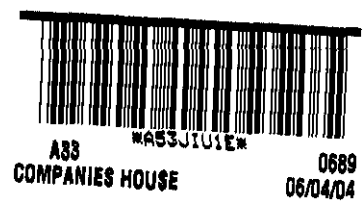


NHP SECURITIES NO.3 LIMITED

Report and Financial Statements

30 September 2003



REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W Colvin, CA	Chief Executive
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 LLP
Hill House
1 Little New Street
London EC4A 4TR

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 2003.

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 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 £147.3 million. Three properties held for resale stood on the Balance Sheet at a value of £2.3 million at 30 September 2002.

During the year 3 operated properties, 1 residual freehold property and 2 properties held for resale were disposed of for £4.9 million. 2 investment properties were transferred to residual freehold properties. 18 owned homes were transferred from investment properties to operated properties at valuation at their respective dates of transfer from receivership. 1 care home was acquired as an investment property at a cost of £0.4 million.

Capital expenditure on the portfolio of homes amounted to £5.7 million, including £3.8 million spent on residual freehold and long leasehold properties, in the year to 30 September 2003.

At 30 September 2003 in the property portfolio the company owned 22 investment homes, costing £38.6 million and valued at £42.3 million, and 48 operated homes, costing £74.2 million and valued at £70.7 million. The Company further held residual property interests in 243 homes, in respect of which overriding leases have been granted, costing £81.4 million and valued at 30 September 2003 at £188.8 million. One property held for resale stood on the Balance Sheet at a value of £1.7 million at 30 September 2003.

During the year the Company entered into a new £60 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 31 December 2008. The loan bears interest at LIBOR plus 1.2% and is secured by a fixed charge on certain of the investment properties under a guarantee from the Company's parent company, NHP Plc.

RESULTS

The results for the year ended 30 September 2003 are set out in the profit and loss account on page 6.

DIVIDENDS

No dividends in respect of the year are proposed (2002: £nil).

POST BALANCE SHEET EVENTS

Details of events subsequent to the balance sheet date are set out in note 19.

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 (continued)**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	-
D F Francis	Executive Director	6 January 1997	30 September 2003
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.

There are no other disclosable interests in the shares of any other group company.

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 2003, calculated in accordance with the Companies Act 1985, are 22 (2002: 14).

AUDITORS

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint 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

9 December 2003

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 2003 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 historic cost profits and losses and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

10 December 2003

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2003

	Note	2003 £	2002 £
TURNOVER AND GROSS PROFIT	2	30,340,168	25,447,686
Administrative expenses	3	(4,749,466)	(3,733,719)
Provision for bad and doubtful debts		(2,990,981)	(4,591,017)
Exceptional items	4	(494,006)	(2,546,403)
TOTAL OPERATING COSTS		<u>(8,234,453)</u>	<u>(10,871,139)</u>
OPERATING PROFIT		22,105,715	14,576,547
Gain/(loss) on disposal of properties, overriding leases and fixed assets		207,197	(33,721)
Net interest payable and similar charges	5	<u>(15,850,566)</u>	<u>(16,340,916)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		6,462,346	(1,798,090)
Tax credit on profit on ordinary activities	6	<u>1,000,000</u>	<u>-</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		7,462,346	(1,798,090)
Equity dividends payable	7	<u>-</u>	<u>-</u>
Retained profit/(loss) for the financial year	16	<u><u>7,462,346</u></u>	<u><u>(1,798,090)</u></u>

Turnover and operating profit is wholly derived from continuing operations.

