

NHP SECURITIES NO.3 LIMITED

Report and Financial Statements

30 September 1999



REPORT AND FINANCIAL STATEMENTS 1999

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of Directors' responsibilities	5
Auditors' report	6
Profit and loss account	7
Balance sheet	8
Statement of total recognised gains and losses	9
Reconciliation of movements in Shareholders' funds	9
Note of historical cost profits and losses	9
Notes to the accounts	10

REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R J Ellert	Chairman/Chief Executive
W J Davies, ARICS	Executive Director
D F Francis, FCA	Executive Director

SECRETARY

A R Kilmartin, FCA

REGISTERED OFFICE

6 Broad Street Place
Blomfield Street
London EC2M 7JH

BANKERS

Bank of Scotland
Centrebank division
Teviot House
41 South Gyle Crescent
Edinburgh EH12 9BF

SOLICITORS

Eversheds
Holland Court
The Close
Norwich NR1 4DX

AUDITORS

Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR

VALUERS

At 30 September 1999:

DTZ Debenham Tie Leung
One Curzon Street
London W1A 5PZ

At 31 March 2000:

GVA Grimley
25 Bucklersbury
London EC4N 8DA

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company has been the purchase of freehold and long leasehold interests in predominantly modern, purpose-built care homes which have been leased back to care home operators.

NHP Group strategy has been to use securitised debt to provide fixed rate, long term, non-recourse finance that matches the length of NHP's leases. To achieve this the beneficial interests by way of over riding leases on certain of the Company's properties have been transferred to other Group subsidiaries and to Care Homes No 1 Limited, Care Homes No.2 Limited and, subsequent to the end of the financial year, Care Homes No 3 Limited, the three companies which have issued the securitised debt.

BUSINESS REVIEW

At 1 October 1998 the Company owned 124 care homes acquired at a cost of £233.0 million and valued at £259.6 million. During the year a further 158 homes were acquired at a cost of £311.9 million. Over riding leases in respect of 2 homes have been sold to Care Homes No 1 Limited. Over riding leases in respect of 123 homes have been sold to NHP Securities No 5 Limited and NHP Securities No 8 Limited which have transferred, by way of declarations of trust, the beneficial interest in those leases to Care Homes No 2 Limited. Six homes were reclassified as properties for re-sale. Two of the properties have been sold and the remaining four have been reclassified as properties held for investment since the year end. At 30 September 1999 the Company owned 151 homes costing £272.7 million valued at £300.8 million and also owned the residual freehold interests in 125 homes, in respect of which over riding leases have been granted, valued at 30 September 1999 at £111.2 million.

The Company is funded by equity in the form of Loan Notes from NHP Plc and by short term bank facilities. At 1 October 1998 the short term facility was a £150 million revolving credit facility from a syndicate of banks headed by Bank of Scotland. On 23 November 1998 a £70 million bridging facility was arranged with Dresdner Kleinwort Benson which was fully drawn down and subsequently repaid out of the proceeds from the securitisation issue by Care Homes No 2 Limited. On 23 May 1999 the revolving credit facility was increased to £230 million. On 16 August 1999 a £70 million term loan was arranged and drawn down in order to complete the purchase of 35 care homes from the Highfield Group.

Subsequent to the end of the financial year, on 1 October 1999 the Company sold over riding leases in a further 83 homes to NHP Securities No 9 Limited. The third securitisation issue through Care Homes No 3 Limited was completed on 16 November 1999 and the net proceeds of £92.2 million were paid to the Company and used to repay bank borrowings.

A further 32 homes costing £33 million have been acquired since 30 September 1999. The NHP Group has announced that it will not be buying any further homes in the foreseeable future, apart from those which are already contractually committed, and the Company's revolving credit facility has been reduced to £160 million as of 29 June 2000.

Details of valuations conducted by GVA Grimley as at 31 March 2000 are set out in note 16. Due to prevailing market forces, the value of land and buildings not subject to overriding leases has fallen approximately 9% since 30 September 1999, whilst the value of the freehold residual portfolio has fallen 21%. The Directors have reviewed in detail the GVA Grimley valuations as at 31 March 2000 and are of the opinion that the fall in value of individual properties, principally due to the market conditions, is not permanent.

