

NHP SECURITIES NO.3 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
Centrebanks division
Teviot House
41 South Gyle Crescent
Edinburgh EH12 9BF

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 ACTIVITIES

The principal activity of the Company has been the purchase of freehold and long leasehold interests in predominantly modern, purpose-built care homes which have been leased back to care home operators.

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

BUSINESS REVIEW

At 30 September 1999, the Company owned 153 care homes acquired at a cost of £273.70 million and valued at £300.81 million. At the same date, the Company also owned the residual freehold or long leasehold interests in 138 homes, in respect of which overriding leases have been granted, valued at £111.2 million. Overriding leases in respect of 2 homes have been sold to Care Homes 1 and overriding leases in respect of 123 homes have been sold to NHP Securities No.5 Limited and NHP Securities No.8 Limited, which have transferred the beneficial interest in those leases to Care Homes 2 by way of declarations of trust. Overriding leases in a further 13 homes have been sold to NHP Securities No.9 Limited. In addition, the Company held for resale a further 4 care homes acquired at a cost of £2,928,768.

During the year a further 35 homes were acquired at a cost of £40.0 million and a single care home was disposed of for a consideration of £2,894,600. Overriding leases in respect of 80 homes have been sold to NHP Securities No.10 Limited, which has transferred, by way of a declaration of trust, the beneficial interest in those leases to Care Homes 3. Overriding leases in respect of 38 homes have been sold to NHP Securities No.9 Limited. On 27 June 2000, an overriding lease in a single care home held by Care Homes No.2 Limited was repurchased by the Company and substituted by an overriding lease in another home, for an equivalent consideration of £2,325,000. Four homes previously held for resale have been reclassified as properties held for investment, whilst a single care home has been reclassified as a property held for resale.

At 30 September 2000, the Company owned 67 homes costing £104.9 million and valued at £85.04 million, and also owned the residual freehold interests in 259 homes, in respect of which overriding leases have been granted, valued at 30 September 2000 at £107.70 million.

The Company is funded by equity in the form of Loan Notes from NHP Plc and by short term bank facilities. At 30 September 1999, short term facilities drawn down by the Company totalled £194.8 million. The third securitisation issue through Care Homes 3 was completed on 16 November 1999 and net proceeds of £92.2 million for the overriding leases in 91 care homes were paid to the Company and used to repay bank borrowings. In October 2000 further overriding leases in 27 care homes owned by the Company were acquired by Care Homes 3 and net proceeds of £45.8 million were used to repay bank borrowings.

A new £113 million two year amortising bank facility was agreed on 24 January 2001. The bank facility will run until January 2003.

Details of valuations conducted by GVA Grimley as at 30 September 2000 are set out in note 8. The Directors have reviewed in detail the GVA Grimley valuations as at 30 September 2000 and are of the opinion that the fall in value of the portfolios, principally due to the market conditions, is largely temporary. Accordingly, £81,203,875 of the downward movement is reflected through the revaluation reserve. The Directors are of the opinion that the remaining deficit of £2,610,000 represents a permanent fall in value, which has consequently been written off in the profit and loss account.

RESULTS

The results for the year ended 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: £2,500,000).

DIRECTORS' REPORT

POST BALANCE SHEET EVENTS

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

GOING CONCERN

The Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

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	
D F Francis	Executive Director	6 January 1997	
R J Ellert	Chairman/Chief Executive	6 January 1997	31 August 2000
P H S Smith	Executive Director	27 January 1998	21 January 2000
W Colvin	Executive Director	18 January 2000	30 June 2000
J H Drayton	Executive Director	18 January 2000	5 May 2000

The current Directors of the Company are detailed on page 1.

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

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

PAYMENTS TO CREDITORS

The Company's policy is to fix payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers in accordance with the agreed terms and conditions provided that the supplier has complied with those terms. The creditor days for the Company at 30 September 2000, calculated in accordance with the Companies Act 1985, are 7 (1999: 38).

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

6 February 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 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;
- 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.

