

NHP SECURITIES NO.3 LIMITED

Report and Financial Statements

30 September 2001



REPORT AND FINANCIAL STATEMENTS 2001

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
<i>Profit and loss account</i>	6
Balance sheet	7
Statement of total recognised gains and losses	8
Reconciliation of movements in shareholders' funds	8
Note of historical cost profits and losses	8
Notes to the accounts	9

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W Colvin, CA	Chief Executive
D F Francis, FCA	Executive Director
R N Midmer, CENG MICE	Executive Director

SECRETARY

S Kaul

REGISTERED OFFICE

6 Broad Street Place
Blomfield Street
London EC2M 7JH

BANKERS

Bank of Scotland
Centrebanks 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

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 2001.

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 overriding leases on certain of the Company's properties have been transferred to other Group subsidiaries and to 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"), the three companies which have issued the securitised debt.

BUSINESS REVIEW

At 30 September 2000, the Company owned 67 care homes acquired at a cost of £104.9 million and valued at £85.0 million. At the same date, the Company also owned the residual freehold or long leasehold interests in 259 homes, in respect of which overriding leases have been granted, valued at £107.7 million. In addition, the Company held for resale one care home acquired at a cost of £1.2 million and written down to a value of £1.1m.

At 30 September 2000, overriding leases in 39 of the above 259 homes were owned by NHP Securities No 12 Limited ("NHPS 12") and in October 2000 Care Homes No. 3 Limited selected 34 of these plus one more and acquired NHPS12 releasing £45.8 million to the Company which was used in repayment of bank borrowings.

During the year a further care home was acquired at a cost of £1.5 million and three care homes were disposed of to third parties for a total consideration of £3,675,000 and the residual freehold interests of four homes were disposed of for consideration of £1,961,000. An overriding lease in a single care home was sold to Care Homes 3 for consideration of £586,000.

At 30 September 2001, the Company owned 64 homes costing £102.02 million and valued at £80.22 million, and also owned the residual freehold interests in 256 homes, in respect of which overriding leases have been granted, valued at 30 September 2001 at £122.26 million. The home for resale noted above remained on the Balance Sheet at a value of £1.1 million.

The Company is funded by equity in the form of loan notes from NHP Plc and by bank facilities. At 30 September 2000, short term facilities drawn down by the Company totalled £139.1 million. £45.8 million was repaid following the investment of the Further Drawings Fund. A new £113.4 million two year amortising bank facility was agreed on 24 January 2001. After payment of £11 million and £2.2 million in respect of the Ultima guarantees a net £14.4 million was repaid in the year leaving a balance drawn down at 30 September 2001 of £92.1 million. The facility reduced to £101 million at 30 September 2001 and will be further reduced to £93.5 million on 31 March 2002 and to £86 million on 30 September 2002. The remainder of the bank facility will run until January 2003.

Details of valuations conducted by GVA Grimley as at 30 September 2001 are set out in note 8. The Directors have reviewed in detail the GVA Grimley valuations as at 30 September 2001. The upward movement in the portfolio of £15.2 million, is reflected through the revaluation reserve. The Directors are of the opinion that the deficit of £1.12 million represents a permanent fall in value, which has consequently been written off in the profit and loss account.

RESULTS

The results for the year ended 30 September 2001 are set out in the profit and loss account on page 6.

DIVIDENDS

No dividends in respect of the year are proposed (2000: £nil).

POST BALANCE SHEET EVENTS

Details of events subsequent to the balance sheet date are set out in note 18.

DIRECTORS' REPORT

GOING CONCERN

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:

		<u>Date of Appointment</u>	<u>Date of Resignation</u>
W Colvin	Chief Executive	7 September 2000	
W J Davies	Executive Director	22 January 1997	29 November 2001
D F Francis	Executive Director	6 January 1997	
R N Midmer	Executive Director	13 February 2001	

The current Directors of the Company are detailed on page 1.

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

The Directors' interests in the shares of the parent company are disclosed in that company's financial statements.

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 2001, calculated in accordance with the Companies Act 1985, are 15 (2000: 7).

