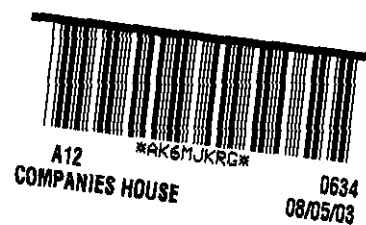


**NHP SECURITIES NO.3 LIMITED**

**Report and Financial Statements**

**30 September 2002**



**REPORT AND FINANCIAL STATEMENTS 2002**

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**REPORT AND FINANCIAL STATEMENTS 2002**

**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**

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

**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  
London

**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 2002.

### **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 1 October 2001, the Company owned 64 care homes acquired at a cost of £102.0 million and valued at £80.2 million. At the same date, the Company also owned the residual freehold or long leasehold interests in 256 homes, in respect of which overriding leases have been granted, valued at £122.3 million. This included 22 owned care homes operated by Highfield Care Homes No.2 Limited (formerly 'Palladium Healthcare Limited') and Highfield Care Homes No.3 Limited (formerly 'Somerford Healthcare Limited'). 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.

On 11 December 2002 NHP Plc completed the acquisition of the Highfield Holdings Limited Group. The Company owned 41 residual freeholds on leases to the Highfield Care Group. Furthermore, 5 owned care homes were transferred from investment properties at valuation at their respective dates of transfer from receiverships.

During the year two investment properties and a residual freehold property were disposed of for £3.2 million and 13 overriding leases to NHP Securities No 9 Limited were re-acquired for £8.0 million. A further care home was acquired at a cost of £0.5 million from NHP Securities No 6 Limited. Two investment portfolio homes were transferred to properties held for resale at a net realisable value of £1.2 million and both have been sold subsequent to 30 September 2002.

Capital expenditure on the portfolio of homes amounted to £3.9 million, including £2.0 million spent on residual freehold and long leasehold properties in the year to 30 September 2002.

At 30 September 2002 in the property portfolio the Company owned 41 investment homes costing £68.8 million and valued at £63.2 million and 33 operated homes costing £47.3 million and valued at £34.9 million. The Company further held residual property interests in 242 homes, in respect of which overriding leases have been granted, costing £81.0 million and valued at 30 September 2002 at £147.3 million. Three properties held for resale stood on the Balance Sheet at a value of £2.3 million at 30 September 2002.

In July 2002, the Company issued £32.3 million loan notes to NHP Plc in return for cash following the Rights Issue by NHP Plc. A similar amount was used to reduce the bank borrowings from Bank of Scotland.

### **RESULTS**

The results for the year ended 30 September 2002 are set out in the profit and loss account on page 6.

### **DIVIDENDS**

No dividends in respect of the year are proposed (2001: £nil).

### **POST BALANCE SHEET EVENTS**

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

### **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' REPORT

### DIRECTORS

The following Directors served throughout the year except as noted:

		<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 2002, calculated in accordance with the Companies Act 1985, are 14 (2001: 15).

### 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

6 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 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 2002 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, the note of historical cost profits and losses and the related notes 1 to 19. 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 2002 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

London

6 December 2002

**PROFIT AND LOSS ACCOUNT**  
**Year ended 30 September 2002**

	Note	2002 £	2001 £
<b>TURNOVER AND GROSS PROFIT</b>	2	25,447,686	25,691,774
Administrative expenses	3	(3,733,719)	(3,199,537)
Provision for bad and doubtful debts		(4,591,017)	(4,111,059)
Exceptional items	4	(2,546,403)	(3,335,531)
		<u>(10,871,139)</u>	<u>(10,646,127)</u>
<b>OPERATING PROFIT</b>		14,576,547	15,045,647
Loss on disposal of investment properties, overriding leases and fixed assets		(33,721)	(207,499)
Net interest payable and similar charges	5	(16,340,916)	(17,715,089)
		<u>(16,374,637)</u>	<u>(17,922,588)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,798,090)	(2,876,941)
Tax on loss on ordinary activities	6	-	-
		<u>-</u>	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(1,798,090)	(2,876,941)
Equity dividends payable	7	-	-
		<u>-</u>	<u>-</u>
<b>Retained loss for the financial year</b>	16	<u>(1,798,090)</u>	<u>(2,876,941)</u>

Turnover and operating profit is wholly derived from continuing operations.



