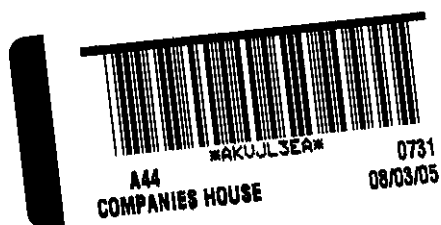


NHP SECURITIES NO.3 LIMITED

Report and Financial Statements

30 September 2004



REPORT AND FINANCIAL STATEMENTS 2004

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REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W Colvin, CA	Chief Executive
R N Midmer, CENG MICE	Executive Director

SECRETARY

S Kaul

REGISTERED OFFICE

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

BANKERS

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

SOLICITORS

Eversheds
Holland Court
The Close
Norwich NR1 4DX

AUDITORS

Deloitte & Touche LLP
London

VALUERS

GVA Grimley
25 Bucklersbury
London EC4N 8DA

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 30 September 2004.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

At 1 October 2003 in the property portfolio the Company owned 22 investment homes, costing £38.6 million and valued at £42.3 million, and 48 operated homes, costing £74.2 million and valued at £69.5 million. The Company further held residual property interests in 243 homes, in respect of which overriding leases have been granted, costing £81.4 million and valued at £188.8 million. One property held for resale stood on the balance sheet at a value of £1.7 million at 30 September 2003.

During the year 7 operated properties, 1 residual property and 1 property held for resale were disposed of for £15.4 million. Interests in overriding leases of 2 investment properties and 3 operated properties to Care Homes No.2 Limited were re-acquired at a cost of £4.2 million. Overriding leases in 4 investment properties and 1 operated property were sold to Care Homes No.2 Limited for consideration of £4.8 million. A further overriding lease in a single care home from the investment portfolio was sold to Care Homes No.3 Limited for consideration of £0.4 million. 4 care homes were transferred from investment properties to operated properties at valuation at their respective dates of transfer from receivership.

Capital expenditure during the year on the portfolio of homes amounted to £9.7 million, including £6.2 million spent on residual freehold and long leasehold properties.

On 28 November 2003 the Company disposed of overriding leases in 41 care homes to NHP Securities No.14 Limited, a subsidiary undertaking of NHP Plc, at a peppercorn initial premium. The Company continues to retain the freehold interest in these properties.

At 30 September 2004 in the property portfolio 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. The Company further 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.

Ultima Holdings Limited was acquired on 20 May 2004 at a cost of £1. Ultima Holdings Limited is the parent company of a group of companies that was engaged in the operation of nursing and residential care homes. Ultima Holdings Limited group companies are currently dormant and no further trading is proposed, save for realisation and settlement of its remaining assets and liabilities.

RESULTS

The results for the year ended 30 September 2004 are set out in the profit and loss account on page 6.

DIVIDENDS

No dividends in respect of the year are proposed (2003: £nil).

POST BALANCE SHEET EVENTS

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

DIRECTORS' REPORT (continued)

DIRECTORS

The Directors of the Company who served throughout the year and to the date of this report are detailed on page 1.

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

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

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

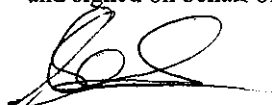
PAYMENTS TO CREDITORS

The Company's policy is to fix payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers in accordance with the agreed terms and conditions provided that the supplier has complied with those terms. The creditor days for the Company at 30 September 2004, calculated in accordance with the Companies Act 1985, are 21 (2003: 22).