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



S Kaul
Secretary

21 December 2001

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 as at the end of the financial year and of the profit or loss of the Company for that year. 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; and
- 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 the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NHP SECURITIES NO.3 LIMITED

We have audited the financial statements of NHP Securities No.3 Limited for the year ended 30 September 2001 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, note of historical cost profits and losses and the related notes 1 to 20. 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 and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

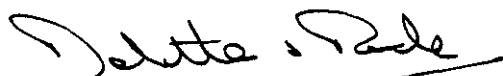
Basis of audit opinion

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 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.

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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and
Registered Auditors

21 December 2001

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2001

	Note	2001 £	2000 £
TURNOVER AND GROSS PROFIT	2	25,691,774	22,854,394
Administrative expenses	3	(3,199,537)	(3,350,595)
Provision for bad and doubtful debts		(4,111,059)	(3,537,218)
Exceptional items	4	(3,335,531)	(19,647,889)
		<u>(10,646,127)</u>	<u>(26,535,702)</u>
OPERATING PROFIT/ (LOSS)		15,045,647	(3,681,308)
Losses on disposal of investment properties, overriding leases and fixed assets		(207,499)	(9,973,882)
Net interest payable and similar charges	5	<u>(17,715,089)</u>	<u>(19,321,704)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,876,941)	(32,976,894)
Tax on loss on ordinary activities	6	<u>-</u>	<u>-</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(2,876,941)	(32,976,894)
Equity dividends payable	7	<u>-</u>	<u>-</u>
Retained loss for the financial year	16	<u>(2,876,941)</u>	<u>(32,976,894)</u>


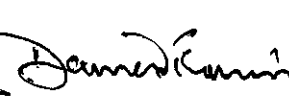
Turnover and operating profit/(loss) are wholly derived from continuing operations.

BALANCE SHEET
30 September 2001

	Note	2001 £	2000 £
TANGIBLE FIXED ASSETS			
Land and buildings	8	202,480,000	192,740,000
INVESTMENTS			
	9	37,488,602	38,893,180
TOTAL FIXED ASSETS		<u>239,968,602</u>	<u>231,633,180</u>
CURRENT ASSETS			
Properties held for resale		1,100,000	1,100,000
Debtors	10	7,578,628	57,077,442
Cash at bank and in hand		342,224	662,358
		<u>9,020,852</u>	<u>58,839,800</u>
CREDITORS: amounts falling due within one year	11	<u>(21,657,573)</u>	<u>(149,044,502)</u>
NET CURRENT LIABILITIES		<u>(12,636,721)</u>	<u>(90,204,702)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		227,331,881	141,428,478
CREDITORS: amounts falling due after more than one year	13	(230,522,687)	(142,467,883)
PROVISIONS	14	<u>(519,903)</u>	<u>(14,950,251)</u>
NET LIABILITIES		<u><u>(3,710,709)</u></u>	<u><u>(15,989,656)</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	2	2
Revaluation reserve	16	(14,133,799)	(28,462,901)
Revenue reserve	16	16,650	16,650
Profit and loss account	16	<u>10,406,438</u>	<u>12,456,593</u>
EQUITY SHAREHOLDERS' DEFICIT		<u><u>(3,710,709)</u></u>	<u><u>(15,989,656)</u></u>

These financial statements were approved by the Board of Directors on 21 December 2001.

Signed on behalf of the Board of Directors



 W Colvin D F Francis
 Chief Executive Executive Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 September 2001

	2001 £	2000 £
Loss for the year	(2,876,941)	(32,976,894)
Net surplus/(deficit) on revaluation of land and buildings	15,155,888	(81,203,875)
Total recognised gains/(losses) for the year	<u>12,278,947</u>	<u>(114,180,769)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 30 September 2001

	2001 £	2000 £
Loss for the year	(2,876,941)	(32,976,894)
Equity dividends payable	-	-
Retained loss for the year	(2,876,941)	(32,976,894)
Net surplus/(deficit) on revaluation of land and buildings	15,155,888	(81,203,875)
Net increase/(decrease) in shareholders' funds	12,278,947	(114,180,769)
Shareholders' (deficit)/ funds at the beginning of the year	(15,989,656)	98,191,113
Shareholders' deficit at the end of the year	<u>(3,710,709)</u>	<u>(15,989,656)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 30 September 2001

	2001 £	2000 £
Loss on ordinary activities before taxation	(2,876,941)	(32,976,894)
Realisation of valuation gains on disposal of investment properties (net)	812,786	50,079
Realisation of valuation gains on disposal of overriding leases	14,000	10,831,141
Historical cost loss on ordinary activities before taxation	<u>(2,050,155)</u>	<u>(22,095,674)</u>
Historical cost loss retained for the year	<u>(2,050,155)</u>	<u>(22,095,674)</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

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, 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.

