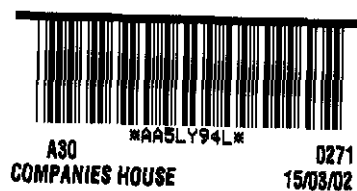


NHP SECURITIES NO.2 LIMITED

Report and Financial Statements

30 September 2001



REPORT AND FINANCIAL STATEMENTS 2001

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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 Plc
Commercial Banking Services
Teviot House
41 South Gyle Street Crescent
Edinburgh EH12 4DX

SOLICITORS

Eversheds
Holland Court
The Close
Norwich NR1 4DX

AUDITORS

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

VALUERS

At 30 September 2000:
GVA Grimley
25 Bucklersbury
London EC4N 8DA

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2001.

PRINCIPAL ACTIVITY

NHP Securities No.2 Limited is a wholly owned subsidiary of NHP Plc which is the only listed UK property investment group specialising in the purchase and leaseback of modern purpose-built care homes to care home operators.

The principal activity of the Company is the holding of freehold and long leasehold interests in predominantly modern, purpose-built care homes, the overriding leasehold interests of which have been sold to Care Homes No.1 Limited.

BUSINESS REVIEW

In the year to 30 September 2001 the Company has continued to receive overriding rent from Care Homes No.1 Limited. The Company will continue to receive overriding rent from Care Homes No.1 Limited for the foreseeable future.

At the beginning and end of the financial year the company owned 15 freehold care homes, which were subject to the overriding lease agreements to Care Homes No.1 Limited. The freehold residual value is £ 6,600,000 as valued by GVA Grimley.

RESULTS

The results for the year to 30 September 2001 are set out in the profit and loss account on page 5.

DIVIDENDS

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

DIRECTORS

The Directors who served during the year were as follows:

		<u>Date appointed</u>	<u>Date resigned</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.

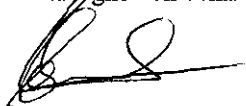
No Director has, or had, any interests in the shares of the Company. No Director holds a service contract with the Company and there is no Company share option scheme in existence.

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

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

18 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 period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounts standards have been followed; 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 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.2 LIMITED

We have audited the financial statements of NHP Securities No.2 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 and the related notes 1 to 16. 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.

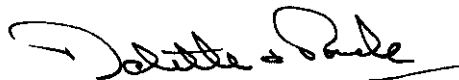
Basis of audit opinion

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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and
Registered Auditors

18 December 2001

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2001

	Note	2001 £	2000 £
TURNOVER AND GROSS PROFIT	2	908,351	547,718
Other administrative expenses	3	(69,385)	(78,383)
Total operating expenses		(69,385)	(78,383)
OPERATING PROFIT		835,966	469,335
Net interest payable and similar charges	4	(357,126)	(357,048)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		481,840	112,287
Tax on profit on ordinary activities	5	-	-
Retained profit for the financial year	12	481,840	112,287

Turnover and operating profit are wholly derived from continuing operations.

NHP SECURITIES NO.2 LIMITED

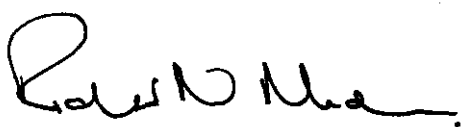
BALANCE SHEET

30 September 2001

	Note	£	2001 £	£	2000 £
TANGIBLE FIXED ASSETS					
Land and buildings	6		6,600,000		6,070,000
CURRENT ASSETS					
Debtors	7	1,100,043		191,692	
Cash at bank and in hand		5,970		5,958	
		<u>1,106,013</u>		<u>197,650</u>	
CREDITORS: amounts falling due within one year	8	<u>(801,673)</u>		<u>(375,150)</u>	
NET CURRENT ASSETS/(LIABILITIES)			<u>304,340</u>		<u>(177,500)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,904,340		5,892,500
CREDITORS: amounts falling due after more than one year	10		<u>(4,201,615)</u>		<u>(4,201,615)</u>
NET ASSETS			<u>2,702,725</u>		<u>1,690,885</u>
CAPITAL AND RESERVES					
Called up share capital	11		2		2
Revaluation reserve	12		29,502		(500,498)
Profit and loss account	12		<u>2,673,221</u>		<u>2,191,381</u>
EQUITY SHAREHOLDERS' FUNDS			<u>2,702,725</u>		<u>1,690,885</u>

These financial statements were approved by the Board of Directors on 18 December 2001.