RESULTS

The results for the year ended 30 September 1999 are set out in the profit and loss account on page 7.

DIVIDENDS

The Company has declared dividends of £2,500,000 (1998 - £50,000) payable to the parent company NHP Plc. No further dividends in respect of the year are proposed.

POST BALANCE SHEET EVENTS

Details of events subsequent to the balance sheet date are set out in note 16.

DIRECTORS' REPORT

GOING CONCERN

The Directors have been in discussion with the Company's bankers on an ongoing basis during the current financial year in respect of temporary and workable covenants. On 29 June 2000 the banking syndicate led by Bank of Scotland agreed a new set of temporary covenants, extending to 31 December 2000 on the revolving credit facility which matures on 25 May 2001, stating the support of the banking syndicate to the Company. The Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

The Directors who served during the year were as follows:

R J Ellert	Chairman/Chief Executive	
W J Davies	Executive Director	
D F Francis	Executive Director	
P H S Smith	Executive Director	(resigned 21 January 2000)
A Bergbaum	Non-executive Director	(resigned 21 December 1998)
Sir Colin Walker	Non-executive Director	(resigned 21 December 1998)
D G Hargrave	Non-executive Director	(resigned 21 December 1998)
D F Benson	Non-executive Director	(resigned 21 December 1998)
C H W Robson	Non-executive Director	(resigned 21 December 1998)

The current Directors of the Company are detailed on page 1. Mr. J H Drayton was appointed an executive Director of the Company on 18 January 2000 and resigned on 5 May 2000. Mr. W Colvin was appointed an executive Director of the Company on 18 January 2000 and resigned on 30 June 2000.

No Director has, or had, any interest in the shares of the Company. No Director holds a service contract with the Company and there is no share option scheme in existence.

Except for the interests of Mr. P H S Smith, the Directors' interests in the shares of the parent company are disclosed in that company's financial statements. At 30 September 1999 and 30 September 1998 Mr. P H S Smith held 10,000 shares under the NHP Plc Executive Share Option Scheme and 8,125 shares under the NHP Plc Savings Related Share Option Scheme.

PAYMENTS TO CREDITORS

The Company's policy is to fix payment terms when agreeing the terms of each transaction. It is the Company'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 Company at 30 September 1999, calculated in accordance with the Companies Act 1985, are 38 (1998: 29). This figure is not representative of the Company's general policy, as the amount due to creditors at 30 September 1999 was substantially above the norm due to invoicing of non-recurring professional fees. More representative creditor days for the Company is a monthly average of 27 days.

YEAR 2000

The Directors appointed a committee led by the Company Secretary to examine the issues associated with computer-based equipment and the Year 2000.


The Directors are pleased to report that the Company did not experience any disruptions to its business or operations arising from the Year 2000 problem. The cost to the Company of carrying out work in relation to the Year 2000 problem was not material.

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

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

A R Kilmartin
Secretary

12 July 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

AUDITORS' REPORT

TO THE MEMBERS OF NHP SECURITIES NO.3 LIMITED

We have audited the financial statements on pages 7 to 18 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 5 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 18 to the accounts concerning the uncertainty as to the continuation of support by the Company's bankers. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and
Registered Auditors

12 July 2000

PROFIT AND LOSS ACCOUNT
Year ended 30 September 1999

	Note	1999 £	1998 £
TURNOVER AND GROSS PROFIT	2	24,506,708	13,778,056
Operating expenses	3	<u>(2,779,439)</u>	<u>(1,200,038)</u>
OPERATING PROFIT		21,727,269	12,578,018
Profits on disposal of overriding leases		9,934,881	-
Net interest payable and similar charges	4	<u>(19,108,637)</u>	<u>(12,336,160)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12,553,513	241,858
Tax on profit on ordinary activities	5	<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		12,553,513	241,858
Equity dividends payable	6	<u>(2,500,000)</u>	<u>(50,000)</u>
Retained profit for the financial year	14	<u><u>10,053,513</u></u>	<u><u>191,858</u></u>

Turnover and operating profit are wholly derived from continuing operations.