The residual freehold interests in the investment properties, which are subject to the grant of overriding leases are valued by GVA Grimley at open market value on a portfolio basis in accordance with the RICS Appraisal and Valuation manual.

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; any 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.

Going concern

The parent company has undertaken to provide financial support to NHP Securities No.3 Limited if required. This support will extend for a period of not less than twelve months from the date these accounts are signed. The Directors therefore have prepared these financial statements on the going concern basis.

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

2. TURNOVER AND GROSS PROFIT

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

	2001 £	2000 £
Rental income	11,399,194	14,628,531
Commissions and fees received	21,966	80,581
Overriding lease rents received from:		
Care Homes No.1 Limited	167,226	87,005
Care Homes No.2 Limited	8,221,017	5,070,480
Care Homes No.3 Limited	5,783,036	1,766,152
Fellow subsidiaries	99,335	1,221,645
	<u>25,691,774</u>	<u>22,854,394</u>

3. ADMINISTRATIVE 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 £963,330 from NHP Plc during the year (2000: £804,508), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, four (2000: four) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £165,914 in the year (2000: £132,692).

Administrative expenses include:

	2001 £	2000 £
Group management fees	2,132,815	2,354,788
Audit fees	37,800	37,800
	<u></u>	<u></u>

4. EXCEPTIONAL ITEMS

	2001 £	2000 £
Permanent diminution in value on investment properties	(1,120,000)	(2,610,000)
Ultima Holdings Limited guarantee release/ (provision)	750,000	(14,000,000)
Ultima Holdings Group closure support costs	(1,198,111)	-
Operator support costs – refurbishment costs of care homes	(572,164)	-
Receivership support costs	(520,726)	(1,796,747)
Highfield Group Limited -option property provision	(479,940)	(750,000)
Cost of abortive property acquisitions	(19,783)	(491,142)
Forgiveness of loan notes to Care Homes No.3 Limited	(174,807)	-
Forgiveness of loan notes to NHP Securities No.9 Limited	(2,050,611)	(5,849,000)
Forgiveness of loan notes by NHP Plc	2,050,611	5,849,000
	<u>(3,335,531)</u>	<u>(19,647,889)</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2001	2000
	£	£
Interest payable to NHP Plc on subordinated loan notes	(12,109,772)	(12,550,913)
Interest payable on bank loans	(7,213,605)	(10,468,577)
Other interest payable	-	(199,506)
Finance costs (net)	(1,917,366)	(1,649,811)
Interest receivable on loan notes		
Care Homes No.2 Limited	276,283	309,243
Care Homes No.3 Limited	1,700,694	1,668,142
Fellow subsidiaries	1,415,645	3,515,307
Interest receivable on deposits	69,559	54,411
Other interest receivable	63,473	-
	<u>(17,715,089)</u>	<u>(19,321,704)</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge for the year or preceding year 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 £3,786,031 (2000: £3,000,000) exists in relation to the freeholds of properties as a result of revaluation. No deferred tax has been provided on the revaluation surplus of potential property disposals because any gain would be covered by capital losses. It is not the Company's intention to sell the balance of the freehold and leasehold interests and therefore no deferred tax has been provided on the revaluation surplus of those properties.

