Highbank Health Care Limited

Directors' report and financial statements

Year ended 31 December 2002

Registered number 3074698

A43 *ACWIH049*
COMPANIES HOUSE 0890
06/09/03

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 provision of rehabilitation and ongoing care facilities for people with head injuries.

Business review

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

On 17 December 2002, the company subscribed for an additional £1,229,000 shares in Robinson Kay House (Bury) Limited.

On 23 December 2002, the company sold its investment in Highbank Private Hospital Limited to Priory Healthcare Acquisition Co Limited (a fellow subsidiary undertaking) for a consideration of £351,000 to be left outstanding as a debt repayable on demand. The resulting profit was £nil. This disposal was effected as part of a general re-organisation of the Group's structure.

On the same date, as part of the group re-organisation, the company purchased the legal title, beneficial ownership, trades and assets of the rehabilitation businesses of Libra Health Limited at book value.

Proposed dividend

The directors do not recommend the payment of a dividend *(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 Highbank Health Care 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 profit 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	**4,978**	4,308
Cost of sales		**(4,434)**	(3,698)
Gross profit		**544**	610
Administrative expenses		**(54)**	(54)
Other operating income		**1,229**	-
Operating profit		**1,719**	556
Amounts written off investments		**(1,229)**	-
Net interest payable and similar charges	6	**(2)**	(2)
Profit on ordinary activities before taxation	2,3	**488**	554
Tax on profit on ordinary activities	7	**(170)**	(21)
Retained profit for the financial year		**318**	533

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

The company had no recognised gains or losses other than the profit for the year.

Balance sheet
at 31 December 2002

	Note		2002		2001
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		**13,961**		4,644
Investments	9		**-**		351
			13,961		4,995
Current assets					
Stocks	10	**50**		20	
Debtors	11	**11,916**		801	
Cash at bank and in hand		**1,284**		1,867	
		13,250		2,688	
Creditors: amounts falling due within one year	12	**(26,409)**		(7,295)	
Net current liabilities			**(13,159)**		(4,607)
Total assets less current liabilities			**802**		388
Creditors: amounts falling due after more than one year	13		**(93)**		(7)
Provisions for liabilities and charges	14		**(45)**		(35)
Net assets			**664**		346
Capital and reserves					
Called up share capital	15		**-**		-
Revaluation reserve	16		**1,607**		1,607
Profit and loss account	16		**(943)**		(1,261)
Shareholders' funds – equity			**664**		346

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

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	**488**	554
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the re-valued amount	**21**	22
Historical cost profit on ordinary activities before taxation	**509**	576
Historical cost profit for the period retained after taxation and dividends	**339**	555

Reconciliation of movements in shareholders' funds

for the year to 31 December 2002

	2002 £000	2001 £000
Profit for the financial year	**318**	533
Net addition to shareholders' funds	**318**	533
Opening shareholders' funds	**346**	(187)
Closing shareholders' funds	**664**	346

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 is following the transitional provisions of FRS15 and is retaining 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.

As the company is a wholly owned subsidiary of Priory Healthcare Investments 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.

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 the provision of rehabilitation and ongoing care facilities for people with head injuries 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	**20**	5
Depreciation and other amounts written off tangible fixed assets:		
Owned	**176**	162
Leased	**8**	14
Hire of plant and machinery - operating leases	**5**	26

Notes *(continued)*

4 Remuneration of directors

	2002 £000	2001 £000
Directors' remuneration	-	4

5 Staff numbers and costs

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

	Number of employees 2002	2001
Nursing and other clinical staff	171	150
Administrative staff	38	34
	209	184

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	2,420	1,987
Social security costs	184	144
Other pension costs	9	5
	2,613	2,136

6 Net interest payable and similar charges

	2002 £000	2001 £000
Finance charges payable in respect of finance leases	2	2

Notes *(continued)*

7 Taxation

	2002 £000	2001 £000
UK corporation tax on income at 30%	**160**	203
Adjustment in respect of prior period	**-**	(186)
	160	17
Deferred tax (see note 14)	**10**	4
	170	21