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



S Kaul
Secretary

14 January 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF NHP SECURITIES NO.3 LIMITED

We have audited the financial statements of NHP Securities No.3 Limited for the year ended 30 September 2004 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the note of historic cost profits and losses and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2004 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

14th January, 2005

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2004

		2004	2003
	Note	£	(*restated) £
TURNOVER AND GROSS PROFIT	2	39,227,612	30,340,168
Administrative expenses	3	(6,400,692)	(4,749,466)
Write off of provision for bad and doubtful debts (net)		(3,386,887)	(2,990,981)
Exceptional items	4	<u>390,878</u>	<u>(466,535)</u>
TOTAL OPERATING COSTS		<u>(9,396,701)</u>	<u>(8,206,982)</u>
OPERATING PROFIT		29,830,911	22,133,186
Gain on disposal of properties, overriding leases and fixed assets		1,204,715	179,726
Net interest payable and similar charges	5	<u>(12,483,824)</u>	<u>(15,850,566)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		18,551,802	6,462,346
Tax (charge)/credit on profit on ordinary activities	6	<u>(347,104)</u>	<u>1,000,000</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		18,204,698	7,462,346
Equity dividends payable	7	<u>-</u>	<u>-</u>
Retained profit for the financial year	16	<u><u>18,204,698</u></u>	<u><u>7,462,346</u></u>

Turnover and operating profit is wholly derived from continuing operations.

* See note 4 to the financial statements

BALANCE SHEET
30 September 2004

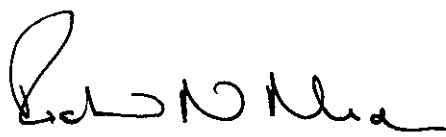
	Note	2004 £	2003 £
TANGIBLE FIXED ASSETS			
Investment properties	8	39,440,000	42,310,000
Operated properties	8	86,255,000	69,470,000
Residual property interests	8	240,680,000	188,790,000
Other fixed assets	8	9,619,100	5,009,905
INVESTMENTS	9	28,750,967	28,720,652
TOTAL FIXED ASSETS		404,745,067	334,300,557
CURRENT ASSETS			
Properties held for resale		-	1,663,552
Debtors	10	15,182,036	11,730,800
Cash at bank and in hand		54,364	424,609
		15,236,400	13,818,961
CREDITORS: amounts falling due within one year	11	(47,244,475)	(44,422,659)
NET CURRENT LIABILITIES		(32,008,075)	(30,603,698)
TOTAL ASSETS LESS CURRENT LIABILITIES		372,736,992	303,696,859
CREDITORS: amounts falling due after more than one year	13	(182,277,035)	(207,174,603)
PROVISIONS	14	(360,157)	(864,480)
NET ASSETS		190,099,800	95,657,776
CAPITAL AND RESERVES			
Called up share capital	15	2	2
Revaluation reserve	16	157,514,582	81,340,402
Revenue reserve	16	16,650	16,650
Profit and loss account	16	32,568,566	14,300,722
EQUITY SHAREHOLDERS' FUNDS		190,099,800	95,657,776

These financial statements were approved by the Board of Directors on 14 January 2005.

Signed on behalf of the Board of Directors



W Colvin
Director



R N Midmer
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September 2004

	2004	2003
	£	£
Profit for the year	18,204,698	7,462,346
Net surplus on revaluation of property interests	76,237,326	56,255,695
	<hr/>	<hr/>
Total recognised gains and losses for the year	94,442,024	63,718,041
	<hr/>	<hr/>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 30 September 2004

	2004	2003
	£	£
Profit for the year	18,204,698	7,462,346
Equity dividends payable	-	-
	<hr/>	<hr/>
Retained profit for the year	18,204,698	7,462,346
Net surplus on revaluation of property interests	76,237,326	56,255,695
	<hr/>	<hr/>
Net increase in shareholders' funds	94,442,024	63,718,041
Shareholders' surplus at the beginning of the year	95,657,776	31,939,735
	<hr/>	<hr/>
Shareholders' surplus at the end of the year	190,099,800	95,657,776
	<hr/>	<hr/>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 30 September 2004

	2004	2003
	£	£
Profit on ordinary activities before taxation	18,551,802	6,462,346
Realisation of net valuation losses on disposal of property interests	(45,675)	(405,344)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	108,821	284,680
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	18,614,948	6,341,682
	<hr/>	<hr/>
Historical cost profit retained for the year	18,267,844	7,341,682
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment and operated properties. The particular accounting policies adopted are described below. The financial statements are in compliance with the Companies Act 1985 and applicable United Kingdom accounting standards except that, as explained below, investment properties are not depreciated.