BALANCE SHEET
30 September 2003

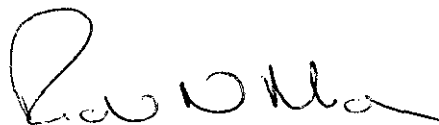
	Note	2003 £	2002 £
TANGIBLE FIXED ASSETS			
Investment properties	8	42,310,000	63,220,000
Operated properties	8	69,470,000	34,950,000
Residual property interests	8	188,790,000	147,300,000
Other fixed assets	8	5,009,905	1,807,850
INVESTMENTS	9	28,720,652	29,024,571
TOTAL FIXED ASSETS		<u>334,300,557</u>	<u>276,302,421</u>
CURRENT ASSETS			
Properties held for resale		1,663,552	2,307,968
Debtors	10	11,730,800	10,807,047
Short term investments		-	302,807
Cash at bank and in hand		424,609	116,428
		<u>13,818,961</u>	<u>13,534,250</u>
CREDITORS: amounts falling due within one year	11	<u>(44,422,659)</u>	<u>(32,727,846)</u>
NET CURRENT LIABILITIES		<u>(30,603,698)</u>	<u>(19,193,596)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		303,696,859	257,108,825
CREDITORS: amounts falling due after more than one year	13	(207,174,603)	(224,081,347)
PROVISIONS	14	<u>(864,480)</u>	<u>(1,087,743)</u>
NET ASSETS		<u>95,657,776</u>	<u>31,939,735</u>
CAPITAL AND RESERVES			
Called up share capital	15	2	2
Revaluation reserve	16	81,340,402	24,964,043
Revenue reserve	16	16,650	16,650
Profit and loss account	16	14,300,722	6,959,040
EQUITY SHAREHOLDERS' FUNDS		<u>95,657,776</u>	<u>31,939,735</u>

These financial statements were approved by the Board of Directors on 9 December 2003.

Signed on behalf of the Board of Directors



W Colvin
Director



R N Midmer
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**Year ended 30 September 2003**

	2003 £	2002 £
Profit/(loss) for the year	7,462,346	(1,798,090)
Net surplus on revaluation of property interests	56,255,695	37,448,534
	<u>63,718,041</u>	<u>35,650,444</u>
Total recognised gains for the year	<u>63,718,041</u>	<u>35,650,444</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**Year ended 30 September 2003**

	2003 £	2002 £
Profit/(loss) for the year	7,462,346	(1,798,090)
Equity dividends payable	-	-
	<u>7,462,346</u>	<u>(1,798,090)</u>
Retained profit/(loss) for the year	7,462,346	(1,798,090)
Net surplus on revaluation of property interests	56,255,695	37,448,534
	<u>63,718,041</u>	<u>35,650,444</u>
Net increase in shareholders' funds	63,718,041	35,650,444
Shareholders' surplus/(deficit) at the beginning of the year	31,939,735	(3,710,709)
	<u>95,657,776</u>	<u>31,939,735</u>
Shareholders' surplus at the end of the year	<u>95,657,776</u>	<u>31,939,735</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES**Year ended 30 September 2003**

	2003 £	2002 £
Profit/(loss) on ordinary activities before taxation	6,462,346	(1,798,090)
Realisation of valuation losses on disposal of property interests (net)	(405,344)	(1,649,308)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	284,680	-
	<u>6,341,682</u>	<u>(3,447,398)</u>
Historical cost profit/(loss) on ordinary activities before taxation	6,341,682	(3,447,398)
Historical cost profit/(loss) retained for the year	<u>6,341,682</u>	<u>(3,447,398)</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

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. The particular accounting policies adopted are described below. The financial statements are in compliance with the Companies Act 1985 and applicable United Kingdom accounting standards except that, as explained below, investment properties are not depreciated.

The accounting policies have been followed consistently during the current and previous years.

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 are valued annually at 30 September by qualified external valuers. Properties transferred from investment properties to operated properties are reclassified at the then existing use value. Operated properties, which are not subject to overriding leases, are valued annually on an Existing Use Basis by qualified external valuers, 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 qualified external valuers 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.

Land and buildings – other fixed assets

This category of property represents residential buildings held to accommodate care employees of the Highfield Care group. The land and buildings are held at cost less depreciation of the buildings. Cost is the purchase cost, together with any incidental costs of acquisition.

