

**NHP SECURITIES NO.3 LIMITED**

**Report and Financial Statements**

**30 September 2005**



**REPORT AND FINANCIAL STATEMENTS 2005**

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

**REPORT AND FINANCIAL STATEMENTS 2005**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

W Colvin, CA	Executive Director
J Murphy	Executive Director
C Rutter	Executive Director
P H Scott	Executive Director
G K Sizer	Executive Director

**SECRETARY**

R N Midmer

**REGISTERED OFFICE**

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

**BANKERS**

Barclays Bank Plc  
South East Corporate Banking Centre  
PO Box 112  
Horsham  
West Sussex RH12 1YQ

Bank of Scotland Plc  
First Floor  
8 Lochside Avenue  
Edinburgh Park  
Edinburgh EH12 9DJ

**SOLICITORS**

Eversheds LLP  
Kett House  
Station Road  
Cambridge CB1 2JY

**AUDITORS**

Deloitte & Touche LLP  
Chartered Accountants  
London

**VALUERS**

GVA Grimley  
25 Bucklersbury  
London EC4N 8DA

Gerald Eve  
7 Vere Street  
London W1G 0JB

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors present their annual report and the audited financial statements for the year ended 30 September 2005.

### 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.

The Group strategy has been to use securitised debt to provide fixed rate, long term, non-recourse finance that matches the length of the leases. To achieve this the beneficial interests by way of overriding leases on certain of the Company's properties have been transferred to other Group subsidiaries and to Care Homes No.1 Limited, ("Care Homes 1"), Care Homes No.2 Limited, ("Care Homes 2") and Care Homes No.3 Limited, ("Care Homes 3"), the three companies which have issued the securitised debt.

### BUSINESS REVIEW

At 30 September 2004 the Company owned 15 investment homes, costing £29.9 million and valued at £39.4 million, and 47 operated homes, costing £73.5 million and valued at £86.3 million. In addition, the Company held residual property interests in 243 homes, in respect of which overriding leases have been granted, costing £85.2 million and valued at £240.7 million.

During the year, the Company acquired 4 operated properties from its group undertakings, Highfield Care Group at a cost of £11.7 million. 15 investment properties, 48 operated properties and 1 residual property were disposed of for £187.8 million. 2 residual properties were further sold to a group undertaking, NHP Securities No.2 Limited at value of £2.4 million. The sale has resulted in the assignment of overriding lease agreements with Care Homes No.1 Limited from the Company to NHP Securities No.2 Limited. Overriding leases in 3 operated properties were sold to Care Homes No.3 Limited for consideration of £3.4 million. A piece of land, which was previously classified within operated properties, was reclassified to other fixed assets at the carrying value.

The Company held at 30 September 2005, residual property interests in 243 homes, in respect of which overriding leases have been granted, costing £95.4 million and valued at £392.1 million.

On 17 October 2005, these residual property interests were sold as disclosed in note 19 (c) and (d).

On 18 February 2005, TBG CareCo Limited acquired 100% issued share capital of NHP Limited (formerly 'NHP Plc').

At 30 September 2005, the ultimate parent company of TBG CareCo Limited is TBG CareCo Holdings Limited.

TBG CareCo Offshore SuperHoldCo Limited became the ultimate parent company on 14 October 2005.

On 30 January 2006 The Royal Bank of Scotland plc, which is incorporated in Great Britain and registered in Scotland, exchanged contracts with funds administered by The Blackstone Group to acquire the entire issued share capital of TBG CareCo Offshore Superholdco Limited and any additional share capital, held outside TBG CareCo Offshore Superholdco Limited, in TBG CareCo Holdings Limited. The target date of completion is 1 March 2006.

### RESULTS

The results for the year ended 30 September 2005 are set out in the profit and loss account on page 6.

### DIVIDENDS

No dividends in respect of the year are proposed (2004: £nil).

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

## DIRECTORS

The following Directors served throughout the year and subsequently, except as noted:

		<u>Date Appointed</u>	<u>Date Resigned</u>
R N Midmer	Executive Director	13 February 2001	25 February 2005
J P Baratta	Executive Director	25 February 2005	5 April 2005
D S Blitzer	Executive Director	25 February 2005	5 April 2005
C R Pike	Executive Director	25 February 2005	5 April 2005
J Murphy	Executive Director	5 April 2005	-
C Rutter	Executive Director	5 April 2005	-
P H Scott	Executive Director	5 April 2005	-
G K Sizer	Executive Director	5 April 2005	-
W Colvin	Executive Director	1 June 2005	-

In addition to the above, W Colvin served an additional period from 7 September 2000 to 25 February 2005.