AUDITORS' REPORT

TO THE MEMBERS OF NHP SECURITIES NO.3 LIMITED

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 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 loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and
Registered Auditors

6 February 2001

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2000

	Note	2000 £	1999 £
TURNOVER AND GROSS PROFIT	2	22,854,394	24,506,708
Administrative expenses	3	(6,887,813)	(2,779,439)
Exceptional items	4	(19,647,889)	-
		<u>(26,535,702)</u>	<u>(2,779,439)</u>
OPERATING (LOSS)/PROFIT		(3,681,308)	21,727,269
(Losses)/profits on disposal of overriding leases		(9,973,882)	9,934,881
Net interest payable and similar charges	5	<u>(19,321,704)</u>	<u>(19,108,637)</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(32,976,894)	12,553,513
Tax on (loss)/profit on ordinary activities	6	<u>-</u>	<u>-</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(32,976,894)	12,553,513
Equity dividends payable	7	<u>-</u>	<u>(2,500,000)</u>
Retained (loss)/profit for the financial year	16	<u><u>(32,976,894)</u></u>	<u><u>10,053,513</u></u>

Turnover and operating (loss)/profit are wholly derived from continuing operations.

BALANCE SHEET
30 September 2000

	Note	2000 £	1999 £
TANGIBLE FIXED ASSETS			
Land and buildings	8	192,740,000	412,010,000
INVESTMENTS	9	38,893,180	-
TOTAL FIXED ASSETS		<u>231,633,180</u>	<u>412,010,000</u>
CURRENT ASSETS			
Properties held for resale		1,100,000	2,928,768
Debtors	10	57,077,442	30,109,083
Cash at bank and in hand		662,358	574,525
		<u>58,839,800</u>	<u>33,612,376</u>
CREDITORS: amounts falling due within one year	11	<u>(149,044,502)</u>	<u>(5,529,027)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(90,204,702)</u>	<u>28,083,349</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		141,428,478	440,093,349
CREDITORS: amounts falling due after more than one year	13	(142,467,883)	(341,902,236)
PROVISIONS	14	<u>(14,950,251)</u>	<u>-</u>
NET (LIABILITIES)/ASSETS		<u><u>(15,989,656)</u></u>	<u><u>98,191,113</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	2	2
Revaluation reserve	16	(28,462,901)	63,622,194
Revenue reserve	16	16,650	16,650
Profit and loss account	16	12,456,593	34,552,267
EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS		<u><u>(15,989,656)</u></u>	<u><u>98,191,113</u></u>

These financial statements were approved by the Board of Directors on 6 February 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 £
(Loss)/profit for the year	(32,976,894)	12,553,513
Net (deficit)/surplus on revaluation of land and buildings	<u>(81,203,875)</u>	<u>56,984,128</u>
Total recognised (losses)/gains for the year	<u><u>(114,180,769)</u></u>	<u><u>69,537,641</u></u>

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

	2000 £	1999 £
(Loss)/profit for the year	(32,976,894)	12,553,513
Equity dividends payable	<u>-</u>	<u>(2,500,000)</u>
Retained (loss)/profit for the year	(32,976,894)	10,053,513
Net (deficit)/surplus on revaluation of land and buildings	<u>(81,203,875)</u>	<u>56,984,128</u>
Net (decrease)/increase in shareholders' funds	(114,180,769)	67,037,641
Shareholders' funds at the beginning of the year	<u>98,191,113</u>	<u>31,153,472</u>
Shareholders' (deficit)/funds at the end of the year	<u><u>(15,989,656)</u></u>	<u><u>98,191,113</u></u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 30 September 2000

	2000 £	1999 £
(Loss)/profit on ordinary activities before taxation	(32,976,894)	12,553,513
Realisation of valuation gains on disposal of investment property	50,079	-
Realisation of valuation gains on disposal of overriding leases	<u>10,831,141</u>	<u>23,850,126</u>
Historical cost (loss)/profit on ordinary activities before taxation	<u>(22,095,674)</u>	<u>36,403,639</u>
Historical cost (loss)/profit retained for the year	<u><u>(22,095,674)</u></u>	<u><u>33,903,639</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 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 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 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.

Properties held for resale are separately disclosed in the financial statements at the lower of cost or net realisable value, any impairment in value being 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, the 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 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.

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.

Finance costs

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

Interest

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

Going concern

The parent company has undertaken to provide financial support to NHP Securities No.3 Limited if required. This support will extend for a period of not less than twelve months from the date these accounts are signed. The Directors therefore have prepared these financial statements on the going concern basis.