BALANCE SHEET
30 September 1999

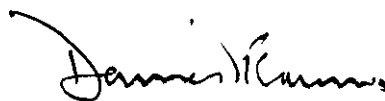
	Note	1999 £	1998 £
TANGIBLE FIXED ASSETS			
Land and buildings	7	412,010,000	259,575,568
INVESTMENTS	8	-	9,750,000
TOTAL FIXED ASSETS		<u>412,010,000</u>	<u>269,325,568</u>
CURRENT ASSETS			
Properties held for resale (at cost)		2,928,768	-
Debtors	9	30,109,083	1,240,360
Cash at bank and in hand		574,525	107,255
		<u>33,612,376</u>	<u>1,347,615</u>
CREDITORS: amounts falling due within one year	10	<u>(5,529,027)</u>	<u>(5,039,073)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>28,083,349</u>	<u>(3,691,458)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		440,093,349	265,634,110
CREDITORS: amounts falling due after more than one year	12	<u>(341,902,236)</u>	<u>(234,480,638)</u>
NET ASSETS		<u><u>98,191,113</u></u>	<u><u>31,153,472</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	2	2
Revaluation reserve	14	63,622,194	30,488,192
Revenue reserve	14	16,650	16,650
Profit and loss account	14	34,552,267	648,628
EQUITY SHAREHOLDERS' FUNDS		<u><u>98,191,113</u></u>	<u><u>31,153,472</u></u>

These financial statements were approved by the Board of Directors on 12 July 2000.

Signed on behalf of the Board of Directors



R J Ellert
Chief Executive



D F Francis
Executive Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**Year ended 30 September 1999**

	1999 £	1998 £
Profit for the year	12,553,513	241,858
Net surplus on revaluation of land and buildings	56,984,128	26,835,547
Total recognised gains for the year	<u>69,537,641</u>	<u>27,077,405</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**Year ended 30 September 1999**

	1999 £	1998 £
Profit for the year	12,553,513	241,858
Equity dividends payable	(2,500,000)	(50,000)
Retained profit for the year	10,053,513	191,858
Net surplus on revaluation of land and buildings	56,984,128	26,835,547
Net increase in shareholders' funds	67,037,641	27,027,405
Shareholders' funds at the beginning of the year	31,153,472	4,126,067
Shareholders' funds at the end of the year	<u>98,191,113</u>	<u>31,153,472</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES**Year ended 30 September 1999**

	1999 £	1998 £
Profit on ordinary activities before taxation	12,553,513	241,858
Realisation of valuation gains on disposal of overriding leases	23,850,126	603,261
Historical cost profit on ordinary activities before taxation	<u>36,403,639</u>	<u>845,119</u>
Historical cost profit retained for the period	<u>33,903,639</u>	<u>795,119</u>

NOTES TO THE ACCOUNTS**Year ended 30 September 1999****1. ACCOUNTING POLICIES****Basis of accounting**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties. The financial statements are in compliance with the Companies Act 1985 except that, as explained below, land and buildings are not depreciated.

Valuation of properties

The cost of land and buildings is their purchase cost, together with any incidental costs of acquisition.

Land and buildings represent freehold and long leasehold investment properties held for long term retention, a number of which are subject to overriding leases granted. In accordance with Statement of Standard Accounting Practice No. 19, investment properties are valued annually by independent professional valuers at open market value, on an investment basis, subject to the Company's leases. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve, whilst any permanent impairment in value is charged to the profit and loss account. On transfer to a group company of a revalued investment property, any related balance in the revaluation reserve is transferred to revenue reserves.

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

Depreciation

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

This treatment is a departure from the requirements of the Companies Act 1985 which requires all fixed assets to be depreciated over their effective useful lives. However, such properties are not held for consumption but for investment and the Directors consider that systematic depreciation would be inappropriate and would not give a true and fair view. The accounting policy adopted 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.

Deferred taxation

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

Finance costs

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

Interest

Interest receivable and interest payable are recognised in the financial statements on an accruals basis.

NOTES TO THE ACCOUNTS

Year ended 30 September 1999

2. TURNOVER AND GROSS PROFIT

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

	1999 £	1998 £
Rental income	20,824,342	13,203,728
Commissions and fees received	100,922	541,856
Overriding lease rents received from:		
Care Homes No.1 Limited	103,140	32,472
Care Homes No.2 Limited and subsidiaries	3,391,277	-
Fellow subsidiaries	87,027	-
	<u>24,506,708</u>	<u>13,778,056</u>

3. OPERATING EXPENSES

The Company had no employees during the year or preceding year.