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 and share options of the ultimate parent company, TBG CareCo Holdings Limited, are disclosed in the accounts of that company. There are no other disclosable interests in the shares of any other group undertaking.

## PAYMENTS TO CREDITORS

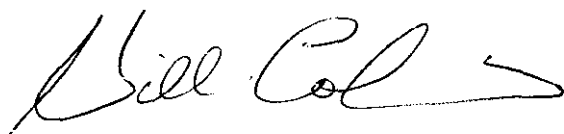
The Company's policy is to fix payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers in accordance with the agreed terms and conditions provided that the supplier has complied with those terms. The creditor days for the Company at 30 September 2005, calculated in accordance with the Companies Act 1985, are 17 (2004: 21).

## AUDITORS

Deloitte & Touche LLP was re-appointed as auditors at the last Annual General Meeting held on 24 February 2005. They resigned subsequently on 4 April 2005. PriceWaterhouseCoopers LLP was appointed as auditors on 5 April 2005 and resigned on 26 September 2005.

Deloitte & Touche LLP was subsequently re-appointed as auditors and they 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



W Colvin  
Director  
9 February 2006

## **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 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 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in equity 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 2005 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

9 February 2006

**PROFIT & LOSS ACCOUNT**  
**Year ended 30 September 2005**

	Note	2005 £	2004 £
<b>TURNOVER AND GROSS PROFIT</b>	2	26,145,598	39,227,612
Other administrative expenses	3	(3,631,750)	(6,400,692)
Write back/(provision for) bad and doubtful debts (net)		10,128,387	(3,386,887)
Net exceptional income	4	449,183	390,878
<b>NET ADMINISTRATIVE INCOME/(EXPENSES)</b>		<u>6,945,820</u>	<u>(9,396,701)</u>
<b>OPERATING PROFIT</b>		33,091,418	29,830,911
Gain on disposal of properties, overriding leases and fixed assets		51,628,989	1,204,715
Net interest payable and similar charges	5	(6,096,618)	(12,483,824)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		78,623,789	18,551,802
Tax charge on profit on ordinary activities	6	(857,823)	(347,104)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		77,765,966	18,204,698
Equity dividends payable	7	-	-
<b>Retained profit for the financial year</b>	16	<u>77,765,966</u>	<u>18,204,698</u>

Turnover and operating profit is wholly derived from continuing operations.

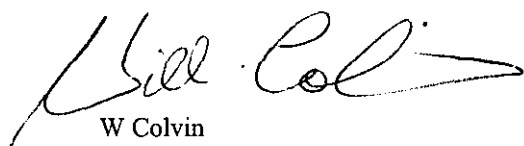


**BALANCE SHEET**  
**30 September 2005**

	Note	2005 £	2004 £
<b>TANGIBLE FIXED ASSETS</b>			
Investment properties	8	-	39,440,000
Operated properties	8	-	86,255,000
Residual property interests	8	392,083,430	240,680,000
Other fixed assets	8	2,061,230	9,619,100
<b>INVESTMENTS</b>	9	38,063,560	28,750,967
<b>TOTAL FIXED ASSETS</b>		432,208,220	404,745,067
<b>CURRENT ASSETS</b>			
Debtors	10	211,597,025	15,182,036
Cash at bank and in hand		3,132	54,364
		211,600,157	15,236,400
<b>CREDITORS: amounts falling due within one year</b>	11	(59,990,245)	(47,244,475)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		151,609,912	(32,008,075)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		583,818,132	372,736,992
<b>CREDITORS: amounts falling due after more than one year</b>	13	(172,544,578)	(182,277,035)
<b>PROVISIONS</b>	14	(264,064)	(360,157)
<b>NET ASSETS</b>		411,009,490	190,099,800
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	2	2
Revaluation reserve	16	270,437,020	157,514,582
Revenue reserve	16	16,650	16,650
Profit and loss account	16	140,555,818	32,568,566
<b>EQUITY SHAREHOLDERS' FUNDS</b>		411,009,490	190,099,800

These financial statements were approved by the Board of Directors on 9 February 2006.

