

NHP SECURITIES NO.1 LIMITED

Report and Financial Statements

30 September 2000



REPORT AND FINANCIAL STATEMENTS 2000

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REPORT AND FINANCIAL STATEMENTS 2000

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W Colvin, CA	Chief Executive
W J Davies, ARICS	Executive Director
D F Francis, FCA	Executive Director

SECRETARY

A R Kilmartin, FCA

REGISTERED OFFICE

6 Broad Street Place
Blomfield Street
London EC2M 7JH

BANKERS

Bank of Scotland
Commercial Banking Services
Telford House
3 Mid New Cultins
Edinburgh EH11 4DH

National Westminster Bank Plc
Norwich City Office
45 London Street
Norwich NR2 1HX

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

At 30 September 1999:

DTZ Debenham Tie Leung
One Curzon Street
London W1A 5PZ

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2000.

PRINCIPAL ACTIVITY

NHP Securities No.1 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 2000 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.

RESULTS

The results for the year to 30 September 2000 are set out in the profit and loss account on page 6.

DIVIDENDS

No dividends in respect of the year are proposed (1999: £200,000, which amounted to £4.00 per share).

DIRECTORS

The Directors who served during the year were as follows:

	<u>Title</u>	<u>Date appointed</u>	<u>Date resigned</u>
W Colvin	Chief Executive	7 September 2000	
W Colvin	Executive Director	18 January 2000	30 June 2000
W J Davies	Executive Director	20 September 1995	
D F Francis	Executive Director	20 September 1995	
R J Ellert	Chairman/Chief Executive	20 September 1995	31 August 2000
P H S Smith	Executive Director	27 January 1998	18 January 2000

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



A R Kilmartin
Secretary

24 January 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

**AUDITORS' REPORT
TO THE MEMBERS OF NHP SECURITIES NO.1 LIMITED**

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the Company's Directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


Basis of opinion

We conducted our audit in accordance with 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 2000 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

24 January 2001

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2000

	Note	2000 £	1999 £
TURNOVER AND GROSS PROFIT	2	<u>1,342,593</u>	<u>1,591,630</u>
Exceptional items	3	-	3,705,671
Other administrative expenses	4	<u>(126,998)</u>	<u>(106,081)</u>
Total operating expenses		<u>(126,998)</u>	<u>3,599,590</u>
OPERATING PROFIT		1,215,595	5,191,220
Net interest payable and similar charges	5	<u>(1,003,199)</u>	<u>(1,003,291)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		212,396	4,187,929
Tax on profit on ordinary activities	6	<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		212,396	4,187,929
Equity dividends payable	7	<u>-</u>	<u>(200,000)</u>
Retained profit for the financial year		<u><u>212,396</u></u>	<u><u>3,987,929</u></u>

Turnover and operating profit are wholly derived from continuing operations.

BALANCE SHEET
30 September 2000

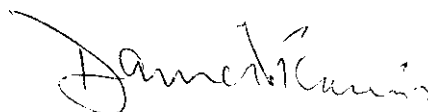
	Note	£	2000 £	£	1999 £
TANGIBLE FIXED ASSETS					
Land and buildings	8		15,450,000		19,300,000
CURRENT ASSETS					
Debtors	9	254,816		799,668	
Cash at bank and in hand		3,423		3,381	
		<u>258,239</u>		<u>803,049</u>	
CREDITORS: amounts falling due within one year	10	<u>(24,460)</u>		<u>(122,584)</u>	
NET CURRENT ASSETS			<u>233,779</u>		<u>680,465</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			15,683,779		19,980,465
CREDITORS: amounts falling due after more than one year	12		<u>(11,143,900)</u>		<u>(11,802,982)</u>
NET ASSETS			<u><u>4,539,879</u></u>		<u><u>8,177,483</u></u>
CAPITAL AND RESERVES					
Called up share capital	13		50,000		50,000
Revaluation reserve	14		(574,314)		3,275,686
Revenue reserve	14		788,267		857,187
Profit and loss account	14		<u>4,275,926</u>		<u>3,994,610</u>
EQUITY SHAREHOLDERS' FUNDS			<u><u>4,539,879</u></u>		<u><u>8,177,483</u></u>

These financial statements were approved by the Board of Directors on 24 January 2001.

Signed on behalf of the Board of Directors



W Colvin
Chief Executive



D F Francis
Executive Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 September 2000

	2000 £	1999 £
Profit for the year	212,396	4,187,929
(Deficit)/surplus on revaluation of land and buildings	(3,850,000)	3,275,686
Total recognised (losses)/gains for the year	<u>(3,637,604)</u>	<u>7,463,615</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 30 September 2000

	2000 £	1999 £
Profit for the year	212,396	4,187,929
Equity dividends paid	-	(200,000)
Retained profit for the year	<u>212,396</u>	<u>3,987,929</u>
(Deficit)/surplus on revaluation of land and buildings	(3,850,000)	3,275,686
Net (decrease)/increase in shareholders' funds	(3,637,604)	7,263,615
Shareholders' funds at the beginning of the year	<u>8,177,483</u>	<u>913,868</u>
Shareholders' funds at the end of the year	<u><u>4,539,879</u></u>	<u><u>8,177,483</u></u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 30 September 2000

	2000 £	1999 £
Profit for the year	212,396	4,187,929
Realisation of valuation gains on disposal of investment property	<u>68,920</u>	<u>-</u>
Historical cost (loss) / profit on ordinary activities before taxation	<u>281,316</u>	<u>4,187,929</u>
Historical cost (loss) / profit retained for the year	<u><u>281,316</u></u>	<u><u>3,987,929</u></u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2000

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 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. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any permanent 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 that a liability or asset will crystallise in the future.