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

Exemption from consolidation

The Company has not prepared consolidated financial statements as it is a subsidiary of a company incorporated in the United Kingdom, NHP Plc, 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 NHP Plc are valued annually at 30 September by qualified external valuers. Properties transferred from investment properties to operated properties are reclassified at the then existing use value. Operated properties, which are not subject to overriding leases, are valued annually on an Existing Use Basis by qualified external valuers, the aggregate revaluation surplus or deficit being transferred to the revaluation reserve whilst any permanent impairment in value is charged to the profit and loss account.

Residual property interests

The residual freehold and long leasehold interests in the investment and operated properties which are subject to the grant of overriding leases are valued by qualified external valuers at Market Value on a portfolio basis.

Properties held for resale

Properties held for resale are held at the lower of cost or net realisable value, any impairment in value being charged to the profit and loss account.

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 at 30 September 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 2004****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 any impairment in value.

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 2004

1. ACCOUNTING POLICIES (continued)

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.

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:

	2004 £	2003 £
Rental income	6,417,960	11,778,014
Commissions and fees received	14,905	13,183
Overriding lease rents received from:		
Care Homes No.1 Limited	239,740	207,293
Care Homes No.2 Limited	14,153,291	10,255,416
Care Homes No.3 Limited	11,637,779	8,086,262
Fellow subsidiary	6,763,937	-
	<u>39,227,612</u>	<u>30,340,168</u>

3. ADMINISTRATIVE EXPENSES

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

The Directors are executives of the parent company NHP Plc and its subsidiary undertakings. The Directors received total emoluments of £958,136 from NHP Plc during the year (2003: £899,382), but it is not practicable to allocate this between their services to individual NHP Plc group companies. In addition to their emoluments, two (2003: three) of the Directors received contributions towards their money purchase pension arrangements from NHP Plc. Contributions totalled £112,000 in the year (2003: £117,420).

Administrative expenses include:

	2004 £	2003 £
Group management fees	2,218,561	2,208,294
Depreciation	3,802,614	2,055,178
Audit fees	55,902	39,797
	<u>6,077,077</u>	<u>4,303,270</u>

Included in the audit fees above is £7,500 (2003: £nil) 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.

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

4. EXCEPTIONAL ITEMS

	2004	2003 (restated)
	£	£
Write back/(off) of accruals for tenant receivership costs	376,549	(1,133,711)
Net write back of permanent diminution in value on property interests	1,300,000	1,470,000
Cost of closed homes	(69,603)	(232,325)
Cost of abortive property acquisitions	(3,043)	-
Highfield Group Limited option property write back/(provision)	393,598	(68,840)
Write back/(off) of provision for Ultima Holdings Group closure support	75,087	(146,739)
Forgiveness of loan notes to Care Homes No.2 Limited	(1,636,770)	-
Forgiveness of loan notes to Care Homes No.3 Limited	(44,940)	(354,920)
	<u>390,878</u>	<u>(466,535)</u>

Exceptional items for the year ended 30 September 2003 has been restated to exclude disposal of properties held for resale (£27,471), now included within 'Gain on disposal of properties, overriding leases and fixed assets'.

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Interest payable to NHP Plc on subordinated loan notes	(13,859,920)	(13,859,921)
Interest payable on bank loans	(1,350,299)	(2,598,526)
Finance costs, including amortisation of arrangement fees	(318,578)	(1,452,800)
Interest receivable on loan notes		
Care Homes No.2 Limited	200,467	276,141
Care Homes No.3 Limited	1,611,777	1,630,290
Fellow subsidiaries	1,021,962	80,760
Interest receivable on deposits	190,746	65,490
Other interest receivable	20,021	8,000
	<u>(12,483,824)</u>	<u>(15,850,566)</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £	2003 £
Tax charge	-	-
(Decrease)/ increase in estimate of recoverable deferred tax asset	(347,104)	1,000,000
Total tax (charge)/credit	(347,104)	1,000,000
Profit before tax	18,551,802	6,462,346
Tax on profits at standard rate	5,565,541	1,938,704
Factors affecting tax charge:		
Disallowable expenses	619,128	549,024
Increase decrease in value of property interests	(390,000)	(441,000)
Capital allowances in excess of depreciation	(2,849,562)	(3,307,566)
Group relief for nil consideration	441,603	2,306,796
Utilisation of brought forward losses	(3,386,710)	(1,045,958)
Current tax charge	-	-