Signed on behalf of the Board of Directors



W Colvin  
Director

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

**Year ended 30 September 2005**

	Note	2005 £	2004 £
Profit for the year		77,765,966	18,204,698
Net surplus on revaluation of property interests	16	143,143,724	76,237,326
Total recognised gains and losses for the year		<u>220,909,690</u>	<u>94,442,024</u>

**RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

**Year ended 30 September 2005**

	Note	2005 £	2004 £
Profit for the year		77,765,966	18,204,698
Net surplus on revaluation of property interests	16	143,143,724	76,237,326
Net increase in shareholders' funds		220,909,690	94,442,024
Equity shareholders' surplus at the beginning of the year		190,099,800	95,657,776
Equity shareholders' surplus at the end of the year		<u>411,009,490</u>	<u>190,099,800</u>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

**Year ended 30 September 2005**

	2005 £	2004 £
Profit on ordinary activities before taxation	78,623,789	18,551,802
Realisation of net valuation gains/(losses) on disposal of property interests	30,221,286	(45,675)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	-	108,821
Historical cost profit on ordinary activities before taxation	<u>108,845,075</u>	<u>18,614,948</u>
Historical cost profit retained for the year	<u>107,987,252</u>	<u>18,267,844</u>

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2005

#### 1. ACCOUNTING POLICIES

##### **Basis of accounting**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment, operated properties and residual property interests. The particular accounting policies adopted are described below. The financial statements are prepared 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 year.

##### **Exemption from consolidation**

The Company has not prepared consolidated financial statements as it is a subsidiary of a company incorporated in Great Britain, TBG CareCo Holdings Limited, which prepares consolidated financial statements. These financial statements provide information about the Company as an individual undertaking and not about its group.

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

###### ***Investment properties***

The cost of investment properties is purchase cost, together with any incidental costs of acquisition and subsequent capital additions at cost.

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 TBG CareCo Holdings Limited are valued annually, 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 annually by qualified external valuers at Market Value on a portfolio basis.

##### **Other fixed assets – land and buildings**

The residential properties are held to provide accommodation to care employees of the Highfield Care group and are revalued annually by qualified external valuers.

##### **Capital expenditure on the operated portfolio assets**

Capital expenditure incurred on an operated care home which enhances the property's value or replaces an asset which is fully depreciated is capitalised. Otherwise such capital expenditure is charged to the profit and loss account.

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2005

#### 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 revaluation reserve by the transfer of a sum from 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*

Land and buildings are depreciated in equal instalments over the estimated useful economic lives of each category of asset. The amount of depreciation, the calculation of which is based on the valuation less estimated residual value, is charged to the profit and loss account with an appropriate adjustment made to the revaluation reserve by the transfer of a sum from the 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 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
---	---------

##### Investments

Investments held as fixed assets are stated at cost less provision for impairment.

##### 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.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

**1. ACCOUNTING POLICIES**

**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, or written off fully when the existing facility is cancelled.

**Interest**

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

	2005 £	2004 £
Rental income - third parties	534,255	1,168,996
- Southern Cross Healthcare Group Limited	1,472,348	5,248,964
Commissions and fees received	23,695	14,905
Overriding lease rents received from:		
Care Homes No.1 Limited	90,816	239,740
Care Homes No.2 Limited	12,207,243	14,153,291
Care Homes No.3 Limited	8,375,151	11,637,779
NHP Securities No.14 Limited	3,442,090	6,611,579
Group undertakings	-	152,358
	<u>26,145,598</u>	<u>39,227,612</u>

The Company has ceased to receive overriding lease rents from NHP Securities No.14 Limited and other group undertakings following the disposal of the Company's freehold and long leasehold properties on 11 April 2005. NHP Securities No.14 Limited ceased to be a group undertaking as of 29 September 2005.

**3. ADMINISTRATIVE INCOME/(EXPENSES)**

The Company had no employees during the year or preceding year.

The Directors are executives of the ultimate parent company and its subsidiary undertakings. It is not practical to allocate their emoluments in respect of their services to individual group undertakings. Details of Directors' emoluments can be found in the financial statements of NHP Limited, a group undertaking.