NOTES TO THE ACCOUNTS**Year ended 30 September 2000****2. TURNOVER AND GROSS PROFIT**

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

	2000 £	1999 £
Rental income	14,628,531	20,824,342
Commissions and fees received	80,581	100,922
Overriding lease rents received from:		
Care Homes No.1 Limited	87,005	103,140
Care Homes No.2 Limited	5,070,480	3,391,277
Care Homes No.3 Limited	1,766,152	-
Fellow subsidiaries	1,221,645	87,027
	<u>22,854,394</u>	<u>24,506,708</u>

3. ADMINISTRATIVE EXPENSES

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

The Directors are executives of the holding company NHP Plc and its subsidiary companies. The Directors received total emoluments of £804,508 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, four (1999: four) of the Directors received contributions towards their money purchase pension arrangements. Contributions totalled £132,692 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.

J H Drayton resigned on 5 May 2000 and received £30,000 from NHP Plc as compensation for loss of office.

Administrative expenses include:

	2000 £	1999 £
Group management fees	2,354,788	1,881,410
Audit fees	37,800	13,982
Provision for bad and doubtful debts	<u>3,537,218</u>	<u>611,984</u>

4. EXCEPTIONAL ITEMS

	2000 £	1999 £
Ultima Holdings Limited guarantee	(14,000,000)	-
Highfield Group Limited guarantee	(750,000)	-
Advantage Healthcare Group Limited receivership support costs	(1,486,632)	-
Westwood Care Limited receivership support costs	(310,115)	-
Cost of abortive property acquisitions	(491,142)	-
Permanent diminution in value on investment properties	(2,610,000)	-
Forgiveness of loan notes to NHP Securities No.9 Limited	(5,849,000)	-
Forgiveness of loan notes by NHP Plc	5,849,000	-
	<u>(19,647,889)</u>	<u>-</u>

NOTES TO THE ACCOUNTS**Year ended 30 September 2000****5. NET INTEREST PAYABLE AND SIMILAR CHARGES**

	2000 £	1999 £
Interest receivable on deposits	54,411	204,072
Interest receivable on loan notes		
Care Homes No.2 Limited	309,243	88,454
Care Homes No.3 Limited	1,668,142	-
Fellow subsidiaries	3,515,307	2,110,330
Other	-	499,164
Interest payable on bank loans	(10,468,577)	(7,962,457)
Interest payable to NHP Plc in respect of loan notes	(12,550,913)	(12,228,358)
Other interest payable	(199,506)	(1,630)
Finance costs (net)	(1,649,811)	(1,818,212)
	<u>(19,321,704)</u>	<u>(19,108,637)</u>

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

There is no tax charge for the year or preceding year due 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 £3,000,000 (1999: £30,068,000) 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 payable of £nil (1999: £2,500,000) per ordinary share	-	2,500,000

8. TANGIBLE FIXED ASSETS

	Freehold investment properties £	Long leasehold investment properties £	Total £
Land and buildings			
At valuation 30 September 1999	365,327,000	46,683,000	412,010,000
Reclassification of properties held for resale (net)	1,828,768	-	1,828,768
Additions at cost	36,637,231	3,407,758	40,044,989
Disposal of investment property at valuation	-	(2,850,000)	(2,850,000)
Net deficit on revaluation	(54,883,398)	(26,320,477)	(81,203,875)
Permanent diminution in value	(2,310,000)	(300,000)	(2,610,000)
Purchase of overriding lease	2,325,000	-	2,325,000
Disposal of overriding leases	(174,921,601)	(1,883,281)	(176,804,882)
At valuation 30 September 2000	<u>174,003,000</u>	<u>18,737,000</u>	<u>192,740,000</u>
Comprising:			
Apportionment of valuation at 30 September 2000 of land and buildings not subject to overriding leases			<u>85,040,000</u>
Valuation at 30 September 2000 of residual interests of land and buildings subject to overriding leases			<u>107,700,000</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2000

8. TANGIBLE FIXED ASSETS (continued)

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.

Land and buildings held by the NHP Group at 30 September 2000 have been valued by GVA Grimley at that date at open market value on a portfolio basis in accordance with the RICS Appraisal and Valuation Manual. The notional apportionment attributed by GVA Grimley to the land and buildings held by NHP Securities No.3 Limited as at 30 September 2000, and which were not subject to overriding leases, is £85,040,000.

