Priory Old Grange Services Limited (formerly Priory Rehabilitation Services Limited)

Directors' report and financial statements

Year ended 31 December 2007

Registered number 3074698

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

On 25 June 2007, the company changed its name from Priory Rehabilitation Services Limited to Priory Old Grange Services Limited

Principal activities

The principal activities of the company during the year were the provision of assessment services and acute, post-acute and continuing care services for children and adults with an acquired brain injury, stroke or other form of neurological disorder

Business review

The results for the year are set out in the Profit and loss account on page 5 and the position of the company as at the year end is set out in the Balance sheet on page 6

As the company is focussed on the healthcare sector, the performance of the company can be impacted by external factors The principal factors are changes in the UK government's policy towards outsourcing of healthcare, changes in the regulatory regime and competitive threats from other independent providers Management uses a range of financial and non-financial indicators to manage the business These are derived from all areas of the business and include sales growth by unit, occupancy and achieved EBITDA margins

Further information regarding the operations and key performance indicators of the group are set out in the directors' report of Priory Investments Holdings Limited

On 4 June 2007, the company

- sold the trade and assets of certain businesses to Priory Rehabilitation Services Limited (a fellow subsidiary undertaking) for a consideration of £2 million, and
- sold the trade and assets of certain businesses to Priory Education Services Limited (a fellow subsidiary undertaking) for a consideration of £1

These disposals were effected as part of a general re-organisation of the Group's structure The company ceased to trade with effect from that date

Dividends

Dividends of £nil were paid during the year *(2006 £nil)*

Directors

The directors who held office during the year were as follows

PJ Greensmith	(resigned 22 March 2007)
Dr CB Patel	(resigned 9 March 2007)
D Spruzen	(resigned 24 April 2007)
S Bradshaw	(appointed 16 April 2007)
Professor C Thompson	(appointed 16 April 2007)
S Mukerji	(appointed 2 May 2007)

In accordance with the articles of association, no directors retire by rotation

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 386 of the Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to appoint auditors annually Accordingly, PricewaterhouseCoopers LLP will continue in office as auditors

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware Each director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

S Mukerji
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

1 July 2008

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 Priory Old Grange Services Limited (formerly Priory Rehabilitation Services Limited)

We have audited the financial statements of Priory Old Grange Services Limited (formerly Priory Rehabilitation Services Limited) for the year ended 31 December 2007 which comprise the Profit and loss account, the Balance sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland) 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 whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

1 July 2008

Profit and loss account
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Turnover	2	**8,268**	18,118
Cost of sales		**(7,456)**	(17,114)
Gross profit		**812**	1,004
Administrative expenses *(including operating exceptional costs of £9,000, 2006 £143,000)*	3	**(634)**	(1,734)
Operating profit/(loss)		**178**	(730)
Loss on termination of an operation		**-**	(688)
Loss on disposal of discontinued operations		**(2,364)**	-
Profit on disposal of fixed assets		**4**	8
Loss on ordinary activities before interest and tax		**(2,182)**	(1,410)
Net interest payable and similar charges	6	**(927)**	(1,144)
Loss on ordinary activities before taxation	3	**(3,109)**	(2,554)
Tax credit on loss on ordinary activities	7	**375**	502
Retained loss for the financial year	15	**(2,734)**	(2,052)

The results for the current and prior year derive from discontinued activities

The company had no other recognised gains or losses for the year other than the loss above, therefore no statement of total recognised gains and losses is presented

There is no difference between the loss before taxation and the loss for the year stated above and their historical cost equivalents

Balance sheet
at 31 December 2007

	Note	£000	2007 £000	£000	2006 £000
Fixed assets					
Tangible assets	8		-		1,941
Investments	9		-		-
			-		1,941
Current assets					
Stocks	10	-		1	
Debtors	11	**36,426**		33,376	
Cash at bank and in hand		-		4,676	
		36,426		38,053	
Creditors. amounts falling due within one year	12	**(22,263)**		(24,575)	
Net current assets					
Due within one year		**2,079**		8,591	
Debtors due after more than one year		**12,084**		4,887	
			14,163		13,478
Total assets less current liabilities			**14,163**		15,419
Creditors amounts falling due after more than one year	13		**(15,097)**		(13,619)
Net (liabilities)/assets			**(934)**		1,800
Capital and reserves					
Called up share capital	14		-		-
Profit and loss account – (deficit)/surplus	15		**(934)**		1,800
Shareholders' (deficit)/funds	16		**(934)**		1,800