Administrative expenses include:

	2005 £	2004 £
Group management fees	1,100,764	2,218,561
Depreciation	2,178,963	3,802,614
Audit fees (including VAT)	49,327	55,902
	<u>3,329,054</u>	<u>6,077,077</u>

Included in the audit fees above is £7,050 (2004: £7,500) borne by NHP Securities No.3 Limited on the audit of Ultima Holdings Limited group companies. Ultima Holdings Limited is a 100% subsidiary undertaking of the Company.

During the year, a further £29,375 (including VAT) (2004: £ nil) was paid to the Company auditors in respect of the sale of properties. This amount was charged to 'gain on disposal of properties'.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

**4. EXCEPTIONAL ITEMS**

	2005	2004
	£	£
Write back of accruals for tenant receivership costs	-	376,549
Write back of permanent diminution in value on property interests	1,300,000	1,300,000
Cost of closed homes	-	(69,603)
Cost of abortive property acquisitions	-	(3,043)
Highfield Group Limited option property write back	-	393,598
Write back of provision for Ultima Holdings Group closure support	-	75,087
Forgiveness of loan notes to Care Homes No.2 Limited	-	(1,636,770)
Forgiveness of loan notes to Care Homes No.3 Limited	(850,817)	(44,940)
	<u>449,183</u>	<u>390,878</u>

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

	2005	2004
	£	£
Interest payable to NHP Limited on subordinated loan notes	(13,859,923)	(13,859,920)
Interest payable on bank loans	(91,470)	(1,350,299)
Finance costs, including amortisation of arrangement fees	(487,668)	(318,578)
Interest receivable on loan notes		
Care Homes No.2 Limited	185,103	200,467
Care Homes No.3 Limited	1,574,782	1,611,777
NHP Limited	138,876	-
NHP PropCo Limited	5,080,814	-
TBG PropCo Limited	354,811	-
Southern Cross Healthcare Group Limited	716,225	968,195
Group undertakings	191,105	53,767
Interest receivable on deposits	96,902	190,746
Other interest receivable	3,825	20,021
	<u>(6,096,618)</u>	<u>(12,483,824)</u>

Finance costs include an amount of £342,741 (2004: £ nil) written off in respect of the capitalised facility costs incurred on the £60 million revolving credit facility in place at 30 September 2003. This facility was cancelled during the year, following NHP Limited being acquired by TBG CareCo Limited on 18 February 2005.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2005 £	2004 £
Corporation tax charge	(1,070,984)	-
Increase/(decrease) in estimate of recoverable deferred tax asset	213,161	(347,104)
Total tax charge	(857,823)	(347,104)
Profit before tax	78,623,789	18,551,802
Tax on profits at standard rate of 30% (2004: 30%)	23,587,137	5,565,541
Factors affecting tax charge:		
Permanent differences	(73,472)	619,128
Property on disposal of properties	(15,488,697)	-
Decrease in value of property interests	(390,000)	(390,000)
Capital allowances in excess of depreciation	(1,835,132)	(2,849,562)
Group relief for nil consideration	(1,721,226)	441,603
Non-taxable income	(3,007,626)	-
Utilisation of brought forward losses	-	(3,386,710)
Current tax charge	1,070,984	-

The tax assessed for the current year is lower than that resulting from applying the standard rate of corporation tax due to non-taxable income and group relief claimed for nil consideration.

**7. EQUITY DIVIDENDS PAYABLE**

	2005 £	2004 £
Dividends payable of £nil (2004: £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 2004	35,180,000	4,260,000	39,440,000
Disposals at valuation	(35,180,000)	(4,260,000)	(39,440,000)
At valuation at 30 September 2005	-	-	-

On 29 September 2005, the Company disposed of the interest in all freehold and long leasehold investment properties, the historical costs of which were £29,949,534.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