GVA Grimley has valued the residual interest in the portfolio of care homes held at 30 September 2000 at £107,700,000. GVA Grimley conducted their valuation of the residual interest in the Portfolio in accordance with the Appraisal and Valuation Manual (the "Manual") published by the 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, Care Homes No.2 Limited, Care Homes No.3 Limited, NHP Securities No.9 Limited or NHP Securities No.12 Limited, as appropriate, of all costs in connection with the servicing of the debt. These costs include interest payable, taxation, dividends and operating costs. The costs do not relate directly to the individual properties. They arise on the portfolio as a whole and are subsequently notionally apportioned to the individual properties for statutory reporting purposes.
- GVA Grimley have not been requested to provide individual values for the purpose of this exercise. Due to the nature of the portfolio, and the fact that the residual income can only be calculated on a portfolio basis, GVA Grimley do not believe that it is appropriate to consider the 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.

The Directors have reviewed in detail the GVA Grimley valuations at 30 September 2000 and are of the opinion that the fall in value of the portfolios, principally due to market conditions, is largely temporary. Accordingly, £81,203,875 of the downward movement is reflected through the revaluation reserve. The Directors are of the opinion that the remaining deficit of £2,610,000 represents a permanent fall in value, which has consequently been written off in the profit and loss account. See note 4.

Land and buildings not subject to overriding leases were valued by DTZ Debenham Thorpe (renamed DTZ Debenham Tie Leung on 1 January 2000) ("DTZ") as at 30 September 1999 at £300,810,000. DTZ's valuation of £300,810,000 is subject to the comments and qualifications disclosed in the Company's financial statements for the year ended 30 September 1999. A valuation of the Company's residual interests of the portfolio of land and buildings subject to overriding leases was undertaken by DTZ as at 30 September 1999 at £111,200,000. This valuation is subject to the comments and qualifications disclosed in the Company's financial statements for the year ended 30 September 1999 and DTZ's valuation report to the Company dated 29 June 2000.

The four care home properties classified as properties held for resale as at 30 September 1999 were reclassified as investment properties on 31 March 2000. A single care home classified as an investment property as at 30 September 1999 was reclassified as a property held for resale on 31 July 2000 and is accounted for in the Company's balance sheet at 30 September 2000 as a current asset at the lower of cost and anticipated net realisable value.

The historical cost and net book value of the Company's investment properties at 30 September 2000 was £223,760,550 compared to £348,387,806 at 30 September 1999.

NOTES TO THE ACCOUNTS**Year ended 30 September 2000****8. TANGIBLE FIXED ASSETS (continued)**

48 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. The single care home subject to buy-back at a formulated price as at 30 September 1999 was sold to its operator in February 2000.

At 30 September 2000 the Company had contracted capital commitments not completed or accrued of £9,936,875 (1999: £19,301,000).

9. INVESTMENTS

	2000 £	1999 £
Subordinated Loan Note investment in		
NHP Securities No.9 Limited	10,898,000	-
Care Homes No.2 Limited	3,137,228	-
Care Homes No.3 Limited	24,857,952	-
	<u>38,893,180</u>	<u>-</u>

The loan notes due by NHP Securities No.9 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 8.70% per annum.

£3,128,000 of the loan notes due by Care Homes No.2 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 8.91% per annum. The remaining £9,228 represents the £8,000 consideration payable for the financing of Care Homes No.2 Limited's acquisition of NHP Securities No.5 Limited, together with capitalised interest. The £9,228 of loan notes are repayable on 2 January 2026 and also bear interest at 8.91% per annum.

The loan notes due by Care Homes No.3 Limited, which represent the consideration payable for the financing of overriding leases, have no fixed repayment dates and bear interest at 6.60% per annum.

On 30 June 2000, the Company invested £180,000 in 180,000 'C' Ordinary Shares of Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Company. A further investment of £180,000 was made in 180,000 'C' Ordinary Shares of Ultima Holdings Limited on 29 September 2000. There is no carrying value attributed to these investments.

On 30 September 2000 the Company wrote off loan notes owing by NHP Securities No.9 Limited totalling £5,849,000. (See note 4).