7. EQUITY DIVIDENDS PAYABLE

	2001	2000
	£	£
Dividends payable of £nil (2000: £nil) per ordinary share	-	-

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

8. TANGIBLE FIXED ASSETS

Land and buildings	Freehold investment properties £	Long leasehold investment properties £	Total £
At valuation 30 September 2000	174,003,000	18,737,000	192,740,000
Reclassification	(6,165,000)	6,165,000	-
Additions at cost	1,962,112	-	1,962,112
Disposal of investment properties at valuation	(4,550,000)	-	(4,550,000)
Disposal of residual freehold properties at valuation	(1,122,000)	-	(1,122,000)
Net surplus on revaluation	14,989,888	166,000	15,155,888
Permanent diminution in value	(1,120,000)	-	(1,120,000)
Disposal of overriding lease at valuation	(586,000)	-	(586,000)
At valuation 30 September 2001	<u>177,412,000</u>	<u>25,068,000</u>	<u>202,480,000</u>
Comprising:			
Apportionment of valuation at 30 September 2001 of land and buildings not subject to overriding leases			<u>80,220,000</u>
Valuation at 30 September 2001 of residual interests of land and buildings subject to overriding leases			<u>122,260,000</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.

Land and buildings held by the NHP Group at 30 September 2001 have been valued by GVA Grimley at that date at open market value on a portfolio basis in accordance with the Royal Institute of Chartered Surveyors 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 2001, and which were not subject to overriding leases, is £80,220,000.

GVA Grimley has valued the residual interest in the portfolio of care homes held at 30 September 2001 at £122,260,000. 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 RICS, 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 Grimley 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, Care Homes No.3 Limited, 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 value 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.

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

GVA Grimley's valuation of the residual interest in the Portfolio is subject to the comments and assumptions set out in their report dated 7 December 2001.

The Directors have reviewed in detail the GVA Grimley valuations at 30 September 2001 and are of the opinion that there is a deficit of £1,120,000 on certain assets which represents a permanent fall in value, which has consequently been written off in the profit and loss account. See note 4.

The historical cost and net book value of the Company's investment properties at 30 September 2001 was £185,840,935 compared to £223,760,550 at 30 September 2000.

60 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

At 30 September 2001 the Company had contracted capital commitments not completed or accrued of £985,625 (2000: £9,936,875).

9. INVESTMENTS

	At 30 September 2000 £	Additions £	Disposals £	At 30 September 2001 £
Subordinated loan notes investment in				-
NHP Securities No.9 Limited	10,898,000	5,686,000	(6,876,611)	9,707,389
Care Homes No.2 Limited	3,137,228	840	(40,000)	3,098,068
Care Homes No.3 Limited	24,857,952	-	(174,807)	24,683,145
	<u>38,893,180</u>	<u>5,686,840</u>	<u>(7,091,418)</u>	<u>37,488,602</u>

The loan notes due by NHP Securities No.9 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 8.70% per annum.

£3,088,000 of the loan notes due by Care Homes No.2 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 8.91% per annum. The remaining £10,068 represents the £8,000 consideration payable for the financing of Care Homes No.2 Limited's acquisition of NHP Securities No.5 Limited, together with capitalised interest. The £10,068 of loan notes are repayable on 2 January 2026 and also bear interest at 8.91% per annum.

The loan notes due by Care Homes No.3 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 6.60% per annum.

On 30 June 2000, an investment of £180,000 was made in 180,000 'C' Ordinary Shares of Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Group. Further investments of £180,000 were made in 180,000 'C' Ordinary Shares of Ultima Holdings Limited on 29 September 2000, 20 December 2000, 30 March 2001. There is no carrying value attributed to these investments.

An investment of £2,250,000 in 2,250,000 'C' Ordinary Shares of Ultima Holdings Limited was made on 13 October 2000 and an investment of £11,000,000 in 11,180,000 'C' Ordinary Shares of Ultima Holdings Limited was made on 30 March 2001. These two investments were set against the provision of £14,000,000 set up in the accounts to 30 September 2000.

On 30 September 2001 the Company waived loan notes owing by NHP Securities No.9 Limited totalling £2,050,611 (2000: £5,849,000). (See note 4).