**BALANCE SHEET**  
**30 September 2002**

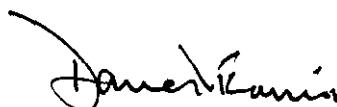
	Note	2002 £	2001 £
<b>TANGIBLE FIXED ASSETS</b>			
Investment properties	8	63,220,000	59,800,000
Operated properties	8	34,950,000	20,420,000
Residual property interests	8	147,300,000	122,260,000
Other fixed assets	8	1,807,850	-
<b>INVESTMENTS</b>	9	29,024,571	37,488,602
<b>TOTAL FIXED ASSETS</b>		<u>276,302,421</u>	<u>239,968,602</u>
<b>CURRENT ASSETS</b>			
Properties held for resale		2,307,968	1,100,000
Debtors	10	10,807,047	7,578,628
Short term investments		302,807	-
Cash at bank and in hand		116,428	342,224
		<u>13,534,250</u>	<u>9,020,852</u>
<b>CREDITORS: amounts falling due within one year</b>	11	<u>(32,727,846)</u>	<u>(21,657,573)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(19,193,596)</u>	<u>(12,636,721)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		257,108,825	227,331,881
<b>CREDITORS: amounts falling due after more than one year</b>	13	(224,081,347)	(230,522,687)
<b>PROVISIONS</b>	14	<u>(1,087,743)</u>	<u>(519,903)</u>
<b>NET ASSETS/(LIABILITIES)</b>		<u>31,939,735</u>	<u>(3,710,709)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	2	2
Revaluation reserve	16	24,964,043	(14,133,799)
Revenue reserve	16	16,650	16,650
Profit and loss account	16	6,959,040	10,406,438
<b>EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)</b>		<u>31,939,735</u>	<u>(3,710,709)</u>

These financial statements were approved by the Board of Directors on 6 December 2002

Signed on behalf of the Board of Directors



R N Midmer  
Director



D F Francis  
Director

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**Year ended 30 September 2002**

	2002 £	2001 £
Loss for the year	(1,798,090)	(2,876,941)
Net surplus on revaluation of land and buildings	37,448,534	15,155,888
	<u>35,650,444</u>	<u>12,278,947</u>
Total recognised gains for the year	<u>35,650,444</u>	<u>12,278,947</u>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

**Year ended 30 September 2002**

	2002 £	2001 £
Loss for the year	(1,798,090)	(2,876,941)
Equity dividends payable	-	-
	<u>(1,798,090)</u>	<u>(2,876,941)</u>
Retained loss for the year	(1,798,090)	(2,876,941)
Net surplus on revaluation of land and buildings	37,448,534	15,155,888
	<u>35,650,444</u>	<u>12,278,947</u>
Net increase in shareholders' funds	35,650,444	12,278,947
Shareholders' deficit at the beginning of the year	(3,710,709)	(15,989,656)
	<u>31,939,735</u>	<u>(3,710,709)</u>
Shareholders' surplus/(deficit) at the end of the year	<u>31,939,735</u>	<u>(3,710,709)</u>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

**Year ended 30 September 2002**

	2002 £	2001 £
Loss on ordinary activities before taxation	(1,798,090)	(2,876,941)
Realisation of valuation (losses)/gains on disposal of investment properties (net)	(1,649,308)	812,786
Realisation of valuation gains on disposal of overriding leases	-	14,000
	<u>(3,447,398)</u>	<u>(2,050,155)</u>
Historical cost loss on ordinary activities before taxation	<u>(3,447,398)</u>	<u>(2,050,155)</u>
Historical cost loss retained for the year	<u>(3,447,398)</u>	<u>(2,050,155)</u>

## NOTES TO THE ACCOUNTS

### 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 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. FRS 15 'Tangible fixed assets' permits alternative valuation rules, which allow for a regular revaluation of assets. The Directors are of 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.