NOTES TO THE ACCOUNTS
Year ended 30 September 2000

10. DEBTORS

	2000 £	1999 £
Subordinated Loan Note investment in		
NHP Securities No.9 Limited	-	19,292,000
NHP Securities No.12 Limited	37,488,000	-
Care Homes No.2 Limited	-	5,040,256
Care Homes No.3 Limited	12,759,108	-
Subordinated Loan Note interest receivable from		
NHP Securities No.8 Limited	-	214,894
NHP Securities No.9 Limited	-	207,129
NHP Securities No.12 Limited	41,612	-
Care Homes No.2 Limited	198,457	152,026
Care Homes No.3 Limited	831,911	-
Overriding lease rentals receivable from		
NHP Securities No.8 Limited	-	98,226
NHP Securities No.9 Limited	-	87,027
NHP Securities No.12 Limited	144,375	-
Care Homes No.1 Limited	16,513	51,108
Care Homes No.2 Limited	1,093,914	1,023,434
Care Homes No.3 Limited	232,364	-
Current account amounts due from fellow subsidiary companies	-	1,684
Trade debtors	885,013	424,099
Other debtors	-	594,513
Prepayments and accrued income	3,386,175	2,922,687
	<u>57,077,442</u>	<u>30,109,083</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Bank loans due within one year (see note 13 for the 1999 comparative)	139,149,800	-
Less: unamortised finance costs	(112,912)	-
	<u>139,036,888</u>	-
Trade creditors	34,624	318,163
Other sundry creditors	492,562	753,606
Current account amounts owed to NHP Plc	-	2,525,109
Current account amounts owed to fellow subsidiary companies	524,848	467,819
Current account amounts owed to Care Homes No.1 Limited	-	6,157
Current account amounts owed to Care Homes No.2 Limited	-	146,055
Interest on loan notes payable to NHP Plc	4,926,183	-
Accrued interest payable on bank loans	154,943	565,431
Accruals and deferred income	3,874,454	546,687
Dividend amount payable to NHP Plc	-	200,000
	<u>149,044,502</u>	<u>5,529,027</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2000

Bank loans

Bank loans maturing within one year at 30 September 2000 comprise the following loan facility:

A £160 million revolving credit facility from a syndicate led by the Bank of Scotland, which matures on 25 May 2001. The loans bear interest at LIBOR plus 1.25% and are secured by a fixed charge on certain of the investment properties of the Company, together with a floating charge on its other assets and an unlimited guarantee from the Company's parent company, NHP Plc. The amounts drawn down at 30 September 2000 were as follows:

	2000 £
Bank of Scotland	29,855,386
Morgan Guaranty Trust Company of New York	35,905,387
National Westminster Bank PLC	29,891,257
Dresdner Bank AG, London Branch	32,641,257
Bank of Ireland	10,856,513
	<u>139,149,800</u>

On 24 January 2001 a new £113 million two year bank facility was agreed (see note 18).

The Company did not hold any derivative financial instruments to manage its interest rate profile at 30 September 2000. Details of an interest rate cap purchased on 8 November 2000 are provided in note 18.

12. DEFERRED TAXATION

	Provided 2000 £	Unprovided 2000 £	Provided 1999 £	Unprovided 1999 £
Capital allowances in excess of depreciation	-	7,941,000	-	5,366,000
Revaluation of investment properties	-	3,000,000	-	30,068,000
Losses created by capital allowances	-	(782,000)	-	(363,000)
	<u>-</u>	<u>10,159,000</u>	<u>-</u>	<u>35,071,000</u>

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

	2000 £	1999 £
Bank loans due between one and two years (see note 11 for the 2000 comparative)	-	194,779,800
Less: unamortised finance costs	-	(535,364)
	<u>-</u>	<u>194,244,436</u>
Subordinated loan notes due to NHP Plc	142,467,883	147,657,800
	<u>142,467,883</u>	<u>341,902,236</u>

Subordinated loan notes

The subordinated loan notes, which represent the consideration payable for financing of asset transfers and purchases, have no fixed repayment dates and bear interest at 8.5% per annum (1999 – 8.5%). On 30 September 2000, NHP Plc wrote off loan notes owing by the Company totalling £5,849,000 (see note 4).

14. PROVISIONS

	£
At 1 October 2000	-
Guarantees on behalf of Ultima Holdings Limited	14,000,000
Receivership support costs	950,251
	<u>14,950,251</u>
At 30 September 2000	<u>14,950,251</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2000

15. CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised:		
100 ordinary shares at £1 each	100	100
Called up, allotted and fully paid:		
2 ordinary shares at £1 each	2	2

16. RESERVES

	Revenue reserve £	Revaluation reserve £	Profit and loss account £
At 1 October 1999	16,650	63,622,194	34,552,267
Loss for the year	-	-	(32,976,894)
Transfer arising on disposal of investment property	-	(50,079)	50,079
Transfer arising on disposal of overriding leases	-	(10,831,141)	10,831,141
Net deficit on revaluation of investment properties	-	(81,203,875)	-
At 30 September 2000	16,650	(28,462,901)	12,456,593

17. CONTINGENT LIABILITIES

The Company has guaranteed the repayment to Ultima Healthcare Limited of the principal amount of a loan of £6 million made by Ultima Healthcare Limited, a tenant of the Company, to its parent company Ultima Holdings Limited. The payment of £2.25 million made by the Company to Ultima Holdings Limited on 13 October 2000, referred to in note 18 below, has been applied by Ultima Holdings Limited against the £6 million loan, thereby reducing the Company's guarantee to Ultima Healthcare Limited to £3.75 million.