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

1. ACCOUNTING POLICIES (continued)

Depreciation

Investment properties

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

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 carrying value and the revaluation reserve to reflect the closing valuation. The estimated useful economic lives are as follows:

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

Other fixed assets

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:

Freehold land	no depreciation
Freehold buildings	50 years
Plant, machinery, fixtures and fittings	5 years

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which have originated at the balance sheet date and which could give rise to an obligation to pay more or less tax in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognised in respect of gains and losses on revalued assets unless the company has entered into a binding agreement to sell the assets and the gains or losses have been recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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.

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

1. ACCOUNTING POLICIES (continued)

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.

2. TURNOVER AND GROSS PROFIT

Turnover, which is stated net of value added tax, comprises the following from the Company's ordinary activities, which take place wholly within the United Kingdom:

	2003 £	2002 £
Rental income	11,778,014	10,474,866
Commissions and fees received	13,183	7,319
Overriding lease rents received from:		
Care Homes No.1 Limited	207,293	162,898
Care Homes No.2 Limited	10,255,416	8,343,349
Care Homes No.3 Limited	8,086,262	6,190,136
Fellow subsidiaries	-	269,118
	<u>30,340,168</u>	<u>25,447,686</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 £899,382 from NHP Plc during the year (2002: £1,322,491), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, three (2002: four) of the Directors received contributions towards their money purchase pension arrangements from NHP Plc. Contributions totalled £117,420 in the year (2002: £156,504).

Administrative expenses include:

	2003 £	2002 £
Group management fees	2,208,294	2,100,426
Depreciation	2,055,178	1,028,531
Audit fees	39,797	54,972
	<u>4,303,269</u>	<u>3,183,929</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

4. EXCEPTIONAL ITEMS

	2003 £	2002 £
Receivership support costs	(1,133,711)	(1,449,755)
Permanent diminution in value on property interests (net)	1,470,000	(885,000)
Operator support costs – refurbishment costs of care homes	-	(418,958)
Cost of closed homes	(232,325)	(141,238)
Highfield Group Limited -option property provision	(68,840)	123,604
(Loss)/gain on disposal of properties held for resale	(27,471)	52,351
Forgiveness of loan notes to NHP Securities No.9 Limited	-	(127,457)
Ultima Holdings Group closure support costs	(146,739)	172,593
Forgiveness of loan notes to Care Homes No.3 Limited	(354,920)	-
Forgiveness of loan notes by NHP Plc	-	127,457
	<u>(494,006)</u>	<u>(2,546,403)</u>

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Interest payable to NHP Plc on subordinated loan notes	(13,859,921)	(12,395,225)
Interest payable on bank loans	(2,598,526)	(4,891,415)
Other interest payable	-	(2,005)
Finance costs (net)	(1,452,800)	(1,841,240)
Interest receivable on loan notes		
Care Homes No.2 Limited	276,141	276,056
Care Homes No.3 Limited	1,630,290	1,629,088
Fellow subsidiaries	80,760	792,064
Interest receivable on deposits	65,490	60,876
Other interest receivable	8,000	30,885
	<u>(15,850,566)</u>	<u>(16,340,916)</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2003 £	2002 £
Tax charge	-	-
Increase in estimate of recoverable deferred tax asset	1,000,000	-
Total deferred tax	1,000,000	-
Profit/(loss) before tax	6,462,346	(1,798,090)
Tax on profits/(losses) at standard rate	1,938,704	(539,427)
Factors affecting tax charge:		
Disallowable expenses	549,024	442,964
(Increase)/decrease in value of property interests	(441,000)	265,500
Capital allowances in excess of depreciation	(3,307,566)	(5,413,749)
Group relief for nil consideration	2,306,796	3,290,392
Utilisation of brought forward losses	(1,045,958)	-
Losses not recognised	-	1,954,320
Current tax charge	-	-