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

7. EQUITY DIVIDENDS PAYABLE

	2004 £	2003 £
Dividends payable of £nil (2003: £nil) per ordinary share	-	-

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

8. TANGIBLE FIXED ASSETS

Investment properties

Cost or valuation	Freehold investment properties £	Long leasehold investment properties £	Total £
At valuation at 1 October 2003	36,100,000	6,210,000	42,310,000
Additions at cost	2,111,200	-	2,111,200
Reclassification of properties from residual property interests	1,902,000	-	1,902,000
Reclassification of properties to residual property interests	(2,463,000)	(734,000)	(3,197,000)
Reclassification of properties to operated properties at valuation	(3,970,000)	(900,000)	(4,870,000)
Disposal at cost	(4,002,280)	(1,321,243)	(5,323,523)
Write back to permanent diminution in value	300,000	-	300,000
Net surplus on revaluation	5,202,080	1,005,243	6,207,323
At valuation at 30 September 2004	<u>35,180,000</u>	<u>4,260,000</u>	<u>39,440,000</u>

Investment properties represent properties held for long term retention. Investment properties have been valued by GVA Grimley at 30 September 2004 at market value on a portfolio basis in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

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

Operated properties, transferred from investment properties at valuation, were valued by GVA Grimley on an existing use basis at their respective dates of transfer.

GVA Grimley valued the investment properties at 30 September 2004. The Directors have reviewed in detail the valuation and are of the opinion that there needs to be a write back to permanent diminution in value of £300,000 (2003: £nil) which has been credited to the profit and loss account.

The value attributed by GVA Grimley to the freehold and long leasehold investment properties held by the Company at 30 September 2004 and which were not subject to overriding leases, is £39,440,000 (2003: £42,310,000).

16 homes (2003:24) are subject to discretionary buy-back options by their respective operators. A further 25 homes (2003:25) are subject to buy-back options by their respective operators only in the event of irrecoverable VAT becoming levied on the rents charged to the operators. The buy-back options may be exercised at purchase prices equivalent to the higher of a formulated figure or the "market value" (as defined in the respective leases) of the landlord's reversionary interest and of the landlord's fixtures and fittings.

The historical cost of the Company's investment properties at 30 September 2004 was £29,949,534 (2003: £38,608,433).

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

8. TANGIBLE FIXED ASSETS (continued)

Operated properties

Cost or valuation	Freehold land and buildings £	Long leasehold land and buildings £	Plant, machinery, fixtures and fittings £	Total £
At valuation at 1 October 2003	58,331,459	4,350,000	8,055,945	70,737,404
Additions at cost	2,207,943	-	385,570	2,593,513
Capital expenditure on operated properties	-	-	3,053,083	3,053,083
Reclassification between land and buildings and plant, machinery, fixtures and fittings	(2,485,089)	(400,405)	2,885,494	-
Reclassification of properties from investment properties at valuation	3,523,349	659,918	686,733	4,870,000
Reclassification of properties from residual property interests	1,833,000	-	-	1,833,000
Reclassification of property to residual property interest	(790,000)	-	-	(790,000)
Reclassification of plant, machinery, fixtures and fittings from other fixed assets	-	-	518,575	518,575
Reclassification of plant, machinery, fixtures and fittings to other fixed assets	-	-	(339,580)	(339,580)
Disposal of operated properties at value	(8,594,247)	-	(2,083,160)	(10,677,407)
Disposal of freehold property interest at cost	(1,396,204)	-	(230,854)	(1,627,058)
Write back to permanent diminution in value	1,000,000	-	-	1,000,000
Net surplus on revaluation	14,936,545	2,640,354	-	17,576,899
At valuation at 30 September 2004	<u>68,566,756</u>	<u>7,249,867</u>	<u>12,931,806</u>	<u>88,748,429</u>
Depreciation				
At 1 October 2003	-	-	(1,267,404)	(1,267,404)
Charge	(740,944)	(50,448)	(1,436,476)	(2,227,868)
Reclassification from other fixed assets	-	-	(79,715)	(79,715)
Reclassification to other fixed assets	-	-	38,974	38,974
Disposal	62,308	-	251,192	313,500
Transfer to revaluation reserve	678,636	50,448	-	729,084
At 30 September 2004	<u>-</u>	<u>-</u>	<u>(2,493,429)</u>	<u>(2,493,429)</u>
Net book value at 30 September 2004	<u>68,566,756</u>	<u>7,249,867</u>	<u>10,438,377</u>	<u>86,255,000</u>
Net book value 30 September 2003	<u>58,331,459</u>	<u>4,350,000</u>	<u>6,788,541</u>	<u>69,470,000</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