The Directors are executives of the holding company NHP Plc and its subsidiary companies. The Directors received total emoluments of £1,180,994 from NHP Plc during the year (1998: £895,270), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, four (1998: four) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £116,400 in the year (1998: £104,075).

Operating expenses include:

	1999 £	1998 £
Group management fees	1,881,410	1,122,000
Audit fees	13,982	12,500
	<u>1,895,392</u>	<u>1,134,500</u>

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Interest receivable on deposits	204,072	108,439
Interest receivable on loan stock	2,697,948	445,796
Interest payable on bank loans	(7,962,457)	(5,844,949)
Interest payable to NHP Plc in respect of loan notes	(12,228,358)	(5,969,644)
Other interest payable	(1,630)	(8,942)
Finance costs (net)	<u>(1,818,212)</u>	<u>(1,066,860)</u>
	<u>(19,108,637)</u>	<u>(12,336,160)</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no tax charge for the year or preceding period due to the availability of capital allowances.

No deferred tax liability is recognised on the timing differences arising on capital allowances as this timing difference is not expected to reverse in the foreseeable future. A potential capital gains tax liability of £30,068,000 (1998: £8,064,000) exists in relation to the surplus arising on the revaluation of land and buildings. It is not the Company's intention to sell the freehold or long leasehold interests and therefore no deferred tax has been provided on the revaluation surplus.

NOTES TO THE ACCOUNTS
Year ended 30 September 1999

6. EQUITY DIVIDENDS PAYABLE

	1999 £	1998 £
Dividends payable of £1,250,000 (1998: £25,000) per ordinary share	<u>2,500,000</u>	<u>50,000</u>

7. TANGIBLE FIXED ASSETS

Land and buildings	Freehold investment properties £	Long leasehold investment properties £	Total £
At valuation 1 October 1998	219,475,568	40,100,000	259,575,568
Reclassification of properties held for resale	(3,773,284)	-	(3,773,284)
Additions at cost	284,455,461	27,438,257	311,893,718
Net surplus on revaluation	50,705,554	6,278,574	56,984,128
Purchase of overriding lease	969,000	-	969,000
Disposal of overriding leases	(186,505,299)	(27,133,831)	(213,639,130)
At valuation 30 September 1999	<u>365,327,000</u>	<u>46,683,000</u>	<u>412,010,000</u>
Comprising:			
Apportionment at 30 September 1999 of land and buildings not subject to overriding leases			<u>300,810,000</u>
Valuation at 30 September 1999 of residual interests of land and buildings subject to overriding leases			<u>111,200,000</u>

The notional apportionment of value between freehold investment properties and long leasehold investment properties has been calculated by the Directors according to the ratios of the pavement rents of the underlying assets.

With effect from 1 January 2000 DTZ Debenham Thorpe, Chartered Surveyors, was renamed DTZ Debenham Tie Leung. The comments which follow refer to the company as DTZ. Where these refer to valuations undertaken and reported before January 2000, this reference is to DTZ Debenham Thorpe, after that date the reference is to DTZ Debenham Tie Leung.

DTZ, Chartered Surveyors, acting in the capacity of External Valuers, valued a portfolio of land and buildings held by NHP Plc on the basis of Open Market Value as at 30 September 1999 at £723,519,000, but with the qualifications referred to below. This valuation was detailed in their report dated 9 November 1999. From this valuation the notional apportioned value of £2,929,000 was deducted in relation to 4 properties held for sale resulting in a net value of £720,590,000. A further notional apportionment of £300,810,000 has been made in respect of land and buildings not subject to overriding leases (see note 1 below). All properties are subject to occupational leases.

The amounts which arise from notional apportionments do not in themselves represent the open market values of the different elements.

A valuation of the residual interests of the portfolio of land and buildings subject to overriding leases was undertaken by DTZ, Chartered Surveyors, acting in the capacity of External Valuers, as at 30 September 1999 at £111,200,000. This valuation was detailed in their report dated 29 June 2000. The portfolio was valued at Open Market Value but with the qualifications referred to below.

