Farm Place Limited

Directors' report and financial statements

Year ended 31 December 2002

Registered number 2663868

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the company is the rehabilitation of alcoholics and drug users and the treatment of eating disorders.

Business review

The results for the period are set out in the profit and loss account on page 5.

On 23 December 2002, the company sold the legal title, beneficial ownership and trade and assets of the Farm Place business (including the Coach House) to Priory Hospitals Limited (a fellow subsidiary undertaking). This disposal was effected as part of a general re-organisation of the Group's structure. The assets were transferred to Priory Hospitals Limited at book value.

On the sale of the land and buildings to Priory Hospitals Limited, the revaluation reserve became realised and was therefore transferred to the profit and loss account.

Capital Reduction

On 17 December 2002, the company reduced its authorised share capital from £100 (being 100 ordinary shares of £1 each) to £98 (being 98 ordinary share of £1 each) by cancelling 2 un-issued ordinary shares of £1 each.

On 17 December 2002, the company reduced its issued share capital from £4 (being 4 ordinary shares of £1 each) to £2 (being 2 ordinary shares of £1 each) by cancelling 2 issued ordinary shares of £1 each.

On the same date, the company reduced its share premium account by £2,498,000 to £nil.

Dividends

Dividends of £4,643,000 were paid during the year *(2001: £nil)*.

Directors and directors' interests

The directors who held office during the year were as follows:

AG Heywood	(resigned 30 April 2002)
Dr CB Patel	
JD Weight	(resigned 10 June 2002)
Ms S J Stewart	(resigned 5 December 2002)
PJ Greensmith	(appointed 13 September 2002)

In accordance with the articles of association, no directors retire by rotation. None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

The interests of Dr CB Patel and PJ Greensmith in the shares of Priory Healthcare Investments Limited (the ultimate parent company) are disclosed in the financial statements of that company.

Directors' report *(continued)*

Employees

The directors recognise that the continued position of the company in the health care industry depends on the quality and motivation of its employees and as such the company is committed to pursue employment policies which will continue to attract, retain and motivate its employees.

Good and effective employee communications are particularly important, and throughout the business it is the directors' policy to promote the understanding by all employees of the company's business aims and performance. This is achieved through internal publications, presentations on performance and a variety of other approaches appropriate for a particular location.

The directors believe that it is important to recruit and retain capable and caring staff regardless of their sex, marital status, race or religion. It is the company's policy to give full and fair consideration to applications for employment from people who are disabled, to continue wherever possible the employment of and to arrange appropriate training for, employees who become disabled and to provide equal opportunities for the career development, training and promotion of disabled employees.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

P J Greensmith
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

8 May 2003

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 and of the profit or loss 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Farm Place Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, the note of historical cost profits and losses, the reconciliation of movements in shareholders' funds and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 to you 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with 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 31 December 2002 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

8 May 2003

Profit and loss account
for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	2	**1,822**	1,505
Cost of sales		**(1,258)**	(1,238)
Profit on ordinary activities before interest and taxation		**564**	267
Interest payable and similar charges	6	**(1)**	(1)
Profit on ordinary activities before taxation	2,3	**563**	266
Tax on profit on ordinary activities	7	**15**	15
Profit on ordinary activities after taxation		**578**	281
Dividends paid		**(4,643)**	-
Retained (loss)/profit for the financial year	15	**(4,065)**	281

The results for both the current and prior year derive from continuing activities.

There were no recognised gains or losses other than the retained profit for the year.

Balance sheet
at 31 December 2002

	Note		2002		2001
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	8		-		3,019
Current assets					
Stocks	9	-		22	
Debtors	10	**148**		1,014	
Cash at bank and in hand		-		1,153	
		148		2,189	
Creditors: amounts falling due within one year	11	**(112)**		(1,082)	
Net current assets			**36**		1,107
Total assets less current liabilities			**36**		4,126
Creditors: amounts falling due after more than one year	12		-		(10)
Provisions for liabilities and charges	13		-		(15)
Net assets			**36**		4,101
Capital and reserves					
Called up share capital	14		-		-
Share premium	15		-		2,498
Revaluation reserve	15		-		230
Profit and loss account	15		**36**		1,373
Shareholders' funds – equity			**36**		4,101

These financial statements were approved by the board of directors on 8 May 2003 and were signed on its behalf by:

P J Greensmith
Director

Note of historical cost profits and losses
for the year to 31 December 2002

	2002 £000	2001 £000
Reported profit on ordinary activities before taxation	**563**	266
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the re-valued amount	**4**	5
Historical cost profit on ordinary activities before taxation	**567**	271
Historical cost loss for the period retained after taxation and dividends	**(4,069)**	286

Reconciliation of movements in shareholders' funds
for the year to 31 December 2002

	2002 £000	2001 £000
Loss for the financial year	**(4,065)**	281
Net addition to shareholders' funds	**(4,065)**	281
Opening shareholders' funds	**4,101**	3,820
Closing shareholders' funds	**36**	4,101

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings. The company has followed the transitional provisions of FRS15 and has retained the book values of freehold and leasehold land and buildings including valuations up to the date of adoption of the Financial Reporting Standard.

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets and depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings and long leasehold properties	-	50 years
Short leasehold properties	-	over the period of the lease
Plant, fixtures and fittings	-	3 to 10 years
Motor vehicles	-	4 years

No depreciation is provided on freehold land.

Fixed asset investments are stated at cost less provision for any impairment in value.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Group relief

Payment is generally made for group relief at a rate of 30% at the time of first estimating the tax provision. To the extent that amendments are subsequently made to the group relief plan, there is generally no payment or receipt in respect of change.