8. TANGIBLE FIXED ASSETS (continued)

Operated properties, reclassified from investment properties at valuation, were valued by GVA Grimley on an existing use basis at their respective dates of transfer, in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

GVA Grimley valued the operated properties at 30 September 2004. The Directors have reviewed in detail the valuation and are of the opinion that there needs to be a net write back to permanent diminution in value of £1,000,000 (2003: £1,470,000) which has been credited to the profit and loss account.

The value attributed by GVA Grimley to the freehold and long leasehold operated properties held by the Company as at 30 September 2004, and which were not subject to overriding leases, is £86,255,000 (2003: £69,470,000).

The historical cost of the Company's operated properties at 30 September 2004 was £73,490,279 (2003: £74,183,859).

Residual property interests

Cost or valuation	Residual freehold property interests £	Residual long leasehold property interests £	Total £
At valuation at 1 October 2003	160,491,000	28,299,000	188,790,000
Additions at cost	192,286	-	192,286
Reclassification of property from operated properties at value	790,000	-	790,000
Reclassification of properties from investment properties at value	2,463,000	734,000	3,197,000
Reclassification of properties to operated properties at value	(1,833,000)	-	(1,833,000)
Reclassification of properties to investment properties at value	(1,902,000)	-	(1,902,000)
Disposal of residual freehold property at valuation	(252,000)	-	(252,000)
Net surplus on revaluation	42,599,714	9,098,000	51,697,714
At valuation at 30 September 2004	202,549,000	38,131,000	240,680,000

The notional apportionment of value between residual freehold and long leasehold properties has been calculated by the Directors according to the ratios of the pavement rents of the underlying assets.

GVA Grimley has valued the residual property interests held at 30 September 2004 at £240,680,000 (2003:£188,790,000). GVA Grimley conducted their valuations of the residual interest in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. GVA Grimley's valuation has been undertaken on a portfolio basis and GVA Grimley has not carried out valuations of the individual properties within the portfolio. GVA Grimley has carefully considered this matter and are of the opinion that this agreed departure is appropriate, for the following reasons:

- the income received by the Company is the residual income for the portfolio, following the payment by Care Homes No.1 Limited, Care Homes No.2 Limited, Care Homes No.3 Limited, as appropriate, of all costs in connection with the servicing of the debt. These costs include interest payable, taxation, dividends and operating costs. The costs do not relate directly to the individual properties. They arise on the portfolio as a whole and are subsequently notionally apportioned to the individual properties for statutory reporting purposes; and

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

8. TANGIBLE FIXED ASSETS (continued)

- GVA Grimley has not been requested to provide individual values for the purpose of this exercise. Due to the nature of the portfolio, and the fact that the residual income can only be calculated on a portfolio basis, GVA Grimley do not believe that it is appropriate to consider the value of the properties individually. If the portfolio were to be sold it is GVA Grimley's opinion that it would have to be sold as a single entity, and this is reflected in their valuation.