NOTES TO THE ACCOUNTS**Year ended 30 September 1999****7. TANGIBLE FIXED ASSETS (continued)**

In undertaking the valuations of £723,519,000 and £111,200,000, DTZ valued each of the portfolios as a whole (subject to leases to a number of operational companies) rather than on an individual property basis. Consistent with this approach, DTZ had regard only to the existing use of the properties as care homes, ignoring any potential alternative use. The portfolio approach assuming existing use represents a departure from the requirements of the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual under which individual valuations of each property and aggregation of those values were to be reported. DTZ consider this basis reflects more accurately the market approach that would be adopted for the sale of the property investment assets. This valuation approach is consistent with that applied by DTZ at 30 September 1998.

In addition, in relation to the valuation of £111,200,000, DTZ have considered and valued only the "residual income" derived from the portfolio and receivable by the NHP group of companies. The residual income is equal to the total gross rental income reserved by leases less deductions for all debt costs, interest payable, taxation and dividend payments and operating costs of the respective companies holding the overriding leases (the "Deductions".) In order to calculate the Deductions to be made from the total gross rental income the Company instructed DTZ to apportion the total costs of funding all the land and buildings that are subject to overriding leases that are held in Care Homes No.1 Limited, Care Homes No.2 Limited and NHP Securities No.9 Limited between NHP Securities No.1 Limited, NHP Securities No.2 Limited and NHP Securities No.3 Limited on a ratio of the Pavement Rents (see note 2 below) of the various assets. DTZ have relied on the figures provided by the Company in order to calculate the residual income and have not verified their validity or accuracy. Accordingly their valuation is totally dependent on the adequacy and accuracy of the information supplied by the Company and the validity of the apportionment approach.

DTZ are not aware of market transactions involving the sale of a residual interest similar to that referred to above and their opinion of value was based on judgement rather than comparable transactions.

Subject to the above, the valuations of £723,519,000 and £111,200,000 were undertaken in accordance with the RICS Appraisal and Valuation Manual. DTZ's valuation of £723,519,000 is also subject to the various assumptions as set out in their Report dated 9 November 1999. DTZ's valuation of the residual interests of the portfolio of land and buildings subject to the overriding leases is also subject to various assumptions as set out in their report dated 29 June 2000.

Notes:

1. Subject to overriding leases: Where income from properties has been securitised they are subject to overriding leases
2. The Pavement Rent is the basic contractual rent reserved under the individual occupational leases and does not include any additional turnover rent which may be generated.

The historical cost and net book value of the Company's investment properties at 30 September 1999 was £350,347,588 compared to £229,087,376 at 30 September 1998.

48 care homes 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 "open market value" (as defined in the respective leases) of the landlord's reversionary interest and of the landlord's fixtures and fittings. One care home is subject to buy-back at a formulated price.

Six care homes held by the company at 30 September 1998 have been reclassified in the current year as properties held for resale. Two of the homes were sold during the year, and the remaining four care homes have been accounted for in the Company's Balance sheet at 30 September 1999 as a current asset at the lower of cost and anticipated net realisable value.

At 30 September 1999 the Company had contracted capital commitments not completed or accrued of £19,301,000 (1998: £13,510,000).

NOTES TO THE ACCOUNTS

Year ended 30 September 1999

8. INVESTMENTS

	1999 £	1998 £
Ultima Holdings Limited 9.5% secured Loan Stock 2003 Class A	-	3,250,000
Ultima Holdings Limited 9.5% secured Loan Stock 2003 Class B	-	6,500,000
	<u>-</u>	<u>9,750,000</u>

Ultima Holdings Limited is the parent company of Ultima Healthcare Limited, a tenant of the Company. The loan stock was repaid by Ultima Holdings Limited on 30 March 1999 utilising bank borrowings guaranteed by Bank of Scotland, the guarantee having been granted on the basis of an indemnity given to Bank of Scotland by the Company. Further details of the guarantee are disclosed in note 15 of the financial statements.

