,928	21,060
Net operating costs	(13,286)	(13,241)
Net interest payable and similar charges	(13,315)	(13,059)
Taxation	523	-
Loss for the year	(4,150)	(5,240)
Cash flow statement		
Net cash inflow from operating activities	12,413	12,338
Servicing of finance – interest paid on Secured Notes	(12,812)	(12,812)
Net cash outflow from investing activities:		
Investment in overriding leases	-	(33,531)
Proceeds on disposal of overriding lease	-	605
Management of liquid resources – short term deposit (placement)/withdrawal	(500)	47,158
Net cash outflows from financing activities:		
Subordinated loan notes repaid to NHP Securities No.3 Limited	-	(2,662)
Subordinated loan notes repaid to NHP Securities No.10 Limited	-	(10,097)
(Decrease)/increase in cash in the year	(899)	999

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 £38,362,000 (2001: £32,000,000), on a mark-to-market basis.

32. Contingent liabilities and guarantees

(i) The Company guarantees the Bank of Scotland amortising facility of £90 million referred to in note 19 of the financial statements.

(ii) The Company has issued guarantees in favour of Care Homes 1, Care Homes 2, Care Homes 3 and IRG Capita Trustees Limited (formerly Royal Exchange Trust Company Limited) of performance by NHP Securities No.1 Limited, NHP Securities No.2 Limited, NHP Securities No.3 Limited and NHP Management Limited of their obligations arising in respect of the overriding leases and associated documents.

(iii) NHP Securities No.3 Limited ("NHPS3"), a wholly owned subsidiary of the Company, has guaranteed the repayment to Ultima Healthcare Limited of the principal amount of a loan of £6 million made by Ultima Healthcare Limited to its parent company Ultima Holdings Limited. The loan balance outstanding at 30 September 2002 and 30 September 2001 was £3.75 million. The Directors are of the opinion that the guarantee will not be called. The Company has issued letter of solvency support for recognised trading liabilities to the Ultima Group companies.

Notes to the accounts continued

For the year ended 30 September 2002

33. Related party transactions

(i) At 30 September 2002 and 30 September 2001 D F Francis, a Director of the Company, was the Company's representative on the Boards of Ultima Holdings Limited, Ultima Healthcare Limited, Ultima Care Limited, Eton Hall Homes Limited and Platinum Healthcare Limited – collectively "the Ultima Group". No Directors fees are charged by NHP to Ultima Holdings Limited for D F Francis' services, who does not receive any remuneration or expenses from Ultima Group.

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

The Company purchased for cash 13,970,000 'C' Ordinary Shares in the Ultima Group which it held at 30 September 2002 and 30 September 2001. The cost of these shares was fully provided for in the accounts to 30 September 2000.

In the accounts to 30 September 2001 NHP made a provision for financial support for the closure costs of the Ultima Group for £1.2 million charged in exceptional expenditure. £172,593 has been written back in the year to 30 September 2002 and a provision of £63,261 remains in the balance sheet – see also the solvency guarantee above.

(ii) On 1 September 2000, D F Francis was appointed as the Company's representative on the Board of G.R. Patrick & Co. Limited ("GRP"). Details of the Group's interest in GRP are set out in note 14. Insurances relating to the Group's property portfolio are arranged through GRP amounted to £553,074 (2001: £495,300), the premiums being recovered in full from the Group's tenants. The Highfield Care Group homes from the annual renewal dates have been insured through GRP in 2002 and the premium paid in the year to 30 September 2002 was £148,833. During the year ended 30 September 2002, the Group paid to GRP premiums totalling £279,301 (2001: £52,608) in respect of non-property related insurances. Included in Group turnover for the same period are commissions recoverable from GRP totalling £58,804 (2001: £69,151) and director's fees of £10,000 (2001: £10,000). At 30 September 2002, the Group owed a net amount of £7,608 to GRP (2001: £nil).

(iii) The Group leased homes to Highfield Home Properties, a subsidiary undertaking of Highfield Holdings Limited, in return for pavement rental income of £1,619,936 for the period to 11 December 2001 (2001: £5,599,394), the date the company became 100% subsidiary undertaking of NHP Plc.

34. Post balance sheet events

There are no significant events to report.