The change in accounting policy has not required a restatement of comparatives.

##### **Valuation of properties**

##### **Investment properties**

The cost of investment properties is purchase cost, together with any incidental costs of acquisition.

Investment properties 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 qualified external valuers at 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.

##### **Operated properties**

The Company's care homes operated by wholly owned subsidiaries of NHP Plc, the parent Company, are reclassified as operated properties from investment properties at the then existing use value, are valued annually at 30 September by qualified external valuers. Operated properties, which are not subject to overriding leases, are valued annually at 30 September on an existing use basis by GVA Grimley, the aggregate revaluation surplus or deficit being transferred to the revaluation reserve whilst any permanent impairment in value is charged to the profit and loss account.

##### **Residual property interests**

The residual freehold and long leasehold interests in the investment and operated properties, which are subject to the grant of overriding leases are valued by GVA Grimley at Market Value on a portfolio basis.

##### **Properties held for resale**

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

##### **Capital expenditure on the freehold and long leasehold investment properties**

Capital expenditure incurred on third party tenants' 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 to the profit and loss account.

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2002

#### 1. ACCOUNTING POLICIES (cont.)

##### 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 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.

Operated properties are depreciated in equal annual instalments over the estimated useful lives of each category of asset. The amount of depreciation, the calculation of which is based on the opening valuation plus subsequent capitalised 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 the profit and loss account. The estimated useful economic lives are as follows:

Freehold land	no depreciation
Freehold 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:

Plant, machinery, fixtures and fittings	5 years
---	---------

##### 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 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 company'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 12 for restatement of unprovided amounts.

##### 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 2002**

**2. TURNOVER AND GROSS PROFIT**

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

	2002 £	2001 £
Rental income	10,474,866	11,399,194
Commissions and fees received	7,319	21,966
Overriding lease rents received from:		
Care Homes No.1 Limited	162,898	167,226
Care Homes No.2 Limited	8,343,349	8,221,017
Care Homes No.3 Limited	6,190,136	5,783,036
Fellow subsidiaries	269,118	99,335
	<u>25,447,686</u>	<u>25,691,774</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 £1,322,491 from NHP Plc during the year (2001: £963,330), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, four (2001: four) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £156,504 in the year (2001: £165,914).

Administrative expenses include:

	2002 £	2001 £
Group management fees	2,100,426	2,132,815
Depreciation	1,028,531	-
Audit fees	54,972	37,800
	<u>3,183,929</u>	<u>2,170,615</u>

**4. EXCEPTIONAL ITEMS**

	2002 £	2001 £
Receivership support costs	(1,449,755)	(520,726)
Permanent diminution in value on investment properties	(885,000)	(1,120,000)
Operator support costs – refurbishment costs of care homes	(418,958)	(572,164)
Cost of closed homes	(141,238)	-
Highfield Group Limited -option property provision	123,604	(479,940)
Uplift value of assets held for resale	52,351	-
Forgiveness of loan notes to NHP Securities No.9 Limited	(127,457)	(2,050,611)
Ultima Holdings Group closure support costs	172,593	(1,198,111)
Forgiveness of loan notes to Care Homes No.3 Limited	-	(174,807)
Forgiveness of loan notes by NHP Plc	127,457	2,050,611
Cost of abortive property acquisitions	-	(19,783)
Ultima Holdings Limited guarantee release	-	750,000
	<u>(2,546,403)</u>	<u>(3,335,531)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**5. NET INTEREST PAYABLE AND SIMILAR CHARGES**