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

**Operated properties**

<b>Cost or valuation</b>	<b>Freehold land and buildings £</b>	<b>Long leasehold land and buildings £</b>	<b>Plant, machinery, fixtures and fittings £</b>	<b>Total £</b>
At valuation at 1 October 2004	68,566,756	7,249,867	12,931,806	88,748,429
Additions at cost	12,946,927	-	-	12,946,927
Capital expenditure prior year adjustment	-	-	(63,196)	(63,196)
Reclassification between land and buildings and plant, machinery, fixtures and fittings	419,761	(48,016)	(371,745)	-
Reclassification of properties to residual property interests	(2,728,000)	-	-	(2,728,000)
Reclassification of plant, machinery, fixtures and fittings to other fixed assets	-	-	(492,648)	(492,648)
Reclassification of land to other fixed assets at carrying value	(120,000)	-	-	(120,000)
Disposal of operated properties at value	(75,184,031)	(7,201,851)	(11,374,545)	(93,760,427)
Disposal of freehold property interests at cost	(3,521,789)	-	(629,672)	(4,151,461)
Write back of permanent diminution in value	1,300,000	-	-	1,300,000
Net deficit on revaluation	(1,679,624)	-	-	(1,679,624)
At valuation at 30 September 2005	-	-	-	-

**Depreciation**

At 1 October 2004	-	-	(2,493,429)	(2,493,429)
Charge	(383,117)	(45,396)	(684,929)	(1,113,442)
Reclassification to other fixed assets	-	-	172,577	172,577
Disposal	383,117	45,396	2,905,569	3,334,082
Transfer to revaluation reserve in respect of brought forward depreciation on plant, machinery, fixtures and fittings of properties transferred to residual property interests	-	-	100,212	100,212
At 30 September 2005	-	-	-	-
Net book value at 30 September 2005	-	-	-	-
Net book value 30 September 2004	68,566,756	7,249,867	10,438,377	86,255,000

GVA Grimley, International Property Advisors, valued the operated properties at 30 September 2004.

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

On 29 September 2005, the Company disposed of the interest in all freehold and long leasehold operated properties, the historical costs of which were £73,490,279.

A write back to permanent diminution in value of £1,300,000 (2004: £1,000,000) has been credited to the profit and loss account following the disposals.



**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

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

<b>Residual property interests</b>	<b>Residual freehold property interests £</b>	<b>Residual long leasehold property interests £</b>	<b>Total £</b>
<b>Cost or valuation</b>			
At valuation at 1 October 2004	202,549,000	38,131,000	240,680,000
Additions at cost	474,829	-	474,829
Reclassification of property from operated properties at value	2,728,000	-	2,728,000
Reclassification from other fixed assets at net book value	8,101,203	514,262	8,615,465
Disposal of residual freehold property at valuation	(5,138,000)	-	(5,138,000)
Net surplus on revaluation	120,055,324	24,667,813	144,723,136
At valuation at 30 September 2005	<u>328,770,356</u>	<u>63,313,074</u>	<u>392,083,430</u>

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.

Gerald Eve, Chartered Surveyors and Property Consultant, has valued the investment properties at 30 September 2005 (2004: GVA Grimley) at Market Value on a portfolio basis in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. The Directors have calculated the residual property interests held at 30 September 2005 on the basis of the Market Value of the investment properties valued by Gerald Eve. The residual property interests are calculated using the residual income, after servicing the debts of Care Homes 1 Limited, Care Homes 2 Limited and Care Homes 3 Limited. The Directors have not calculated a valuation of the individual residual property interests within the portfolio. The Directors have considered carefully and are of the opinion this method of valuation is appropriate, for the following reason:

- 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.

At 30 September 2005, the Directors have valued the residual property interests in the portfolio at £392,083,430 (2004: £240,680,000 as valued by GVA Grimley).

The historical cost of the Company's residual property interests at 30 September 2005 was £95,410,462 (2004: £85,240,074).

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

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

**Other fixed assets**

	Land and buildings £	Plant, machinery, fixtures and fittings £	Buildings under extension work £	Total £
<b>Cost</b>				
At 1 October 2004	325,000	11,677,717	-	12,002,717
Additions at cost	301,302	56,677	1,325,066	1,683,045
Reclassification from operated properties at carrying value	120,000	492,648	-	612,648
Reclassification to residual property interests	-	(12,227,042)	-	(12,227,042)
At 30 September 2005	746,302	-	1,325,066	2,071,368
<b>Depreciation</b>				
At 1 October 2004	-	(2,383,617)	-	(2,383,617)
Charge	(10,138)	(1,055,383)	-	(1,065,521)
Reclassification from operated properties	-	(172,577)	-	(172,577)
Reclassification to residual property interests	-	3,611,577	-	3,611,577
At 30 September 2005	(10,138)	-	-	(10,138)
Net book value at 30 September 2005	736,164	-	1,325,066	2,061,230
Net book value at 30 September 2004	325,000	9,294,100	-	9,619,100

At 30 September 2005 the Company had contracted capital commitments not incurred or accrued of £194,000 (2004: £800,000).