9. DEBTORS

	1999 £	1998 £
Subordinated Loan Note investment in		
NHP Securities No.9 Limited	19,292,000	-
Care Homes No.2 Limited	5,040,256	-
Subordinated Loan Note interest receivable from		
NHP Securities No.8 Limited	214,894	-
NHP Securities No.9 Limited	207,129	-
Care Homes No.2 Limited	152,026	-
Overriding lease rentals receivable from		
NHP Securities No.8 Limited	98,226	-
NHP Securities No.9 Limited	87,027	-
Care Homes No.1 Limited	51,108	8,852
Care Homes No.2 Limited	1,023,434	-
Current account amounts due from fellow subsidiary companies	1,684	26,000
Trade debtors	424,099	-
Other debtors	594,513	574,150
Prepayments and accrued income	2,922,687	631,358
	<u>30,109,083</u>	<u>1,240,360</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £	1998 £
Trade creditors	318,163	276,937
Other sundry creditors	753,606	768,250
Current account amounts owed to NHP Plc	2,525,109	1,276,800
Current account amounts owed to fellow subsidiary companies	467,819	322,868
Current account amounts owed to Care Homes No.1 Limited	6,157	-
Current account amounts owed to Care Homes No.2 Limited	146,055	-
Interest on loan notes payable to NHP Plc	-	2,016,579
Accrued interest payable on bank loans	565,431	240,022
Accruals and deferred income	546,687	137,617
Dividend amount payable to NHP Plc	200,000	-
	<u>5,529,027</u>	<u>5,039,073</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 1999

11. DEFERRED TAXATION

	Provided 1999 £	Unprovided 1999 £	Provided 1998 £	Unprovided 1998 £
Capital allowances in excess of depreciation	-	5,366,000	-	2,508,000
Revaluation of investment properties	-	30,068,000	-	8,064,000
Losses created by capital allowances	-	(363,000)	-	(702,000)
	<u>-</u>	<u>35,071,000</u>	<u>-</u>	<u>9,870,000</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £	1998 £
Bank loans due between one and two years	194,779,800	-
Bank loans due between two and five years	-	93,100,000
Less: unamortised finance costs	(535,364)	(577,162)
	<u>194,244,436</u>	<u>92,522,838</u>
Subordinated loan notes due to NHP Plc	147,657,800	141,957,800
	<u>341,902,236</u>	<u>234,480,638</u>

Bank loans

Bank loans maturing after more than one year at 30 September 1999 comprise the following separate loan facilities:

	1999 £
A £230 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 25 May 2001. The loans bear interest at LIBOR plus 1.25% and are secured by a fixed charge on certain of the investment properties of the Company, together with a floating charge on its other assets and an unlimited guarantee from the Company's parent company, NHP Plc. The amounts drawn down at 30 September 1999 were as follows:	
Bank of Scotland	26,419,078
Morgan Guaranty Trust Company of New York	32,469,077
National Westminster Bank PLC	26,767,352
Dresdner Bank AG, London Branch	29,517,352
Bank of Ireland	9,606,941
	<u>124,779,800</u>

A £70 million term loan facility from a syndicate led by Morgan Guaranty Trust Company of New York, which matures on 16 February 2001. The loans bear interest at LIBOR plus 1.25% and are secured by a fixed charge on certain of the investment properties of the Company. The amounts drawn down at 30 September 1999 were as follows:

Morgan Guaranty Trust Company of New York	27,500,000
Dresdner Bank AG, London Branch	27,500,000
Bank of Scotland	15,000,000
	<u>70,000,000</u>
Total bank loans drawn down at 30 September 1999	<u>194,779,800</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 1999

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Total bank loans drawn down at 30 June 2000 are £137,489,800.

At 30 September 1999 the Company held hedging instruments fixing a total of £115 million of bank borrowings at an effective average rate of 6.40%.

Subordinated loan notes

The subordinated loan notes, which represent the consideration payable for financing of asset transfers and purchases, have no fixed repayment dates and bear interest at 8.5% per annum (1998 – 8.5%).

13. CALLED UP SHARE CAPITAL

	1999 £	1998 £
Authorised:		
100 ordinary shares at £1 each	100	100
Called up, allotted and fully paid:		
2 ordinary shares at £1 each	2	2

14. RESERVES

	Revenue reserve £	Revaluation reserve £	Profit and loss account £
At 1 October 1998	16,650	30,488,192	648,628
Profit for the year	-	-	10,053,513
Transfer arising on disposal of overriding leases	-	(23,850,126)	23,850,126
Net surplus on revaluation of investment properties	-	56,984,128	-
At 30 September 1999	16,650	63,622,194	34,552,267

15. CONTINGENT LIABILITIES

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, a tenant of the Company, to its parent company Ultima Holdings Limited.