	2002 £	2001 £
Interest payable to NHP Plc on subordinated loan notes	(12,395,225)	(12,109,772)
Interest payable on bank loans	(4,891,415)	(7,213,605)
Other interest payable	(2,005)	-
Finance costs (net)	(1,841,240)	(1,917,366)
Interest receivable on loan notes		
Care Homes No.2 Limited	276,056	276,283
Care Homes No.3 Limited	1,629,088	1,700,694
Fellow subsidiaries	792,064	1,415,645
Interest receivable on deposits	60,876	69,559
Other interest receivable	30,885	63,473
	<u>(16,340,916)</u>	<u>(17,715,089)</u>

**6. TAX ON LOSS ON ORDINARY ACTIVITIES**

	2002 £	2001 £
Tax charge	-	-
Loss before tax	<u>(1,798,090)</u>	<u>(2,876,941)</u>
Tax on losses at standard rate	(539,427)	(863,082)
Factors affecting tax charge:		
Permanent differences	708,464	1,061,570
Capital allowances in excess of depreciation	(5,413,749)	(3,180,809)
Group relief for nil consideration	3,290,392	2,982,320
Losses not recognised	1,954,320	-
Current tax charge	<u>-</u>	<u>-</u>

There is no tax charge for the year or preceeding year owing to the availability of capital allowances.

**7. EQUITY DIVIDENDS PAYABLE**

	2002 £	2001 £
Dividends payable of £nil (2001: £nil) per ordinary share	<u>-</u>	<u>-</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**8. TANGIBLE FIXED ASSETS**

**Investment properties**

<b>Cost or valuation</b>	<b>Freehold investment properties £</b>	<b>Long leasehold investment properties £</b>	<b>Total £</b>
At valuation 1 October 2001	50,650,000	9,150,000	59,800,000
Additions at cost	4,891,634	208,306	5,099,940
Disposal of investment properties at valuation	(2,500,000)	-	(2,500,000)
Reclassification of properties from residual freehold investment properties	2,161,000	-	2,161,000
Reclassification of property to properties held for resale	(650,000)	-	(650,000)
Reclassification of properties to operated properties at valuation	(7,560,000)	-	(7,560,000)
Net surplus on revaluation	5,462,366	1,281,694	6,744,060
Permanent diminution in value	125,000	-	125,000
Net book value at 30 September 2002	<u>52,580,000</u>	<u>10,640,000</u>	<u>63,220,000</u>
Net book value at 30 September 2001	<u>50,650,000</u>	<u>9,150,000</u>	<u>59,800,000</u>

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley at 30 September 2002 at Market Value on a portfolio basis in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual.

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

GVA Grimley valued the investment portfolio at 30 September 2002. The Directors' have reviewed the valuation and are of the opinion that there needs to be a net write back to permanent diminution in value of £125,000 which has been credited to the profit and loss account.

The notional apportionment attributed by GVA Grimley to the freehold and long leasehold investment properties held by the Company at 30 September 2002, and which were not subject to overriding leases, is £63,220,000 (2001:£59,800,000).

49 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 "Market Value" (as defined in the respective leases) of the landlord's reversionary interest and of the landlord's fixtures and fittings.

The historical cost of the Company's investment properties at 30 September 2002 was £68,839,313 (2001: £72,873,381).

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**8. TANGIBLE FIXED ASSETS (cont.)**