These financial statements were approved by the board of directors on 1 July 2008 and were signed on its behalf by

S Mukerji
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and UK company law and under the historical cost accounting rules

The ultimate parent company, Priory Investments Holdings Limited, has confirmed that it will continue to provide financial support to the company for the foreseeable future and for at least 12 months from the date of approval of these financial statements Accordingly the financial statements have been prepared on the going concern basis

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

As the company is a wholly owned subsidiary of Priory Investments Holdings Limited 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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment

Assets in course of construction represent the direct costs of purchasing, constructing and installing tangible fixed assets ahead of their productive use No depreciation is provided on an asset that is in the course of construction until it is completed and transferred to an asset heading that is appropriate

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 16 years
Motor vehicles	-	over the shorter of the lease and 4 years

Land is not depreciated on the basis that land has an unlimited life

Leases

Assets acquired under finance leases are capitalised at cost and depreciated over the shorter of the term of the lease and the useful lives for tangible assets set out above The capital element of future rentals is included under creditors Interest is charged to the profit and loss account over the period of the lease in proportion to the balance of the capital payments outstanding Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed asset investments

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

Stocks

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

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

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 the current tax rate 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 loss on ordinary activities before taxation

The company's turnover, loss before taxation and net assets arise primarily from its principal activity of the provision of rehabilitation and ongoing care facilities for people with head injuries in the United Kingdom

Notes *(continued)*

3 Loss on ordinary activities before taxation

	2007 £000	2006 £000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration (inclusive of VAT)		
Audit	**10**	22
Depreciation and other amounts written off tangible fixed assets		
Owned	**150**	338
Leased	**32**	62
Rentals under operating leases		
Hire of plant and machinery	**15**	49
Other operating leases	**1,332**	3,450
Operating exceptional items		
Re-organisation and rationalisation	**9**	143
Loss on disposal of discontinued operations	**2,364**	-
Profit on disposal of fixed assets	**(4)**	(8)

During the year, the company sold its trade, assets and liabilities to a fellow group company An analysis of the assets and liabilities disposed of and the consideration received is given below

	£000
Fixed assets	**3,016**
Net current assets	**1,445**
Long term liabilities	**(97)**
	4,364
Consideration	**(2,000)**
Loss on disposal of discontinued operations	**2,364**

4 Remuneration of directors

Costs relating to the directors' services have been borne by Priory Central Services Limited, a fellow group company No amounts have been recharged to the company in respect of the directors' services and the directors do not believe that it is practical to allocate these costs between group companies

Notes *(continued)*

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	
	2007	2006
Nursing and other clinical staff	**166**	413
Administrative staff	**45**	116
	211	529

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**3,564**	7,910
Social security costs	**313**	718
Other pension costs	**39**	64
	3,916	8,692

6 Net interest payable and similar charges

	2007	2006
	£000	£000
Interest payable and similar charges		
On bank loans and overdrafts	**-**	3
Inter-company interest payable	**1,653**	1,468
Finance charges payable in respect of finance leases	**4**	9
	1,657	1,480
Interest receivable and similar income		
Inter-company interest receivable	**(730)**	(336)
	927	1,144

Notes *(continued)*

7 Taxation

	2007 £000	2006 £000
UK corporation tax credit on loss	(375)	(490)
Adjustment in respect of prior years	-	(12)
	(375)	(502)

The tax credit of £375,000 *(2006 £502,000)* is to be surrendered to other group companies in exchange for payment of the same amount

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% *(2006 30%)* The actual tax credit for the year is lower than *(2006 lower than)* the standard rate for the reasons set out in the following reconciliation

	2007 £000	2006 £000
Loss on ordinary activities before tax	(3,109)	(2,554)
Tax on loss on ordinary activities at standard rate	(933)	(766)
Factors affecting charge for the year		
Capital allowances for year in excess of depreciation	(52)	86
Other timing differences	(109)	152
Depreciation of non-qualifying assets	7	34
Loss on non-qualifying assets	709	-
Expenses not deductible for tax purposes	3	4
Adjustment to tax charge in respect of prior years	-	(12)
Total actual amount of current tax	(375)	(502)