The Company has granted Bank of Scotland an indemnity in respect of the bank's guarantee of Ultima Holdings Limited's bank borrowings. In the event of the guarantee being called, the Company has undertaken to re-finance Ultima Holdings Limited's bank borrowings up to a limit of £11 million. Such re-financing will take the form of a standby term loan on commercial terms secured by a debenture from Ultima Holdings Limited and its subsidiary companies. The Company has also agreed to make available to Ultima Holdings Limited, if necessary, a further £3 million loan to fund Ultima Holdings Limited's corporation tax liability in respect of chargeable gains incurred in respect of the sale of care homes to the NHP group of companies.

The Company has guaranteed repayment to Bank of Scotland of a £3.5 million bridging loan facility granted by the bank to Highfield Group Limited ("Highfield"), a tenant of the NHP group of companies. The loan has been granted to finance 7 specified care home properties owned by Highfield, and is repayable either out of the proceeds of the sale of one or more of the properties to third parties or, if any properties remain unsold at 31 July 2000, by the Company's undertaking to purchase all of the remaining properties at that date. The Company's contractual commitment to purchase the 7 properties for £3.5 million has been included in the capital commitments disclosed in note 7.

A mark-to-market exposure exists in respect of a £100 million interest rate swap, in terms of which the Company may be called upon to pay additional premiums to National Westminster Bank PLC. The benefit to the Company of paying such additional premiums will be commensurate reductions to the strike rate below its current level of 5.62%.

NOTES TO THE ACCOUNTS

Year ended 30 September 1999

16. POST BALANCE SHEET EVENTS

Since 30 September 1999 the Company has acquired a further 32 care homes, for a cost of £37 million (including acquisition costs). This includes £300,000 included in capital commitments at 30 September 1999.

On 1 October 1999, the Company granted overriding leases in 82 properties to NHP Securities No.9 Limited for a consideration of £128,512,000.

The appointment of administrative receivers to 20 subsidiaries of Advantage Healthcare Group Limited on 20 October 1999 has reduced NHP Securities No.9 Limited's ability to pay overriding rents to NHP Securities No.3 Limited, by £81,594 per month. Continued non receipt of rent from Advantage Healthcare Group Limited by NHP Securities No.9 Limited will have no impact on that company's ability to pay loan note interest due to the Company in the year to 30 September 2000.

On 16 November 1999, the NHP Plc group completed a £194 million fixed rate asset backed bond issue through Care Homes No.3 Limited. The net proceeds released to the Company on that date were £92,275,940. £70 million of the net proceeds were used to redeem in full the £70 million term loan facility from a syndicate led by Morgan Guaranty Trust Company of New York referred to in note 12. The balance of £22,275,940 was used to repay part of the £230 million revolving credit facility from a syndicate led by the Bank of Scotland referred to in note 12.

On 23 February 2000, ANS Plc exercised its option to buy-back Maypole Nursing Home, a 68 bed home, for a consideration of £2,894,600.

On 15 March 2000, the £230 million revolving credit facility from a syndicate led by the Bank of Scotland referred to in note 12 was amended to a reduced facility of £180 million. The facility was further reduced to £160 million on 29 June 2000.

On 23 March 2000, the Company was refunded £540,000 of premium previously paid to National Westminster Bank PLC in respect of a £100 million interest rate swap held by the Company. The effect of this refund was to increase the strike rate on the swap from 4.43% to 5.62%.

Due to a deterioration in market conditions since 30 September 1999, the Directors of the parent company, NHP Plc, have considered it necessary to provide in full for the Ultima Holdings Limited guarantees totalling £14 million referred to in the second paragraph of note 15. The £14 million provision has been made in the interim accounts of NHP Plc to 31 March 2000, and will be reflected in the statutory accounts of the Company for the year to 30 September 2000.

Since 30 September 1999, Highfield Group Limited has managed to sell one of the 7 care home properties referred to in note 15. The sale of this property reduced the Company's guarantee to Bank of Scotland, as well as its contractual commitments, from £3.5 million to £3,075,000. The Directors of the parent company, NHP Plc, have considered it necessary to include a provision of £750,000 in the interim accounts of NHP Plc to 31 March 2000 to cover the potential shortfall on the eventual sale of the 6 remaining care homes. An equivalent provision, or write-off, will be reflected in the statutory accounts of the Company for the year to 30 September 2000.