**Operated properties**

<b>Cost or valuation</b>	<b>Freehold operated properties £</b>	<b>Plant, machinery, fixtures and fittings £</b>	<b>Total £</b>
At valuation 1 October 2001	17,645,000	2,775,000	20,420,000
Additions at cost	2,569,500	2,584,269	5,153,769
Reclassification of properties from residual freehold investment properties	1,710,000	-	1,710,000
Reclassification of property to properties held for resale	(710,000)	-	(710,000)
Reclassification of property from properties held for resale	456,330	73,670	530,000
Reclassification of properties from investment properties at valuation	6,600,848	959,152	7,560,000
Net surplus on revaluation	1,749,360	-	1,749,360
Permanent diminution in value	(1,010,000)	-	(1,010,000)
At valuation 30 September 2002	<u>29,011,038</u>	<u>6,392,091</u>	<u>35,403,129</u>
<b>Depreciation</b>			
At 1 October 2001	-	-	-
Charge	(404,045)	(453,129)	(857,174)
Disposal	18,489		18,489
Transfer to revaluation reserve	385,556	-	385,556
At 30 September 2002	<u>-</u>	<u>(453,129)</u>	<u>(453,129)</u>
Net book value at 30 September 2002	<u>29,011,038</u>	<u>5,938,962</u>	<u>34,950,000</u>
Net book value 30 September 2001	<u>17,645,000</u>	<u>2,775,000</u>	<u>20,420,000</u>

Operated properties, reclassified from investment properties at valuation, were valued by GVA Grimley on an existing use basis at their respective dates of transfer, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual.

GVA Grimley valued the operated properties at 30 September 2002. The Directors' have reviewed in detail the valuation and are of the opinion that there is a net deficit of £1,010,000 on certain assets which represents a permanent fall in value which has been consequently written off to the profit and loss account.



# NOTES TO THE ACCOUNTS

## Year ended 30 September 2002

### 8. TANGIBLE FIXED ASSETS (cont.)

The value attributed by GVA Grimley to the freehold operated properties held by the Company as at 30 September 2002 and which were not subject to overriding leases is £34,950,000 (2001: £20,420,000).

The historical cost of the Company's operated properties at 30 September 2002 was £47,314,872 (2001: £29,150,492).

Residual property interests	Residual freehold Property interests £	Residual Long leasehold property interests £	Total £
Cost or valuation			
At valuation 1 October 2001	106,342,000	15,918,000	122,260,000
Additions at cost	969,955	30,487	1,000,442
Disposal of residual freehold property at valuation	(659,000)	-	(659,000)
Reclassification of properties to investment properties	(3,871,000)	-	(3,871,000)
Net surplus on revaluation	24,742,045	3,827,513	28,569,558
Net book value at 30 September 2002	127,524,000	19,776,000	147,300,000
Net book value at 30 September 2001	106,342,000	15,918,000	122,260,000

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

GVA Grimley has valued the residual property interests held at 30 September 2002 at £147,300,000. 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 an agreed departure from Practice Statement 7.5.2.1 of the Manual. GVA Grimley have carefully considered this matter, and are of the opinion that this agreed departure 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, 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.

GVA Grimley's valuation of the residual interest in the Portfolio is subject to the comments and assumptions set out in their report dated 20 November 2002 (2001: 7 December 2001).

The historical cost of the Company's residual property interests at 30 September 2002 was £81,043,388 (2001: £83,817,063).

At 30 September 2002 the Company had contracted capital commitments not completed or accrued of £933,421 (2001: £985,625).

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**8. TANGIBLE FIXED ASSETS (cont.)**

<b>Other fixed assets</b>		<b>Plant, machinery, fixtures and fittings £</b>
<b>Cost</b>		
At 1 October 2001		-
Additions at cost		1,979,207
At 30 September 2002		<u>1,979,207</u>
<b>Depreciation</b>		
At 1 October 2001		-
Charge		(171,357)
At 30 September 2002		<u>(171,357)</u>
Net book value at 30 September 2002		<u>1,807,850</u>
Net book value at 30 September 2001		<u>-</u>

**9. INVESTMENTS**

	<b>At 30 September 2001 £</b>	<b>Additions £</b>	<b>Disposals £</b>	<b>At 30 September 2002 £</b>
Subordinated loan notes investment in				
NHP Securities No.9 Limited	9,707,389	-	(9,707,389)	-
NHP Securities No.6 Limited	-	1,242,441	-	1,242,441
Care Homes No.2 Limited	3,098,068	917	-	3,098,985
Care Homes No.3 Limited	24,683,145	-	-	24,683,145
	<u>37,488,602</u>	<u>1,243,358</u>	<u>(9,707,389)</u>	<u>29,024,571</u>

The loan notes due by NHP Securities No.9 Limited were repaid during the year from the sale of overriding leases. The loan notes bore interest at 8.70% per annum. The remaining investment value of £127,457, after the receipt of proceeds, was waived by the Company on 30 September 2002 (2001: £2,050,611).