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

10. DEBTORS

	2001	2000
	£	£
Trade debtors	857,709	463,211
Other debtors	647,546	421,802
Subordinated loan note investment in		
NHP Securities No.12 Limited	-	37,488,000
Care Homes No.3 Limited	-	12,759,108
Subordinated loan note interest receivable from		
NHP Securities No.9 Limited	181,271	-
NHP Securities No.12 Limited	-	41,612
Care Homes No.2 Limited	182,421	198,457
Care Homes No.3 Limited	413,528	831,911
Overriding lease rentals receivable from		
NHP Securities No.12 Limited	-	144,375
Care Homes No.1 Limited	49,463	16,513
Care Homes No.2 Limited	1,078,541	1,093,914
Care Homes No.3 Limited	2,817,366	232,364
Current account amounts due from NHP Plc	114,214	-
Current account amounts due from fellow subsidiary companies	798,311	-
Prepayments and accrued income	438,258	3,386,175
	<u>7,578,628</u>	<u>57,077,442</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000
	£	£
Bank loans due within one year (see note 13 for the 2001 comparative)	-	139,149,800
Less: unamortised finance costs	-	(112,912)
		<u>139,036,888</u>
Trade creditors	60,544	34,624
Other sundry creditors	30,128	492,562
Current account amounts owed to fellow subsidiary companies	2,695,689	524,848
Current account amounts owed to Care Homes No.1 Limited	101,700	-
Current account amounts owed to Care Homes No.2 Limited	351,025	-
Current account amounts owed to Care Homes No.3 Limited	196,352	-
Interest on loan notes payable to NHP Plc	12,865,805	4,926,183
Accrued interest payable on bank loans	1,724,311	154,943
Accruals and deferred income	3,632,019	3,874,454
	<u>21,657,573</u>	<u>149,044,502</u>

Bank loan – re year ended 30 September 2000

Bank loans maturing within one year at 30 September 2000 comprised a £160 million revolving credit facility from a syndicate led by the Bank of Scotland, which matured on 25 May 2001. On 24 January 2001 a new £113.4 million two year bank facility was agreed (see note 13).

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

12. DEFERRED TAXATION

	Provided 2001 £	Unprovided 2001 £	Provided 2000 £	Unprovided 2000 £
Capital allowances in excess of depreciation	-	11,983,110	-	7,941,000
Revaluation of investment properties	-	3,786,031	-	3,000,000
Losses created by capital allowances	-	(2,449,251)	-	(782,000)
	<u>-</u>	<u>13,319,890</u>	<u>-</u>	<u>10,159,000</u>

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

	2001 £	2000 £
Bank loans due between one and two years (see note 11 for the 2000 comparative)	92,115,000	-
Less: unamortised finance costs	(2,009,585)	-
	<u>90,105,415</u>	<u>-</u>
Subordinated loan notes due to NHP Plc	140,417,272	142,467,883
	<u>230,522,687</u>	<u>142,467,883</u>

Bank loans

Bank loans maturing after more than one year at 30 September 2001 comprise the following loan facility:

A £113.4 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 24 January 2003. At 30 September 2001, the revolving credit facility is reduced to £101 million as required under the Mandatory Reduction clause. The loans bear interest at LIBOR plus 1.25% and are secured by a fixed charge on certain of the investment properties under a guarantee from the Company's parent company, NHP Plc. The amounts drawn down at 30 September 2001 were as follows:

	2001 £	2000 £
Bank of Scotland	22,027,506	-
Morgan Guaranty Trust Company of New York	22,027,492	-
Royal Bank of Scotland	20,025,002	-
Dresdner Bank AG, London Branch	20,025,007	-
Bank of Ireland	8,009,993	-
	<u>92,115,000</u>	<u>-</u>

The finance costs on the new £113.4 million two year revolving credit facility on 24 January 2001 were £3,215,335 and these costs are amortised over the two year period. The unamortised finance costs at 30 September 2001 were £2,009,585.

On 8 November 2000, the Company purchased an interest rate cap from The Royal Bank of Scotland for a consideration of £174,000. The interest rate cap fixes £60 million of short term borrowings at 6.25% for the period 8 November 2000 to 7 November 2001 and £30 million of short term borrowings at 6.25% for the period 8 November 2001 to 7 November 2002.

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 (2000: 8.5%). On 30 September 2001, NHP Plc forgave loan notes owing by the Company totalling £2,050,611 (see note 4).