GVA Grimley's valuation of the residual interest in the Portfolio is subject to the comments and assumptions set out in their report dated 17 November 2004 (2003: 1 December 2003).

The historical cost of the Company's residual property interests at 30 September 2004 was £85,241,074 (2003: £81,425,678).

Other fixed assets

	Land and buildings £	Plant, machinery, fixtures and fittings £	Total £
Cost			
At 1 October 2003	176,531	5,687,954	5,864,485
Additions at cost	127,131	6,168,758	6,295,889
Reclassification from operated properties at cost	-	339,580	339,580
Reclassification to operated properties at cost	-	(518,575)	(518,575)
Net surplus on revaluation	21,338	-	21,338
At 30 September 2004	325,000	11,677,717	12,002,717
Depreciation			
At 1 October 2003	(546)	(854,034)	(854,580)
Charge	(4,422)	(1,570,324)	(1,574,746)
Reclassification from operated properties	-	(38,974)	(38,974)
Reclassification to operated properties	-	79,715	79,715
Transfer to revaluation reserve	4,968	-	4,968
At 30 September 2004	-	(2,383,617)	(2,383,617)
Net book value at 30 September 2004	325,000	9,294,100	9,619,100
Net book value at 30 September 2003	175,985	4,833,920	5,009,905

At 30 September 2004 the Company had contracted capital commitments not completed or accrued of £800,000 (2003: £645,556).

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

9. INVESTMENTS

	At 30 September 2003 £	Additions £	Disposals £	At 30 September 2004 £
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
NHP Securities No.6 Limited	1,242,441	-	(1,242,441)	-
Care Homes No.2 Limited	3,099,986	4,789,092	(5,811,770)	2,077,308
Care Homes No.3 Limited	24,378,225	422,000	(448,940)	24,351,285
	<u>28,720,652</u>	<u>7,533,465</u>	<u>(7,503,151)</u>	<u>28,750,966</u>
Total	<u>28,720,652</u>	<u>7,533,466</u>	<u>(7,503,151)</u>	<u>28,750,967</u>

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.

Subordinated loan notes investment

A loan note of £1,242,441 was issued to NHP Securities No.6 Limited on 1 August 2002 with no fixed term of repayment, enabling that company to repay a bank loan from the Bank of Scotland. The loan note bears interest at 6.5% per annum. During the year NHP Securities No.6 Limited repaid £460,863. The remaining loan balance of £781,578 was forgiven by the Company on 1 June 2004.

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

On 1 April 2004 a loan note of £1,301,873 was issued to Abbeycourt Care Limited enabling the company to repay a bank mortgage from GMAC Commercial Mortgage Limited. The loan note has no fixed term of repayment and bears interest at 9.25% per annum.

£2,064,230 (2003: £3,088,000) of the loan notes due by Care Homes No.2 Limited have no fixed repayment dates and bear interest of 8.91% per annum. During the year, the Company purchased the overriding lease interests in 5 properties from Care Homes No.2 Limited for consideration of £4,175,000, realising a loss on disposal in Care Homes No.2 Limited of £1,636,770. This loss has been offset by the Company's forgiveness at 30 September 2004 of loan note indebtedness owed by Care Homes No.2 Limited of an equivalent amount. The Company then disposed of the overriding lease interests in 5 properties to Care Homes No.2 Limited for consideration of £4,788,000. A further £13,078 of loan notes are repayable on 2 January 2026 and also bear interest at 8.91% per annum.

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

9. INVESTMENTS (cont.)

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 £44,940. This loss has been offset by the Company's forgiveness at 30 September 2004 of loan note indebtedness owed by Care Homes No. 3 Limited of an equivalent amount. A further loan note of £18,000 was issued to Care Homes No.3 Limited which, together with the proceeds referred to above, enabled that company to acquire an overriding lease in an additional property.

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 2004 (2003: £nil). The shares carry no voting rights.