A loan note of £1,242,441 was issued to NHP Securities No.6 Limited on 1 August 2002 with no fixed term of repayment, enabling that company to repay a bank loan from Bank of Scotland. The loan note bears interest at 6.5% per annum.

£3,088,000 of the loan notes due by Care Homes No.2 Limited have no fixed repayment dates and bear interest at 8.91% per annum. A further £10,985 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.

The Company has invested in 13,970,000 'C' Ordinary Shares in Ultima Holdings Limited which were written down to nil value at 30 September 2002 (2001: £Nil). The Company has no control over the investment as the shares carry no voting rights and hence Ultima Holdings Limited accounts are not consolidated.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**10. DEBTORS**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Trade debtors	-	857,709
Other debtors	231,188	647,546
Subordinated loan note interest receivable from		
NHP Securities No.6 Limited	13,497	-
NHP Securities No.9 Limited	186,358	181,271
Care Homes No.2 Limited	457,560	182,421
Care Homes No.3 Limited	937,662	413,528
Overriding lease rentals receivable from		
NHP Securities No.9 Limited	25,343	-
Care Homes No.1 Limited	27,941	49,463
Care Homes No.2 Limited	1,721,890	1,078,541
Care Homes No.3 Limited	2,012,457	2,817,366
Current account amounts due from NHP Plc	7,585	114,214
Current account amounts due from Care Homes No.1 Limited	7,417	-
Current account amounts due from fellow subsidiary companies	2,553,453	798,311
Prepayments and accrued income	2,624,696	438,258
	<u>10,807,047</u>	<u>7,578,628</u>

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Trade creditors	104,216	60,544
Other sundry creditors	342,899	30,128
Current account amounts owed to fellow subsidiary companies	3,925,088	2,695,689
Current account amounts owed to Care Homes No.1 Limited	-	101,700
Current account amounts owed to Care Homes No.2 Limited	15,672	351,025
Current account amounts owed to Care Homes No.3 Limited	131,880	196,352
Interest on loan notes payable to NHP Plc	24,759,272	12,865,805
Accrued interest payable on bank loans	391,098	1,724,311
Accruals and deferred income	3,057,721	3,632,019
	<u>32,727,846</u>	<u>21,657,573</u>

**12. DEFERRED TAXATION**

	<b>Provided</b>		<b>Unprovided</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accelerated capital allowances	-	-	(13,369,641)	(19,482,658)
Revaluation of investment properties	-	-	23,175,837	3,786,031
Losses created by capital allowances	-	-	(3,436,028)	(2,449,251)
	<u>-</u>	<u>-</u>	<u>6,370,168</u>	<u>(18,145,878)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**12. DEFERRED TAXATION (cont.)**

The directors have taken advice from GVA Grimley 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 Company has, as at 30 September 2002 unprovided deferred tax assets of £13,369,641 in respect of accelerated capital allowances (2001: £19,482,658) and £3,436,028 in respect of revenue losses (2001: £2,449,251). 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 Company reported an unprovided deferred tax liability of £11,983,110 in respect of accelerated capital allowances. As a result of the implementation of FRS19, 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 Company. 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 £23,175,837 (2001: £3,786,031) is not recognised as the Company has no intention to sell these properties at this time and there is no binding agreement.