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

14. PROVISIONS

	At 30 September 2000 £	Cost incurred in the year £	Profit and Loss account £	At 30 September 2001 £
Ultima Holdings Limited guarantee	14,000,000	(13,250,000)	(750,000)	-
Ultima Holdings Limited wind up costs	-	(1,078,208)	1,198,111	119,903
Receivership support costs	950,251	(1,070,977)	520,726	400,000
	<u>14,950,251</u>	<u>(15,399,185)</u>	<u>968,837</u>	<u>519,903</u>

15. CALLED UP SHARE CAPITAL

	2001 £	2000 £
Authorised:		
100 ordinary shares at £1 each	<u>100</u>	<u>100</u>
Called up, allotted and fully paid:		
2 ordinary shares at £1 each	<u>2</u>	<u>2</u>

16. RESERVES

	Revenue reserve £	Revaluation reserve £	Profit and loss account £
At 1 October 2000	16,650	(28,462,901)	12,456,593
Loss for the year	-	-	(2,876,941)
Transfer arising on the disposal of overriding lease	-	(14,000)	14,000
Transfer arising on disposal of investment property	-	(812,786)	812,786
Net surplus on revaluation of investment properties	-	15,155,888	-
At 30 September 2001	<u>16,650</u>	<u>(14,133,799)</u>	<u>10,406,438</u>

17. 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 payment of £2.25 million made by the Company to Ultima Holdings Limited on 13 October 2000 was applied by Ultima Holdings Limited against the £6 million loan, thereby reducing the Company's guarantee to Ultima Healthcare Limited to £3.75 million. In the Directors' opinion, this guarantee will not be called.

18. POST BALANCE SHEET EVENTS

On 1 October 2001 Cherish Healthcare Limited, one of NHP Securities No.3 Limited's tenants went into receivership.

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

19. RELATED PARTY TRANSACTIONS

- (i) 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, Care Homes No.2 Limited and Care Homes No.3 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, Care Homes No.2 Limited and Care Homes No.3 Limited. These transactions, which are disclosed in notes 2, 5, 9, 10 and 11 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.
- (ii) On 19 January 1999, D F Francis, a Director of the Company, was appointed as the Company's representative on the Board of Ultima Holdings Limited. On 29 March 2001 he was also appointed as the Company's representative on the Board of Ultima Healthcare Limited and on 3 April 2001 on the Boards of Ultima Care Limited and Platinum Healthcare Limited

On 30 March 2001 the Company signed a management agreement with the Ultima Group of Companies ("Ultima") and Southern Cross Healthcare Limited ("Southern Cross") for Southern Cross to take over the management of 35 of the Company's leases to Ultima until re-registration when the leases would be assigned to Southern Cross for £1 each. The Company also signed a solvency agreement granting financial support to Ultima whilst this process took place and Ultima's remaining 5 leases were assigned or similarly dealt with. The total cost of this solvency support was £1.2 million - see note 4 and 14.

The Company paid in cash for the following issues of 'C' Ordinary Shares in Ultima Holdings Limited

Re Ultima bank guarantee (£11 million)	11,000,000	see note 14
Re Ultima guarantee (£3 million)	2,250,000	see note 14
Other issues	<u>360,000</u>	
	<u>£13,610,000</u>	

At 30 September 2000 Ultima owed the Company £923,485 in pavement and turnover rent which was fully provided in the accounts to that date in the provision for bad and doubtful debts.

In the six months to 31 March 2001 Ultima was due to pay the Company £529,420. £139,500 was paid and the remainder was provided for through the provision for bad and doubtful debts.

In the six months to 30 September 2001 whilst the above management contract was in place and the assignments to Southern Cross were in progress the Company provided financial support costing £1.2 million.

- (iii) On 1 September 2000, D F Francis was appointed as the Company's representative on the Board of G.R. Patrick Company Limited ("GRP"). Insurances relating to the Company's property portfolio are arranged through GRP, the premiums being recovered in full from the Company's tenants. Included in the Company turnover is an insurance commission recoverable from GRP totalling £14,630. At 30 September 2000, there was no indebtedness between GRP and the Company.

20. 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.