10. DEBTORS

	2004	2003
	£	£
Trade debtors - other	159,105	210,425
Other debtors	187,222	1,588,382
Deferred tax	652,896	1,000,000
Subordinated loan note interest receivable from		
NHP Securities No.6 Limited	-	94,257
Care Homes No.2 Limited	482,074	732,699
Care Homes No.3 Limited	399,173	2,567,953
Overriding lease rentals receivable from		
NHP Securities No.9 Limited	152,358	-
Care Homes No.1 Limited	-	35,233
Care Homes No.2 Limited	-	1,427,028
Care Homes No.3 Limited	-	1,148,719
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 NHP Plc	-	118,803
Current account amounts due from Care Homes No.1 Limited	-	52,577
Current account amounts due from fellow subsidiary companies	721,606	2,663,354
Prepayments and accrued income	250,824	91,370
	<u>15,182,036</u>	<u>11,730,800</u>

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Bank loan due within one year – see below	750,000	-
Trade creditors	19,268	43,103
Other sundry creditors	92,765	68,539
Current account amounts owed to fellow subsidiary companies	7,166,549	8,378,467
Current account amounts owed to Care Homes No.2 Limited	-	132,885
Current account amounts owed to Care Homes No.3 Limited	-	116,250
Interest on loan notes payable to NHP Plc	38,455,527	33,568,920
Accrued interest payable on bank loans	1,781	5,757
Accruals and deferred income	758,585	2,108,738
	<u>47,244,475</u>	<u>44,422,659</u>

At 30 September 2004, a £750,000 loan was drawn on the £3 million revolving credit facility entered into with the Royal Bank of Scotland on 26 April 2004. This loan bears interest at LIBOR plus 0.50% and is only available whilst there is a minimum of £3 million headroom on the £60 million revolving credit facility (see note 13).

12. DEFERRED TAXATION

	Provided		Unprovided	
	2004 £	2003 £	2004 £	2003 £
Accelerated capital allowances	(1,434,335)	(1,000,000)	(3,944,195)	(10,498,556)
Revaluation of investment properties	-	-	56,575,006	38,161,666
Short-term timing differences	781,439	-	-	-
	<u>(652,896)</u>	<u>(1,000,000)</u>	<u>52,630,811</u>	<u>27,663,110</u>

The directors have taken advice from GVA Grimley and consider that the appropriate value of assets qualifying for capital allowances, to be used in the calculation of deferred tax, is an apportionment of the total portfolio value. Applying the valuation, the Company has, as at 30 September 2004, unprovided deferred tax assets of £3,944,195 in respect of accelerated capital allowances (2003: £10,498,556). This asset would be recovered if in future they reverse in the same periods and entities in which suitable taxable profits arise.

Deferred tax assets in respect of accelerated capital allowances of £1,434,335 (2003: £1,000,000) 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 £781,439 (2003: £nil)

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £56,575,006 (2003: £38,161,666) 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.

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

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

	2004 £	2003 £
Bank loans due after more than five years	-	34,950,000
Less: unamortised finance costs	-	(319,975)
	<u>-</u>	<u>34,630,025</u>
Bank loans due between two and five years	10,000,000	-
Less: unamortised finance costs	(267,543)	-
	<u>9,732,457</u>	<u>-</u>
Loan notes due to NHP Plc	172,544,578	172,544,578
	<u>182,277,035</u>	<u>207,174,603</u>

Bank loans

Bank loans maturing between two and five years at 30 September 2004 comprise the following loan facility:

- at 30 September 2004, a £10,000,000 loan was drawn on the £60 million revolving credit facility entered into with a syndicate led by Bank of Scotland on 30 September 2003. The loan bears interest at LIBOR plus 1.2% and is secured by a fixed charge on certain of the freehold and long leasehold properties held in the Company, together with a floating charge on its other assets and an unlimited guarantee from NHP Plc.

The finance costs incurred on the £60 million revolving credit facility granted on 30 September 2003 total £319,975. These costs are to be amortised over the remaining 63 month term of the facility to 31 December 2008.