18. POST BALANCE SHEET EVENTS

On 13 October 2000, the Company advanced £2.25 million to Ultima Holdings Limited in terms of the Company's undertaking to fund Ultima Holdings Limited's corporation tax liability in respect of chargeable gains incurred in respect of the sale of care homes to the NHP Plc Group. See note 17.

On 24 January 2001, the Company signed a new £113.4 million two year amortising bank facility which replaces the existing Bank of Scotland Revolving Credit Facility.

On 23 October 2000, the £45 million Further Drawings Fund and the £1.66 million Shortfall Interest Reserve Fund held in Care Homes No.3 Limited were used to release £42.7 million to the Company for the beneficial interest in a further portfolio of 34 overriding leases in care homes owned by the Company and to pay £0.5 million in legal and other costs. The funds were utilised to repay short term bank borrowings. On 11 January 2001, Care Homes No.3 Limited released the remaining £2.6 million which the Company also utilised to repay short term bank borrowings.

On 8 November 2000, NHP Plc signed an option agreement to acquire the entire share capital of Palladium Healthcare Limited, the parent company of Palladium Leased Homes Limited, a tenant of the Company. The option is exercisable by the vendors at the earlier of 16 July 2001 and the date on which NHP Plc notifies the vendors in writing (if such be the case) that Somerford Healthcare Limited may no longer claim to be able to prevent NHP Plc's acquisition of the shares.

NOTES TO THE ACCOUNTS**Year ended 30 September 2000**

On 8 November 2000, the Company agreed to make available a loan facility in favour of Palladium Leased Homes Limited. The facility is guaranteed by Palladium Healthcare Limited. The maximum principal amount of the facility is £2,500,000 and all loan advances will bear interest at LIBOR plus 1.25%. The facility is repayable in full on 30 July 2001, if by that date the option referred to above has not been exercised, and otherwise the date of completion of the acquisition of the entire share capital of Palladium Healthcare Limited pursuant to the option or, if notice of the exercise of the option is withdrawn with the consent of NHP Plc, the date of such withdrawal. Interest at LIBOR plus 5% will be charged in the event of any defaults.

On 8 November 2000, the Company purchased an interest rate cap from The Royal Bank of Scotland for a consideration of £174,000. The interest rate cap fixes £60 million of short term borrowings at 6.25% for the period 8 November 2000 to 7 November 2001 and £30 million of short term borrowings at 6.25% for the period 8 November 2001 to 7 November 2002.

Since 30 September 2000 the Company has acquired a further care home, for a cost of £1.5 million (including acquisition costs). This was included in capital commitments at 30 September 2000.

19. 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, Care Homes No.2 Limited and Care Homes No.3 Limited have been consolidated as part of that group by reason of contractual arrangements with NHP Plc, they are not subsidiaries of that company, and therefore the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures" cannot be applied for transactions with Care Homes No.1 Limited, Care Homes No.2 Limited and Care Homes No.3 Limited. These transactions, which are disclosed in notes 2, 5, 9, 10 and 11 of these financial statements, comprise the granting of overriding leases over freehold and long leasehold properties and the receipt of overriding lease rents in connection with these properties.

On 19 January 1999, D.F. Francis, a director of the Company, was appointed as the Company's representative on the Board of Ultima Holdings Limited, the parent company of Ultima Healthcare Limited, a tenant of the Company. On 30 June 2000, the Company invested £180,000 in 180,000 'C' Ordinary Shares of Ultima Holdings Limited. A further investment of £180,000 was made in 180,000 'C' Ordinary Shares of Ultima Holdings Limited on 29 September 2000. Note 17 gives further details of guarantees given by the Company to Ultima Holdings Limited and its subsidiaries.

20. ULTIMATE PARENT COMPANY

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