**9. INVESTMENTS**

	At 30 September 2004 £	Additions £	Disposals £	At 30 September 2005 £
Shares in subsidiary undertaking				
At cost or valuation				
Ultima Holdings Limited	1	-	-	1
Subordinated loan notes investment in				
Highfield Home Properties Limited	1,020,500	-	(1,020,500)	-
Abbeycourt Care Limited	1,301,873	-	(1,301,873)	-
Care Homes No.2 Limited	2,077,308	1,179	-	2,078,487
Care Homes No.3 Limited	24,351,285	3,387,000	(3,896,817)	23,841,468
NHP Limited	-	9,499,222	-	9,499,222
NHP Operations (York) Limited	-	2,644,382	-	2,644,382
	28,750,966	15,531,783	(6,219,190)	38,063,559
Total	28,750,967	15,531,783	(6,219,190)	38,063,560

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2005

#### 9. INVESTMENTS (continued)

##### Shares in subsidiary undertaking

On 20 May 2004 the Company acquired 100% of the issued ordinary share capital of Ultima Holdings Limited, a company incorporated in Great Britain, for consideration of £1. Ultima Holdings Limited and its subsidiary undertakings have not traded during the year or preceding period. Previously they were trading as nursing and residential care homes.

##### Subordinated loan notes investment

£2,064,230 (2004: £2,064,230) of the loan notes due by Care Homes No.2 Limited have no fixed repayment dates and bear interest of 8.91% per annum. A further £14,257 of loan notes are repayable on 2 January 2026 and also bear interest at 8.91% per annum.

On 1 April 2004 a loan note of £1,020,500, bearing interest at 9.25% per annum with no fixed term of repayment, was issued to Highfield Home Properties Limited, a former subsidiary undertaking of NHP Limited, enabling the company to acquire the issued ordinary share capital of Abbeycourt Care Limited. The loan note was repaid in full on 8 April 2005.

On 1 April 2004 a loan note of £1,301,873, bearing interest at 9.25% per annum with no fixed term of repayment, was issued to Abbeycourt Care Limited enabling the company to repay a bank mortgage from GMAC Commercial Mortgage Limited. The loan note was repaid in full on 8 April 2005.

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 £850,817. This loss has been offset by the Company's forgiveness at 30 September 2005 of loan note indebtedness owed by Care Homes No. 3 Limited of an equivalent amount. A further loan note of £341,000 was issued to Care Homes No.3 Limited, which together with the proceeds referred to above, enabled that company to acquire overriding lease interests in 3 properties.

The loan notes due by NHP Limited of £9,499,222 have no fixed repayment date and bear interest at base rate plus 2% per annum. The loan notes were issued to finance the company's obligation under a loan agreement made between that company and Southern Cross Investments No.2 Limited (formerly 'TBG Opco 3 Limited').

As at 30 September 2005, a loan note of £2,644,382 was issued to NHP Operations (York) Limited, a group undertaking to enable that company to finance its care home development. The loan notes have no fixed repayment date and bear interest at 9.25% per annum.

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 2005 (2004: £nil). The shares carry no voting rights. Ultima Holdings Limited and its subsidiary undertakings have not traded during the year or preceding period. Previously they were trading as nursing and residential care homes.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

**10. DEBTORS**

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Trade debtors - other	13,257	159,105
Other debtors	98,117	187,222
Deferred tax	866,057	652,896
Subordinated loan note interest receivable from		
Care Homes No.2 Limited	311,643	482,074
Care Homes No.3 Limited	1,742,904	399,173
Group undertakings	271,832	-
Overriding lease rentals receivable from		
NHP Securities No.9 Limited	-	152,358
Current accounts due from		
Care Homes No.1 Limited	-	45,208
Care Homes No.2 Limited	-	5,424,930
Care Homes No.3 Limited	-	6,706,640
Current account amounts due from group undertakings	208,284,891	116,297
Amount due from Southern Cross Healthcare Group Limited	-	605,309
Prepayments and accrued income	8,324	250,824
	<u>211,597,025</u>	<u>15,182,036</u>