Signed on behalf of the Board of Directors



R N Midmer
Finance Director



D F Francis
Executive Director

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

	2001 £	2000 £
Profit for the year	481,840	112,287
Surplus/(deficit) on revaluation of land and buildings	530,000	(1,930,000)
Total recognised gains/(losses) for the year	<u>1,011,840</u>	<u>(1,817,713)</u>

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

	2001 £	2000 £
Profit for the year	481,840	112,287
Equity dividends payable	-	-
Retained profit for the year	<u>481,840</u>	<u>112,287</u>
Surplus/(deficit) on revaluation of land and buildings	530,000	(1,930,000)
Net increase/(decrease) in shareholders' funds	<u>1,011,840</u>	<u>(1,817,713)</u>
Shareholders' funds at the beginning of the year	<u>1,690,885</u>	<u>3,508,598</u>
Shareholders' funds at the end of the year	<u>2,702,725</u>	<u>1,690,885</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 residual interests in investment properties. Investment properties represent freehold and long leasehold properties held for long term retention, which are subject to overriding leases granted. In accordance with Statement of Standard Accounting Practice No. 19, investment properties are valued annually by independent professional valuers at open market value, on an investment basis, subject to the Company's leases. There are 3 homes leased to Palladium Leased Homes, who are a wholly owned subsidiary of NHP Plc. These leases have been taken into account in the valuation of the residual interest in the properties subject to overriding leases. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any impairment is 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, freehold 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 and departure from the Companies Act 1985 is therefore necessary for the accounts to give a true and fair view. Depreciation is one of the factors reflected in the annual revaluation and amounts which might otherwise have been charged cannot be separately identified or quantified.

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.

Interest

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

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

2. TURNOVER AND GROSS PROFIT

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

	2001 £	2000 £
Overriding lease rents received from Care Homes No.1 Limited	908,351	547,718

3. OTHER 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 £787,777 from NHP Plc during the year (2000: £850,086), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, three (2000: five) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £142,333 in the year (2000: £124,875).

Other operating expenses include:

	2001 £	2000 £
Group management fees	64,405	73,403
Audit fees	4,980	4,980

4. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Interest receivable on deposits	76	121
Interest payable to NHP Plc in respect of loan notes	(357,137)	(357,137)
Finance costs	(65)	(32)
	(357,126)	(357,048)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no corporation tax charge for the year or preceding year owing 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 £1,223,698 (2000: £620,278) exists in relation to the freeholds of securitised properties as a result of revaluation. It is not the Company's intention to sell the freehold or long leasehold interests and therefore no deferred tax has been provided on the revaluation surplus.

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

6. TANGIBLE FIXED ASSETS

Land and buildings	Freehold investment properties £	Long leasehold investment properties £	Total £
Residual interests at valuation			
At 30 September 2000	5,196,000	874,000	6,070,000
Surplus on revaluation, transferred to Revaluation reserve (Note 12)	453,000	77,000	530,000
Residual interests at valuation 30 September 2001	<u>5,649,000</u>	<u>951,000</u>	<u>6,600,000</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.

GVA Grimley have valued the residual interest in the portfolio of 15 care homes at 30 September 2001 at £6,600,000 (2000: £6,070,000).

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

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

GVA Grimley's valuation of the residual interest in the portfolio is subject to the comments and assumptions set out in their report dated 7 December 2001 (2000: 22 January 2001).

The historical cost of land and buildings is £6,570,498 (2000 - £6,570,498).

Five 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 no contractual capital commitments (2000 -£nil).

NOTES TO THE ACCOUNTS

Year ended 30 September 2001

7. DEBTORS

	2001 £	2000 £
Amounts due from Care Homes No.1 Limited	268,968	103,953
Amounts owed by fellow subsidiary companies	831,075	87,739
	<u>1,100,043</u>	<u>191,692</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Amounts owed to NHP Plc	730,325	361,290
Amounts owed to fellow subsidiary companies	71,348	13,860
	<u>801,673</u>	<u>375,150</u>

9. DEFERRED TAXATION

	Provided		Unprovided	
	2001 £	2000 £	2001 £	2000 £
Capital allowances in excess of depreciation	-	-	924,321	921,550
Revaluation of investment properties	-	-	1,223,698	620,278
Losses created by capital allowances	-	-	(30,000)	(30,000)
	<u>-</u>	<u>-</u>	<u>2,117,019</u>	<u>1,511,828</u>

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

	2001 £	2000 £
Subordinated loan notes due to NHP Plc	<u>4,201,615</u>	<u>4,201,615</u>

The subordinated loan notes, which represent the consideration payable for assets transferred from group companies, have no final repayment dates and loan interest at 8.5% (2000 – 8.5%) per annum.

11. 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 of £1 each	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2001

12. RESERVES

	Revaluation Reserve £	Profit and loss account £
At 1 October 2000	(500,498)	2,191,381
Surplus on revaluation of land and buildings	530,000	-
Retained profit for the year	-	481,840
	<hr/>	<hr/>
At 30 September 2001	<u>29,502</u>	<u>2,673,221</u>

14. GUARANTEE

NHP Plc has issued a guarantee in favour of Care Homes No.1 Limited of performance by the Company of its obligations arising in respect of the overriding leases and associated documents.

15. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other undertakings within the NHP Plc group have not been disclosed in these financial statements. Although Care Homes No.1 Limited has been consolidated as part of that group by reason of contractual arrangements with NHP Plc, it is not a subsidiary 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. These transactions, which are disclosed in notes 2, 7 and 14 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.

16. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company and controlling party is NHP Plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the 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.