Finance costs

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

Interest

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

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

2. TURNOVER AND GROSS PROFIT

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

	2000 £	1999 £
Overriding lease rents received from Care Homes No.1 Limited	<u>1,342,593</u>	<u>1,591,630</u>

3. EXCEPTIONAL ITEMS

	2000 £	1999 £
Surplus on revaluation, being reversal of write down of fixed assets previously charged to profit and loss account	<u>-</u>	<u>3,705,671</u>

4. 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 £850,086 from NHP Plc during the year (1999: £1,180,994), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, five (1999: four) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £124,875 in the year (1999: £116,400).

R J Ellert resigned on 31 August 2000 and received £265,000 from NHP Plc as compensation for loss of office.

Other operating expenses include:

	2000 £	1999 £
Group management fees	122,003	101,812
Audit fees	<u>4,980</u>	<u>3,525</u>

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £	1999 £
Interest receivable on deposits	239	142
Interest payable to NHP Plc in respect of loan notes	(1,003,253)	(1,003,254)
Finance costs	<u>(185)</u>	<u>(179)</u>
	<u>(1,003,199)</u>	<u>(1,003,291)</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

6. 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 £2,103,474 (1999: £4,614,301) 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.

7. EQUITY DIVIDENDS PAYABLE

	2000 £	1999 £
Dividends paid of £nil (1999: £4.00) per ordinary share	-	200,000

8. TANGIBLE FIXED ASSETS

	Freehold investment properties £
Land and buildings	
Residual interests at valuation 30 September 1999	19,300,000
Deficit on revaluation, transferred to Revaluation reserve (Note 14)	(3,850,000)
Residual interests at valuation 30 September 2000	15,450,000

GVA Grimley have valued the residual interest in the portfolio of 37 care homes at 30 September 2000 at £15,450,000.

GVA Grimley conducted their valuation 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 22 January 2001.

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

8. TANGIBLE FIXED ASSETS (continued)

The Directors have reviewed in detail the GVA Grimley valuation at 30 September 2000 and are of the opinion that the fall in value of the residual interest in the portfolio, principally due to market conditions, is temporary. Accordingly, the full downward movement of £3,850,000 is reflected through the revaluation reserve.

A valuation of the residual interest in the portfolio of 37 care homes was undertaken by DTZ Debenham Thorpe (renamed DTZ Debenham Tie Leung on 1 January 2000) ("DTZ") as at 30 September 1999 at £19,300,000. DTZ's valuation is subject to the comments and qualifications disclosed in the Company's financial statements for the year ended 30 September 1999 and their valuation report to the Company dated 29 June 2000.

The historical cost of the Company's land and buildings is £15,648,422 (1999 - £15,648,422).

27 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 2000 the Company had no contracted capital commitments (1999 - none).

9. DEBTORS

	2000 £	1999 £
Amount due from Care Homes No.1 Limited	254,814	799,668
Amount due from fellow subsidiary	2	-
	<u>254,816</u>	<u>799,668</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Amounts owed to NHP Plc	-	39,864
Amounts owed to fellow subsidiary companies	24,460	82,720
	<u>24,460</u>	<u>122,584</u>

11. DEFERRED TAXATION

	Provided		Unprovided	
	2000 £	1999 £	2000 £	1999 £
Capital allowances in excess of depreciation	-	-	3,255,307	2,754,874
Revaluation of investment properties	-	-	2,103,474	4,614,301
Losses created by capital allowances	-	-	(90,000)	-
	<u>-</u>	<u>-</u>	<u>5,268,781</u>	<u>7,369,175</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2000

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

	2000 £	1999 £
Subordinated loan notes due to NHP Plc	11,143,900	11,802,982

The subordinated loan notes, which represent the consideration payable for assets transferred from group companies, have no fixed repayment dates and bear interest at 8.5% (1999 – 8.5%) per annum.

13. CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised, called up, allotted and fully paid: 50,000 ordinary shares at £1 each	50,000	50,000

14. RESERVES

	Revaluation reserve £	Revenue reserve £	Profit and loss account £
Opening balance at 1 October 1999	3,275,686	857,187	3,994,610
Deficit on revaluation of land and buildings	(3,850,000)	-	-
Transfer arising on disposal of investment property	-	(68,920)	68,920
Retained profit for the year	-	-	212,396
Closing balance at 30 September 2000	(574,314)	788,267	4,275,926

15. 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.

16. 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, 9 and 15 of these financial statements, comprise the granting of overriding leases over freehold properties, and the receipt of overriding lease rents in connection with these properties.

17. ULTIMATE PARENT COMPANY

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