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

7. EQUITY DIVIDENDS PAYABLE

	2003 £	2002 £
Dividends payable of £nil (2002: £nil) per ordinary share	-	-

8. TANGIBLE FIXED ASSETS

Investment properties

	Freehold investment properties £	Long leasehold investment properties £	Total £
Cost or valuation			
At valuation at 1 October 2002	52,580,000	10,640,000	63,220,000
Additions at cost	108,793	-	108,793
Reclassification of properties to residual property interests	(780,000)	(1,920,000)	(2,700,000)
Reclassification of properties to operated properties at valuation	(21,420,000)	(3,410,000)	(24,830,000)
Net surplus on revaluation	5,611,207	900,000	6,511,207
At valuation at 30 September 2003	36,100,000	6,210,000	42,310,000

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

8. TANGIBLE FIXED ASSETS (continued)

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley at 30 September 2003 at Market Value on a portfolio basis in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual.

Investment properties transferred to residual property interests are valued by GVA Grimley.

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 properties at 30 September 2003. The Directors have reviewed in detail the valuation and are of the opinion that there is no need to make any adjustment for permanent diminution in value.

The value attributed by GVA Grimley to the freehold and long leasehold investment properties held by the Company at 30 September 2003, and which were not subject to overriding leases, is £42,310,000 (2002:£63,220,000).

24 homes (2002:40) are subject to discretionary buy-back options by their respective operators. A further 25 homes (2002:9) are subject to buy-back options by their respective operators only in the event of irrecoverable VAT becoming levied on the rents charged to the operators. The buy-back options may be exercised at purchase prices equivalent to the higher of a formulated figure or the "market value" (as defined in the respective leases) 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 2003 was £38,608,433 (2002: £68,839,313).

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

8. TANGIBLE FIXED ASSETS (continued)

Operated properties

Cost or valuation	Freehold operated properties £	Long leasehold operated properties £	Plant, machinery, fixtures and fittings £	Total £
At valuation at 1 October 2002	29,011,038	-	6,392,091	35,403,129
Additions at cost	361,728	-	1,738,851	2,100,579
Reclassification between freehold operated properties and plant, machinery, fixtures and fittings	74,997	-	(74,997)	-
Reclassification of properties from investment properties at valuation	21,420,000	3,410,000	-	24,830,000
Net surplus on revaluation	7,133,696	940,000	-	8,073,696
Disposal of operated properties at value	(1,140,000)	-	-	(1,140,000)
Permanent diminution in value	1,470,000	-	-	1,470,000
At valuation at 30 September 2003	<u>58,331,459</u>	<u>4,350,000</u>	<u>8,055,945</u>	<u>70,737,404</u>
Depreciation				
At 1 October 2002	-	-	(453,129)	(453,129)
Charge	(528,104)	(23,618)	(820,233)	(1,371,955)
Disposal	4,368	-	5,958	10,326
Transfer to revaluation reserve	523,736	23,618	-	547,354
At 30 September 2003	<u>-</u>	<u>-</u>	<u>(1,267,404)</u>	<u>(1,267,404)</u>
Net book value at 30 September 2003	<u>58,331,459</u>	<u>4,350,000</u>	<u>6,788,541</u>	<u>69,470,000</u>
Net book value 30 September 2002	<u>29,011,038</u>	<u>-</u>	<u>5,938,962</u>	<u>34,950,000</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 2003. The Directors' have reviewed in detail the valuation and are of the opinion that there needs to be a net write back to permanent diminution in value of £1,470,000 which has been credited to the profit and loss account.

The value attributed by GVA Grimley to the freehold and long leasehold operated properties held by the Company as at 30 September 2003, and which were not subject to overriding leases, is £69,470,000 (2002: £34,950,000).

The historical cost of the Company's operated properties at 30 September 2003 was £74,183,859 (2002: £47,314,872).