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

	2002 £	2001 £
Bank loans due between one and two years	-	92,115,000
Less: unamortised finance costs	-	(2,009,585)
	<u>-</u>	<u>90,105,415</u>
Bank loans due between two and five years	53,165,000	-
Less: unamortised finance costs	(1,628,231)	-
	<u>51,536,769</u>	<u>-</u>
Subordinated loan notes due to NHP Plc	172,544,578	140,417,272
	<u>224,081,347</u>	<u>230,522,687</u>

**Bank loans**

Bank loans maturing after more than one year at 30 September 2002 comprise the following loan facility:

A £90 million (2001: £101 million) revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 31 December 2004. The loans bear interest at LIBOR plus 1.75% 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 2002 were as follows:

	2002 £	2001 £
Bank of Scotland	14,265,351	22,027,506
Morgan Guaranty Trust Company of New York	14,265,351	22,027,492
Royal Bank of Scotland	10,264,291	20,025,002
Dresdner Bank AG, London Branch	10,264,291	20,025,007
Bank of Ireland	4,105,716	8,009,993
	<u>53,165,000</u>	<u>92,115,000</u>

# NOTES TO THE ACCOUNTS

## Year ended 30 September 2002

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

The finance costs on the new £90 million revolving credit facility on 1 August 2002 were £1,817,752 and these costs are amortised over the remaining 29 months to 31 December 2004. The unamortised finance costs at 30 September 2002 were £1,628,231.

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 caps £30 million of short term borrowings at 6.25% for the period 8 November 2001 to 7 November 2002.

#### Subordinated loan notes

Since 1997 NHP Plc has transferred proceeds from equity issues in consideration of subordinated loan notes to enable the Company to finance asset acquisitions. The subordinated loan notes have no fixed repayment dates and bear interest at 8.5% per annum (2001:8.5%). In 2002, following the Rights Issue by NHP Plc, the Company issued a further £32,254,764 of subordinated loan notes, bearing interest at 6.0% per annum, in consideration of a further transfer of funds. These subordinated loan notes have no fixed repayment date.

### 14. PROVISIONS

	At 30 September 2001 £	Cost incurred in the year £	Profit and Loss account £	At 30 September 2002 £
Ultima Holdings Limited closure support costs	119,903	115,951	(172,593)	63,261
Receivership support costs	400,000	(825,273)	1,449,755	1,024,482
	<u>519,903</u>	<u>(709,322)</u>	<u>1,277,162</u>	<u>1,087,743</u>

### 15. CALLED UP SHARE CAPITAL

	2002 £	2001 £
<b>Authorised:</b>		
100 ordinary shares at £1 each	<u>100</u>	<u>100</u>
<b>Called up, allotted and fully paid:</b>		
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 2001	16,650	(14,133,799)	10,406,438
Loss for the year	-	-	(1,798,090)
Transfer arising on the disposal of residual freehold properties	-	202,356	(202,356)
Transfer arising on disposal of investment properties	-	1,446,952	(1,446,952)
Net surplus on revaluation of investment and operated properties	-	37,448,534	-
At 30 September 2002	<u>16,650</u>	<u>24,964,043</u>	<u>6,959,040</u>

### 17. CONTINGENT LIABILITIES

The Company has guaranteed the repayment to Ultima Healthcare Limited of the remaining principal of a loan amounting to £3.75 million owing to Ultima Healthcare Limited, a tenant of the Company, by its parent company Ultima Holdings Limited. In the Directors' opinion, this guarantee will not be called.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2002**

**18. 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, 4, 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) D F Francis is the Company's representative on the Boards of the five Ultima Holdings Group Companies, Ultima Holdings Limited, Ultima Healthcare Limited, Eton Hall Homes Limited, Ultima Care Limited and Platinum Healthcare Limited.  
  
The Company has an option to purchase the share capital of Ultima Holdings Limited for £1.
- (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 £7,319. At 30 September 2002, there was no indebtedness between GRP and the Company.

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