Turnover and revenue recognition

Turnover represents the amounts (excluding value added tax) derived from the provision of services. Revenue is recognised as the services are provided.

2 Analysis of turnover and profit on ordinary activities before taxation

The company's turnover, profit before taxation and net assets arise primarily from its principal activity of drug and alcohol rehabilitation and treatment of eating disorders in the United Kingdom.

3 Profit on ordinary activities before taxation

	2002	2001
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration (inclusive of VAT):		
Audit	**10**	5
Depreciation and other amounts written off tangible fixed assets:		
Owned	**87**	79
Leased	**5**	5
Operating lease rentals: plant and machinery	**2**	4
Operating lease rentals: other assets	**5**	9

Notes *(continued)*

4 Remuneration of directors

	2002	2001
	£000	£000
Directors' remuneration	-	2

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Nursing and other clinical staff	**28**	21
Administrative staff	**15**	14
	43	35

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**621**	571
Social security costs	**54**	51
Other pension costs	**26**	27
	701	649

6 Interest payable and similar charges

	2002	2001
	£000	£000
Interest payable on finance leases	**1**	1

Notes *(continued)*

7 Taxation

	2002 **£000**	2001 £000
UK corporation tax charge/(credit)		
Current tax on income for the period at 30%	-	92
Adjustment in respect of prior years	-	(116)
	-	(24)
Deferred tax (see note 13)	**(15)**	9
	(15)	(15)

The UK corporation tax on profit on ordinary activities has been relieved by the surrender of losses by other group companies for which no consideration was paid.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the year is below the standard rate for the reasons set out in the following reconciliation:

	2002 **£000**	2001 £000
Profit on ordinary activities before tax	**563**	266
Tax on profit on ordinary activities at standard rate	**169**	80
Factors affecting charge for the year		
Capital allowances for year in excess of depreciation	**1**	(3)
Depreciation of non-qualifying assets	**14**	13
Expenses not deductible for tax purposes	-	2
Group relief received for no consideration	**(184)**	-
Adjustment to tax charge in respect of prior years	-	(116)
Total actual amount of current tax	-	(24)

Notes *(continued)*

8 Tangible fixed assets

	Freehold land and buildings £000	Fixtures and fittings £000	Motor Vehicles £000	Total £000
Cost or valuation				
At beginning of the year	2,931	304	18	3,253
Additions		32	4	36
Inter-company disposals	(2,931)	(336)	(22)	(3,289)
At end of the year	-	-	-	-
Depreciation				
At beginning of the year	117	109	8	234
Charge for the year	45	42	5	92
Inter-company disposals	(162)	(151)	(13)	(326)
At end of the year	-	-	-	-
At 31 December 2002	**-**	**-**	**-**	**-**
At 31 December 2001	2,814	195	10	3,019

9 Stocks

	2002 £000	2001 £000
Consumable supplies	**-**	22

10 Debtors

	2002 £000	2001 £000
Trade debtors	**-**	89
Other debtors	**-**	5
Amounts owed by group undertakings	**148**	912
Prepayments and accrued income	**-**	8
	148	1,014

Notes *(continued)*

11 Creditors: amounts falling due within one year

	31 Dec 2002	31 Dec 2001
	£000	£000
Obligations under finance lease contracts	-	3
Trade creditors	-	38
Amounts owed to group undertakings	-	792
Corporation tax	**112**	112
Group relief payable	-	92
Other taxes and social security	-	13
Other creditors	-	23
Accruals and deferred income	-	9
	112	1,082

12 Creditors: amounts falling after more than one year

	2002	2001
	£000	£000
Obligations under finance lease contracts	-	10

Obligations under finance leases are payable as follows:

	2002	2001
	£000	£000
Within one year or less	-	3
Within one to two years	-	10
Within two to five years	-	-
	-	13

Notes *(continued)*

13 Provisions for liabilities and charges

	2002	2001
	£000	£000
Deferred tax		
At beginning of the year	**15**	6
(Credit)/charge for the year	**(15)**	9
At end of the year	**-**	15

Deferred tax has been provided in full as follows:

	2002	2001
	£000	£000
Difference between accumulated depreciation and capital allowances	**-**	15

14 Called up share capital

	2002	2001
	£	£
Authorised		
98 *(2001: 100)* Ordinary shares of £1 each	**98**	100
Allotted, called up and fully paid		
2 *(2001: 4)* Ordinary shares of £1 each	**2**	4

	Number
Movement in Ordinary shares during the year	
At beginning of the year	4
Capital reduction	(2)
At end of the year	2

Notes *(continued)*

15 Reserves

	Share premium	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000
At beginning of the year	2,498	230	1,373	4,101
Capital reduction	(2,498)	-	2,498	-
Revaluation reserve realised	-	(230)	230	-
Retained loss for the year	-	-	(4,065)	(4,065)
At end of the year	-	-	36	36

16 Contingent liabilities

The company has entered into banking facilities set-off agreements in respect of which guarantees have been given. The aggregate amount outstanding under the agreements was £nil at 31 December 2002 *(2001: £396,000)*.

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002		2001	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	-	1
Over five years	-	-	-	-
	-	-	-	1

18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £26,000 *(2001: £27,000)*.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes *(continued)*

19 Ultimate parent company

The company is a subsidiary undertaking of Priory Hospitals Limited, which is incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Priory Healthcare Investments Limited. No other group accounts include the results of the company.