Land and buildings held by the NHP Group at 31 March 2000 have been valued by GVA Grimley at that date at open market value on a portfolio basis in accordance with the RICS Appraisal and Valuation Manual. The notional apportionment attributed by GVA Grimley to the land and buildings held by NHP Securities No.3 Limited as at 30 September 1999, and which were not subject to overriding leases, is £270,170,000. This compares with the value of £300,810,000 given by DTZ as at 30 September 1999, as set out in note 7, except that the DTZ valuation included a single care home which has since been sold for a gross consideration of £2,894,600.

GVA Grimley have valued the residual interest in the portfolio of care homes held at 30 September 1999 at £88,120,000, as at 31 March 2000. This compares with the value of £111,200,000 given by DTZ as at 30 September 1999, as set out in note 7.

NOTES TO THE ACCOUNTS**Year ended 30 September 1999****16. POST BALANCE SHEET EVENTS (continued)**

GVA Grimley conducted their valuation of the residual interest in the Portfolio in accordance with the Appraisal and Valuation Manual (the "Manual") published by the Royal Institution of Chartered Surveyors, except that GVA Grimley's valuation has been undertaken on a portfolio basis, and GVA Grimley have not carried out valuations of the individual properties within the portfolio. This represents non-compliance with Practice Statement 7.5.2.1 of the Manual. GVA have carefully considered this matter, and are of the opinion that this non-compliance is appropriate, for the following reasons:

- The income received by the Company is the residual income for the portfolio, following the payment by Care Homes No.1 Limited, Care Homes No.2 Limited or NHP Securities No.9 Limited, as appropriate, of all costs in connection with the servicing of the debt. These costs include interest payable, taxation, dividends and operating costs. The costs do not relate directly to the individual properties. They arise on the portfolio as a whole and are subsequently notionally apportioned to the individual properties for statutory reporting purposes.
- GVA Grimley have not been requested to provide individual values for the purpose of this exercise. Due to the nature of the portfolio, and the fact that the residual income can only be calculated on a portfolio basis, GVA Grimley do not believe that it is appropriate to consider the values of the properties individually. If the portfolio were to be sold it is GVA Grimley's opinion that it would have to be sold as a single entity, and this is reflected in their valuation.

GVA Grimley's valuation of the residual interest in the Portfolio is subject to the comments and assumptions set out in their report dated 27 June 2000.

The four care home properties classified as properties held for resale as at 30 September 1999 were reclassified as investment properties on 31 March 2000.

17. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures" transactions with other undertakings within the NHP Plc group have not been disclosed in these financial statements. Although Care Homes No.1 Limited and Care Homes No.2 Limited have been consolidated as part of that group by reason of contractual arrangements with NHP Plc, they are not subsidiaries of that company, and therefore the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures" cannot be applied for transactions with Care Homes No.1 Limited and Care Homes No.2 Limited. These transactions, which are disclosed in notes 2, 7, 9 and 10 of these financial statements, comprise the granting of overriding leases over freehold and long leasehold properties and the receipt of overriding lease rents in connection with these properties.

On 29 October 1998, Sir Colin Walker, now deceased and then a director of the Company, was appointed as the Company's representative on the Board of Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Company. On 19 January 1999, Sir Colin Walker resigned as a director of Ultima Holdings Limited and D.F. Francis, a director of the Company, was appointed in his place as the Company's representative on the Board of Ultima Holdings Limited. Note 15 contains details of the guarantees given by the Company to Ultima Holdings Limited and its subsidiaries.

18. GOING CONCERN

The agreement with the syndicate of banks to amend the Company's bank covenants has been extended to 31 December 2000 and the facility matures on 27 May 2001. Accordingly the Directors are satisfied that the going concern basis should be adopted to prepare the accounts.

19. ULTIMATE PARENT COMPANY

The immediate parent and ultimate controlling company is NHP Plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the group consolidated financial statements, which include the results of the Company, are available from the Company Secretary, 6 Broad Street Place, Blomfield Street, London EC2M 7JH.