Loan notes

Since 1997 NHP Plc 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 (2003:8.5%). In 2002, following a Rights Issue by NHP Plc, the Company issued a further £32,254,764 of subordinated loan notes, bearing interest at 6.0% per annum, in consideration of a further transfer of funds. These loan notes have no fixed repayment date.

14. PROVISIONS

	At 30 September 2003 £	Cost incurred in the year £	Profit and loss account £	At 30 September 2004 £
Ultima Holdings Limited closure support costs	110,000	(34,913)	(75,087)	-
Receivership support costs	754,480	(17,774)	(376,549)	360,157
	<u>864,480</u>	<u>(52,687)</u>	<u>(451,636)</u>	<u>360,157</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2004

15. CALLED UP SHARE CAPITAL

	2004 £	2003 £
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 2003	16,650	81,340,402	14,300,722
Profit for the year	-	-	18,204,698
Transfer arising on the disposal of residual freehold properties	-	(1,160,559)	1,160,559
Transfer arising on disposal of operated properties	-	1,206,234	(1,206,234)
Difference between an historical cost depreciation charge and the actual depreciation charge for the year	-	(108,821)	108,821
Net surplus on revaluation of property interests	-	76,237,326	-
At 30 September 2004	16,650	157,514,582	32,568,566

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 to its parent company Ultima Holdings Limited. The loan balance outstanding at 30 September 2004 and 30 September 2003 was £3.75 million. The Directors are of the opinion that the guarantee will not be called.

18. RELATED PARTY TRANSACTIONS

- (i) In accordance with Financial Reporting Standard No 8 "Related Party Disclosures" transactions with other undertakings within the NHP Plc group have not been disclosed in these financial statements. Although Care Homes No.1 Limited, Care Homes No.2 Limited and Care Homes No.3 Limited have been consolidated as part of that group by reason of contractual arrangements with NHP Plc, they are not subsidiaries of that company, and therefore the exemption under Financial Reporting Standard No. 8 "Related Party Disclosures" cannot be applied for transactions with Care Homes No.1 Limited, Care Homes No.2 Limited and Care Homes No.3 Limited. These transactions, which are disclosed in notes 2, 4, 5, 9, 10 and 11 of these financial statements, comprise the granting of overriding leases over freehold and long leasehold properties and the receipt of overriding lease rents in connection with these properties.
- (ii) On 1 January 2004, W Colvin was appointed as the Company's representative on the Board of G.R. Patrick Company Limited ("GRP"). Insurances relating to the Company's property portfolio are arranged through GRP, the premiums being recovered in full from the Company's tenants. Included in the Company turnover is an insurance commission recoverable from GRP totalling £14,905. At 30 September 2004 there was no indebtedness between GRP and the Company (2003: £nil).
- (iii) On 20 May 2004, the company acquired 100 per cent. of the issued ordinary share capital of Ultima Holdings Limited, the parent company of the Ultima Group, for £1 consideration. No transactions occurred to the date of the acquisition that require disclosure in these financial statements.

NOTES TO THE ACCOUNTS

Year ended 30 September 2004

19. POST BALANCE SHEET EVENTS

- (i) The Fountains Tetney, an operated property with a book value of £16 million, was sold on 28 October 2004 for an equivalent consideration.
- (ii) A 5 bed residential property in Sovereign Park, York was acquired by the Company on 26 November 2004 for a cost of £270,000. The property will be used to provide accommodation to care employees of Highfield Care.
- (iii) On 29 November 2004, TBG CareCo Limited, a company formed at the request of the Blackstone Funds, announced a formal offer to acquire the entire issued and to be issued share capital of NHP Plc, the ultimate parent company.
- (iv) Avonpark Care Centre, an investment property with a book value of £6.2 million was sold on 3 December 2004 for a gross consideration of £8.3 million.

20. ULTIMATE PARENT COMPANY

The immediate parent and ultimate controlling company is NHP Plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the group consolidated financial statements, which include the results of the Company, are available from the Company Secretary, Block A, Upper Ground Floor, Dukes Court, Duke Street, Woking GU21 5BH.