Notes *(continued)*

8 Tangible fixed assets

	Freehold land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At beginning of the year	108	40	2,863	305	3,316
Additions	4	988	194	81	1,267
Disposals	(118)	(1,022)	(3,057)	(386)	(4,583)
Transfers	6	(6)	-	-	-
At end of the year	-	-	-	-	-
Depreciation					
At beginning of the year	1	-	1,219	155	1,375
Charge for the year	2	-	148	32	182
On disposals	(3)	-	(1,367)	(187)	(1,557)
At end of the year	-	-	-	-	-
Net book value					
At 31 December 2007	-	-	-	-	-
At 31 December 2006	107	40	1,644	150	1,941

Included in the total net book value of motor vehicles is £nil *(2006 £150,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £32,000 *(2006 £62,000)*

Notes *(continued)*

9 Fixed asset investments

	Total £000
Shares in group undertakings	
Cost	
At beginning and end of the year	1,229
Provision	
At beginning and end of the year	1,229
Net book value	
At 31 December 2007	-
At 31 December 2006	-

The company in which the company's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal Activity	Class and Percentage of shares Held
Subsidiary undertaking			
Robinson Kay House (Bury) Limited	England	Dormant	100% ordinary

10 Stocks

	2007 £000	2006 £000
Consumable supplies	-	1

Notes *(continued)*

11 Debtors

	2007 £000	2006 £000
Amounts falling due within one year		
Trade debtors	-	2,842
Amounts owed by group undertakings	23,967	25,137
Other debtors	-	4
Group relief recoverable	375	490
Prepayments and accrued income	-	16
	24,342	28,489
Amounts falling due after more than one year		
Amounts owed by group undertakings	12,084	4,887
	36,426	33,376

Amounts due from group undertakings due within one year are non-interest bearing and repayable on demand

Amounts due from group undertakings due after more than one year bear interest at LIBOR plus 2 25% per annum and are repayable on demand It is not expected that the demand would be made or that these amounts will be received within the current year and accordingly these amounts have been shown as amounts due after more than one year

12 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Obligations under finance leases (see note 13)	-	56
Trade creditors	-	342
Amounts owed to group undertakings	22,263	22,603
Other taxes and social security	-	200
Other creditors	-	167
Accruals and deferred income	-	1,207
	22,263	24,575

Amounts due to group undertakings are unsecured, non-interest bearing and repayable on demand

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Obligations under finance leases	-	76
Amounts due to group undertakings	**15,097**	13,543
	15,097	13,619

Obligations under finance leases are payable as follows

	2007 £000	2006 £000
Within one year or less	-	56
Within one to two years	-	37
Within two to five years	-	39
	-	132

Amounts due to group undertakings are unsecured, bear interest at LIBOR plus 2 25% per annum and are repayable on demand It is not expected that the demand would be made or that these amounts will be paid within one year and accordingly these amounts have been shown as amounts falling due after more than one year

14 Called up share capital

	2007 £	2006 £
Authorised		
100 *(2006 100)* Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
100 *(2006 100)* Ordinary shares of £1 each	**100**	100

Notes *(continued)*

15 Reserves

	Profit and loss account £000
At beginning of the year	1,800
Retained loss for the year	(2,734)
At end of the year	**(934)**

16 Reconciliation of movement in shareholders' funds/(deficit)

	2007 £000	2006 £000
Loss for the financial year	**(2,734)**	(2,052)
Opening shareholders' funds	**1,800**	3,852
Closing shareholders' (deficit)/funds	**(934)**	1,800

17 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 2007 *(2006 £nil)*

Bank loans of a fellow group undertaking are secured by fixed and floating charges over all the assets of the company

Notes *(continued)*

18 Commitments

a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	2007	2006
	£000	£000
Contracted	-	442

b) Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire				
Within one year	-	-	-	10
In the second to fifth years inclusive	-	-	-	8
Over five years	-	-	2,792	-
	-	-	2,792	18

19 Pension scheme

The company operates a defined contribution pension scheme The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £39,000 *(2006 £64,000)*

As at 31 December 2007, there were outstanding contributions of £nil *(31 December 2006 £7,000)*

20 Ultimate parent company

The company's immediate parent company, which is incorporated in England, is Priory Securitisation Limited

The ultimate parent company and the largest group of which the company is a member and for which group accounts are prepared is that headed by Priory Investments Holdings Limited A copy of the consolidated accounts can be obtained from the Company Secretary at Priory House, Randalls Way, Leatherhead, Surrey KT22 7TP