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

8. TANGIBLE FIXED ASSETS (continued)

Residual property interests

Cost or valuation	Residual freehold property interests £	Residual long leasehold property interests £	Total £
At valuation at 1 October 2002	127,524,000	19,776,000	147,300,000
Additions at cost	117,562	-	117,562
Disposal of residual freehold property at valuation	(851,000)	-	(851,000)
Reclassification of properties from investment properties	328,000	772,000	1,100,000
Net surplus on revaluation	33,372,438	7,751,000	41,123,438
At valuation at 30 September 2003	160,491,000	28,299,000	188,790,000

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 2003 at £188,790,000 (2002: £147,300,000). GVA Grimley conducted their valuations of the residual interest in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. 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. 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; and

- 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 28 November 2003 (2002: 20 November 2002).

The historical cost of the Company's residual property interests at 30 September 2003 was £81,425,678 (2002: £81,043,388).

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

8. TANGIBLE FIXED ASSETS (continued)

Other fixed assets

Cost	Land and buildings £	Plant, machinery, fixtures and fittings £	Total £
At 1 October 2002	-	1,979,207	1,979,207
Additions at cost	176,531	3,708,747	3,885,378
At 30 September 2003	176,531	5,687,954	5,864,485
Depreciation			
At 1 October 2002	-	(171,357)	(171,357)
Charge	(546)	(682,677)	(683,223)
At 30 September 2003	(546)	(854,034)	(854,580)
Net book value at 30 September 2003	175,985	4,833,920	5,009,905
Net book value at 30 September 2002	-	1,807,850	1,807,850

At 30 September 2003 the Company had contracted capital commitments not completed or accrued of £645,556 (2002: £933,421).

9. INVESTMENTS

	At 30 September 2002 £	Additions £	Disposals £	At 30 September 2003 £
Subordinated loan notes investment in				
NHP Securities No.6 Limited	1,242,441	-	-	1,242,441
Care Homes No.2 Limited	3,098,985	1,001	-	3,099,986
Care Homes No.3 Limited	24,683,145	50,000	(354,920)	24,378,225
	29,024,571	51,001	(354,920)	28,720,652

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 £11,986 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. During the year the Company and Care Homes No.3 Limited disposed of their respective interests in a property subject to overriding lease, resulting in Care Homes No.3 Limited realising a loss on disposal of £354,920. This loss has been offset by the Company's forgiveness at 30 September 2003 of loan note indebtedness owed by Care Homes No. 3 Limited of an equivalent amount. A further loan note of £50,000 was issued to Care Homes No.3 Limited which, together with the proceeds realised on the disposal referred to above, enabled that company to acquire from the Company overriding leases in two additional properties.

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

9. INVESTMENTS (continued)

The Company has invested in 13,970,000 'C' Ordinary Shares in Ultima Holdings Limited which were retained at a nil value at 30 September 2003 (2002: £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.

10. DEBTORS

	2003 £	2002 £
Trade debtors	210,425	-
Other debtors	1,588,382	231,188
Deferred tax	1,000,000	-
Subordinated loan note interest receivable from		
NHP Securities No.6 Limited	94,257	13,497
NHP Securities No.9 Limited	-	186,358
Care Homes No.2 Limited	732,699	457,560
Care Homes No.3 Limited	2,567,953	937,662
Overriding lease rentals receivable from		
NHP Securities No.9 Limited	-	25,343
Care Homes No.1 Limited	35,233	27,941
Care Homes No.2 Limited	1,427,028	1,721,890
Care Homes No.3 Limited	1,148,719	2,012,457
Current account amounts due from NHP Plc	118,803	7,585
Current account amounts due from Care Homes No.1 Limited	52,577	7,417
Current account amounts due from fellow subsidiary companies	2,663,354	2,553,453
Prepayments and accrued income	91,370	2,624,696
	<u>11,730,800</u>	<u>10,807,047</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade creditors	43,103	104,216
Other sundry creditors	68,539	342,899
Current account amounts owed to fellow subsidiary companies	8,378,467	3,925,088
Current account amounts owed to Care Homes No.2 Limited	132,885	15,672
Current account amounts owed to Care Homes No.3 Limited	116,250	131,880
Interest on loan notes payable to NHP Plc	33,568,920	24,759,272
Accrued interest payable on bank loans	5,757	391,098
Accruals and deferred income	2,108,738	3,057,721
	<u>44,422,659</u>	<u>32,727,846</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2003