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

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Bank overdraft	40,136	-
Bank loan due within one year	-	750,000
Trade creditors	338,346	19,268
Other creditors	717,768	92,765
Corporation tax	670,984	-
Current account amounts owed to group undertakings	17,259,445	7,166,549
Current account amounts owed to Southern Cross Healthcare Group Limited	257,289	-
Interest on loan notes payable to NHP Limited	39,315,450	38,455,527
Accrued interest payable on bank loans	-	1,781
Accruals and deferred income	1,390,827	758,585
	<u>59,990,245</u>	<u>47,244,475</u>

**12. DEFERRED TAXATION**

	<b>Provided</b>		<b>Unprovided</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Accelerated capital allowances	(866,057)	(1,434,335)	-	(3,944,195)
Revaluation of investment properties	-	-	93,388,250	56,575,006
Short-term timing differences	-	781,439	-	-
	<u>(866,057)</u>	<u>(652,896)</u>	<u>93,388,250</u>	<u>52,630,811</u>

## NOTES TO THE ACCOUNTS

Year ended 30 September 2005

## 12. DEFERRED TAXATION (continued)

The Directors 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.

Deferred tax assets in respect of accelerated capital allowances of £886,057 (2004: £1,434,335) have been recognised on the basis that the Directors believe it is more likely than not that suitable profits will arise from which this asset will be deducted.

The Company also has a deferred tax liability in respect of short-term timing differences of £ nil (2004: £781,439).

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £93,388,250 (2004: £56,575,006) is not recognised as the Company has no intention to sell these properties at this time and there is no binding agreement to dispose of them.

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

	2005 £	2004 £
Bank loans due between two and five years	-	10,000,000
Less: unamortised finance costs	-	(267,543)
	-	9,732,457
 Loan notes due to NHP Limited	 172,544,578	 172,544,578
	<u>172,544,578</u>	<u>182,277,035</u>

## Loan notes

Since 1997 NHP Limited has transferred proceeds from equity issues in consideration of loan notes to enable the Company to finance asset acquisitions. The loan notes have no fixed repayment dates and bear interest at 8.5% per annum (2004:8.5%). In 2002, following a Rights Issue by NHP Limited, 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 loan notes have no fixed repayment date.

## 14. PROVISIONS

	At 30 September 2004 £	Cost incurred in the year £	Profit and loss account £	At 30 September 2005 £
Receivership support costs	360,157	(129,162)	33,069	264,064

## 15. CALLED UP SHARE CAPITAL

	2005 £	2004 £
<b>Authorised:</b>		
100 ordinary shares at £1 each	100	100
<b>Called up, allotted and fully paid:</b>		
2 ordinary shares at £1 each	2	2

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2005**

**16. RESERVES**

	Revenue reserve £	Revaluation reserve £	Profit and loss account £
At 1 October 2004	16,650	157,514,582	32,568,566
Profit for the year	-	-	77,765,966
Transfer arising on the disposal of residual freehold properties	-	(5,252,850)	5,252,850
Transfer arising on disposal of operated properties	-	(15,477,970)	15,477,970
Transfer arising on disposal of investment properties	-	(9,490,466)	9,490,466
Net surplus on revaluation of property interests	-	143,143,724	-
At 30 September 2005	<u>16,650</u>	<u>270,437,020</u>	<u>140,555,818</u>

**17. CONTINGENT LIABILITIES**

- (a) 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 to its parent company Ultima Holdings Limited. The loan balance outstanding at 30 September 2005 and 30 September 2004 was £3.75 million. The Directors are of the opinion that the guarantee will not be called.
- (b) At 30 September 2005, the Company was one of the guarantors to a £232m facility agreement dated 29 November 2004 (as amended on 29 September 2005), entered into by TBG CareCo Limited, a group undertaking ('the borrower') with Barclays Bank Plc and Citibank N.A. London (collectively 'the lenders'). The lenders had a fixed and floating charge over the assets of the Company. This guarantee and facility was replaced upon entering into the new facility and guarantee set out in note (c) below.
- (c) The Company is one of the guarantors to a new £327m facility agreement dated 17 October 2005, entered into by the Company's group undertakings, namely TBG CareCo Limited, TBG CareCo CH2 PropCo Limited and TBG CareCo CH3 PropCo Limited (collectively 'the borrowers') with Barclays Bank Plc, Citibank N.A. London, Prudential Finance (UK) Plc and The Royal Bank of Scotland Plc (collectively 'the lenders'). The lenders have a charge over the assets of the Company.