Bondholder information

Portfolio analysis

As at 30 September 2002

	Homes No.	Beds No.	Beds %	Cost £000	Minimum annual rent £000	Minimum annual rent %
England	288	13,541	73.6%	492,190	50,506	74.5%
Scotland	43	2,607	14.2%	104,300	10,272	15.1%
Wales	28	1,491	8.1%	43,788	4,589	6.8%
N Ireland	14	756	4.1%	23,500	2,461	3.6%
Total	373	18,395	100.0%	663,778	67,828	100.0%

Investment properties

Operated by third party tenants

Ashbourne plc	22	1,352	7.3%	46,798	4,884	7.2%
Avonpark Care Centre Limited	3	203	1.1%	9,241	965	1.4%
Britannia Healthcare Limited	7	428	2.3%	13,857	1,440	2.1%
Care Management Group Limited	32	256	1.4%	18,718	1,943	2.9%
Craegmoor Healthcare Co. Limited	4	270	1.5%	10,518	1,139	1.7%
Eastwood Care Homes plc	9	229	1.2%	18,719	1,946	2.9%
Healthcare Investments (No. 2) Limited	4	328	1.8%	11,830	1,237	1.8%
Hillcroft Nursing Homes Limited	1	66	0.4%	2,028	212	0.3%
Idun Healthcare Limited	18	1,014	5.5%	32,168	3,393	5.0%
Puretruce Limited	14	698	3.8%	19,940	2,079	3.1%
Southern Cross Healthcare Limited	96	5,713	31.1%	208,857	21,384	31.5%
Total	210	10,557	57.4%	392,674	40,622	59.9%

Managed by Highfield Care for third party tenants

Gallant (UK) Limited	1	35	0.2%	987	102	0.1%
In receivership:						
Harmony Care Homes Limited	7	311	1.7%	9,446	987	1.5%
Landmark Care Centres Limited	1	50	0.3%	1,433	148	0.2%
Loughbray Healthcare Limited	1	53	0.3%	1,692	178	0.3%
Six subsidiaries of Union Healthcare Group Limited	41	1,966	10.6%	67,475	7,028	10.4%
Total	51	2,415	13.1%	81,033	8,443	12.5%

Total investment properties	261	12,972	70.5%	473,707	49,065	72.4%
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Operated properties

Highfield Care	105	5,149	28.0%	182,523	17,986	26.5%
Closed homes	3	103	0.6%	3,381	355	0.5%

Total operated properties	108	5,252	28.6%	185,904	18,341	27.0%
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Total investment and operated properties	369	18,224	99.1%	659,611	67,406	99.4%
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Properties held for resale

Highfield Care	2	89	0.5%	2,022	200	0.3%
Closed homes	2	82	0.4%	2,145	222	0.3%

Total properties held for resale	4	171	0.9%	4,167	422	0.6%
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Total property portfolio	373	18,395	100.0%	663,778	67,828	100.0%
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Additional information – this page does not form part of the audited financial statements.

Properties managed by Highfield Care

As at 30 September 2002

	Homes No.	Beds No.	Beds %	Cost £000	Minimum annual rent £000	Minimum annual rent %
NHP homes managed by Highfield Care						
Managed for third party tenants	51	2,415	13.1%	81,033	8,443	12.5%
NHP owned and operated	105	5,149	28.0%	182,523	17,986	26.5%
Properties held for resale	2	89	0.5%	2,022	200	0.3%
At 30 September 2002	158	7,653	41.6%	265,578	26,629	39.3%
Third party landlords homes managed by Highfield Care						
Leased homes	7	398			1,369	
Homes under management contract	16	768			–	
Total homes managed by Highfield Care	181	8,819			27,998	

Notes

% expressed as % NHP's total property portfolio above.

The NHP beds managed by Highfield Care are 97 less than purchased, and previously reported, due to the application of changing care standards.

Since 30 September 2002:

- A receiver was appointed to Healthcare Investments (No.2) Limited on 21 November 2002. Highfield Care have been contracted to manage the four homes.
- Two homes for resale have been sold (one of these was managed by Highfield Care).
- Three receivership homes have been assigned to Highfield Care.

Performance of homes owned by NHP at 30 September 2002 and managed by third party tenants and Highfield Care

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

Shareholder information

Analysis of Ordinary Shareholdings at 29 November 2002

Investor type	Private	Directors and spouses*	Institutional and other	Totals
Number of holders	551	10	296	857
Percentage of holders	64.29%	1.17%	34.54%	100.00%
Shares held	7,965,625	965,433	191,920,837	200,851,895
Percentage of shares held	3.97%	0.48%	95.55%	100.00%

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

Shareholdings	1 to 1,000	1,001 to 50,000	50,001 to 250,000	250,001 to 500,000	500,000+
Number of holders	161	533	66	33	64
Percentage of holders	18.79%	62.19%	7.70%	3.85%	7.47%
Shares held	95,475	4,734,546	6,954,088	12,262,541	176,805,245
Percentage of shares held	0.05%	2.36%	3.46%	6.10%	88.03%

Financial calendar

30 January 2003	10th Annual General Meeting
June 2003	Interim results announced
December 2003	Preliminary announcement of 2003 results

For further shareholders help or information please contact either the Registrars of the Company or NHP at the addresses below

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