12. DEFERRED TAXATION

	Provided		Unprovided	
	2003	2002	2003	2002
	£	£	£	£
Accelerated capital allowances	(1,000,000)	-	(10,498,556)	(13,369,641)
Revaluation of investment properties	-	-	38,161,666	23,175,837
Losses created by capital allowances	-	-	-	(3,436,028)
	<u>(1,000,000)</u>	<u>-</u>	<u>27,663,110</u>	<u>6,370,168</u>

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 2003 unprovided deferred tax assets of £10,498,556 in respect of accelerated capital allowances (2002: £13,369,641) and £nil in respect of revenue losses (2002: £3,436,028). These assets would be recovered if in future they reverse in the same periods and entities in which suitable taxable profits arise.

Deferred tax assets in respect of accelerated capital allowances of £1,000,000 have been recognised on the basis that Directors' believe that it is more likely than not that suitable profits will arise from which this asset will be deducted.

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £38,161,666 (2002: £23,175,837) 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

	2003	2002
	£	£
Bank loans due after more than five years	34,950,000	-
Less: unamortised finance costs	(319,975)	-
	<u>34,630,025</u>	<u>-</u>
Bank loans due between two and five years	-	53,165,000
Less: unamortised finance costs	-	(1,628,231)
	<u>-</u>	<u>51,536,769</u>
Subordinated loan notes due to NHP Plc	172,544,578	172,544,578
	<u>207,174,603</u>	<u>224,081,347</u>

Bank loans

Bank loans maturing after more than five years at 30 September 2003 comprise the following loan facility:

A £60 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 31 December 2008. The loan bears interest at LIBOR plus 1.2% and is secured by a fixed charge on certain of the investment properties under a guarantee from the Company's parent company, NHP Plc.

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

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

Bank loans (continued)

The finance costs incurred on the new £60 million revolving credit facility granted on 30 September 2003 total £319,975. These costs are to be amortised over the remaining 63 month term of the facility to 31 December 2008. The finance costs on the previous years' £90 million revolving credit facility have been fully expensed to the profit and loss account as at 30 September 2003.

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 (2002:8.5%). In 2002, following a 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 2002 £	Cost incurred in the year £	Profit and loss account £	At 30 September 2003 £
Ultima Holdings Limited closure support costs	63,261	(100,000)	146,739	110,000
Receivership support costs	1,024,482	(1,403,713)	1,133,711	754,480
	<u>1,087,743</u>	<u>(1,503,713)</u>	<u>1,280,450</u>	<u>864,480</u>

15. CALLED UP SHARE CAPITAL

	2003 £	2002 £
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 2002	16,650	24,964,043	6,959,040
Profit for the year	-	-	7,462,346
Transfer arising on the disposal of residual freehold property	-	(756,000)	756,000
Transfer arising on disposal of operated properties	-	1,161,344	(1,161,344)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	-	(284,680)	284,680
Net surplus on revaluation of property interests	-	56,255,695	-
At 30 September 2003	<u>16,650</u>	<u>81,340,402</u>	<u>14,300,722</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2003

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 former tenant of the Company, to its parent company Ultima Holdings Limited. The loan balance outstanding at 30 September 2003 and 30 September 2002 was £3.75 million. The Directors are of the opinion that the guarantee will not be called.

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 £13,183. At 30 September 2003 there was no indebtedness between GRP and the Company.

19. POST BALANCE SHEET EVENTS

On 3 November 2003, the Company purchased an interest rate cap from Barclays Capital for a consideration of £140,000. The interest rate caps £10 million of short term borrowings at 6.0% for the period 28 November 2003 to 28 November 2007.

The interest rate cap replaced a previous one, held with The Royal Bank of Scotland, that expired during the year.

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