**18. RELATED PARTY TRANSACTIONS**

- (a) The Company leased homes to Southern Cross Healthcare Group Limited, a related group undertaking which is also ultimately owned by funds managed by The Blackstone Group. Transaction details at 30 September 2005 are detailed below:

	Profit and loss account		Balance Sheet	
	2005 £	2004 £	2005 £	2004 £
Pavement rental income	1,472,348	4,246,573	-	7,389,125
Turnover rental income	-	1,002,391	-	2,194,942
Interest receivable on outstanding sales ledger balances	457,492	860,491	-	-
Interest receivable on property loans	258,733	107,704	-	-
Current account	-	-	(257,289)	1,046,662
Provision for bad and doubtful debts	10,025,420	(10,025,420)	-	(10,025,420)
	<u>12,213,993</u>	<u>(3,808,261)</u>	<u>(257,289)</u>	<u>605,309</u>

## NOTES TO THE ACCOUNTS

Year ended 30 September 2005

### 18. RELATED PARTY TRANSACTIONS (continued)

The above transactions with Southern Cross Healthcare Group Limited are disclosed in notes 2,5, 10 and 11 of these financial statements.

In addition to the above, the Company held subordinate loan note investments with Highfield Home Properties Limited and Abbeycourt Care Limited, group undertakings of Southern Cross Healthcare Group Limited as disclosed in note 9 of the financial statements. The principal and accrued interest was repaid on 8 April 2005.

- (b) In accordance with Financial Reporting Standard No 8 "Related Party Disclosures" transactions with other undertakings within the TBG CareCo Holdings group (formerly within '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 TBG CareCo Holdings Limited, 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 and 10 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.

### 19. POST BALANCE SHEET EVENTS

- (a) On 14 October 2005, TBG CareCo Offshore Superholdco Limited, incorporated in Cayman Islands on 13 October 2005, became the new ultimate parent company of the Company.
- (b) The Company is one of the guarantors to a new £327m facility agreement dated 17 October 2005 as noted in note 17 (b) of the financial statements.
- (c) On 17 October 2005, the Company sold 124 freehold and long leasehold residual property interests, in respect of which overriding leases have been granted to Care Homes No.2 Limited, to TBG CareCo CH2 PropCo HoldCo Limited, a group undertaking, at a value of £224.2 million. In conjunction with the sale, the overriding lease agreements with Care Homes No.2 Limited have been assigned to that company.
- (d) On 17 October 2005, the Company sold 119 freehold and long leasehold residual property interests, in respect of which overriding leases have been granted to Care Homes No.3 Limited, to TBG CareCo CH3 PropCo HoldCo Limited, a group undertaking, at a value of £167.9 million. In conjunction with the sale, the overriding lease agreements with Care Homes No.3 Limited have been assigned to that company.
- (e) On 30 January 2006 The Royal Bank of Scotland plc, which is incorporated in Great Britain and registered in Scotland, exchanged contracts with funds administered by The Blackstone Group to acquire the entire issued share capital of TBG CareCo Offshore Superholdco Limited and any additional share capital, held outside TBG CareCo Offshore Superholdco Limited, in TBG CareCo Holdings Limited. The target date of completion is 1 March 2006.

### 20. PARENT UNDERTAKINGS AND CONTROLLING PARTIES

The immediate parent undertaking is NHP Limited, a company incorporated in Great Britain and registered in England and Wales. The ultimate parent undertaking at 30 September 2005 is TBG CareCo Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. The shares in TBG CareCo Holdings Limited were held by funds administered by The Blackstone Group. As of 14 October 2005, the new ultimate and parent undertaking is TBG CareCo Offshore Superholdco Limited, a company incorporated and registered in Cayman Islands. The shares in TBG CareCo Offshore Superholdco Limited are held by funds administered by The Blackstone Group. In the opinion of the Directors, there is no ultimate controlling party.

Copies of the TBG CareCo Holdings Limited group consolidated financial statements to 30 September 2005, 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.