The tax charge of £160,000 on profits for the period has been relieved by the surrender of losses by 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%. The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2002 £000	2001 £000
Profit on ordinary activities before tax	**488**	554
Tax on profit on ordinary activities at standard rate	**146**	166
Factors affecting charge for the year		
Capital allowances for year in excess of depreciation	**(1)**	3
Other timing differences	**(2)**	-
Depreciation of non-qualifying assets	**14**	15
Expenses not deductible for tax purposes	**3**	19
Adjustment to tax charge in respect of prior years	**-**	(186)
Total actual amount of current tax	**160**	17

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 or valuation					
At beginning of the year	3,407	1,100	819	58	5,384
Additions	21	13	149	19	202
Inter-company additions	9,207		1,207	159	10,573
Disposals	-	-	-	(12)	(12)
Transfers	1,113	(1,113)	-	-	-
At end of the year	13,748	-	2,175	224	16,147
Depreciation					
At beginning of the year	155	-	534	51	740
Charge for the year	48	-	128	8	184
On inter-company additions	494		707	70	1,271
On disposals	-	-	-	(9)	(9)
At end of the year	697	-	1,369	120	2,186
Net book value					
At 31 December 2002	**13,051**	**-**	**806**	**104**	**13,961**
At 31 December 2001	3,252	1,100	285	7	4,644

The Company's land and buildings were valued externally at 31 May 1999 on an open market value for existing use basis by Conrad Ritblat, an independent firm employing qualified surveyors specialising in nursing and rest home surveys and valuations. The valuations were carried out in accordance with the Royal Institution of Chartered Surveys Statements of Asset Valuation Practice and Guidance Notes.

Subsequent additions to land and buildings are recorded at cost to the company.

The gross book value of land and buildings includes £10,311,000 *(2001: £2,555,000)* of depreciable assets.

Included in the total net book value of motor vehicles is £88,000 *(2001: £7,000)* in respect of assets held under finance leases. Depreciation for the year on these assets was £8,000 *(2001: £14,000).*

The historical net book value of land and buildings is given below:

	2002 £000	2001 £000
Historical cost of assets	**11,635**	1,822
Aggregate depreciation thereon	**(132)**	(105)
Historical cost net book value	**11,503**	1,717

Notes *(continued)*

9 Fixed asset investments

	Total £000
Shares in group undertakings	
Cost	
At beginning of the year	351
Additions	1,229
Disposal	(351)
At end of the year	1,229
Provision	
At end of the year	351
Disposals	(351)
Provided in year	1,229
At end of the year	1,229
Net book value	
At 31 December 2002	**-**
At 31 December 2001	-

The companies 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 undertakings			
Robinson Kay House (Bury) Limited	England	Dormant	100% ordinary

10 Stocks

	2002 £000	2001 £000
Consumable supplies	**50**	20

Notes *(continued)*

11 Debtors

	2002 £000	2001 £000
Trade debtors	**1,240**	602
Amounts owed by group undertakings	**10,587**	70
Other debtors	**40**	48
Prepayments and accrued income	**49**	81
	11,916	801

12 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Obligations under finance leases (see note 13)	**29**	7
Trade creditors	**222**	168
Amounts owed to group undertakings	**25,453**	6,698
Corporation tax	**142**	142
Group relief payable	**160**	203
Other taxes and social security	**159**	61
Other creditors	**19**	2
Accruals and deferred income	**225**	14
	26,409	7,295

13 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Obligations under finance leases	**93**	7

Obligations under finance leases are payable as follows:

	2002 £000	2001 £000
Within one year or less	**29**	7
Within one to two years	**27**	7
Within two to five years	**66**	-
	122	14

Notes *(continued)*

14 Provisions for liabilities and charges

	£000
Deferred tax	
At beginning of the year	35
Charge for the year	10
At end of the year	**45**

Deferred tax has been provided in full as follows:	2002 £000	2001 £000
Difference between accumulated depreciation and capital allowances	**45**	35

No provision has been made for deferred tax on the excess of valuation over cost of the Company's properties as it is not the intention to dispose of any of the properties on which a revaluation surplus has arisen.

15 Called up share capital

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

16 Reserves

	Revaluation reserve £000	Profit and loss account £000
At beginning of the year	1,607	(1,261)
Retained profit for the year	-	318
At end of the year	**1,607**	**(943)**

Notes *(continued)*

17 Contingent liabilities

(a) 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)*.

(b) An intermediate parent undertaking has obtained a secured bank loan amounting to £190,000,000 as at 31 December 2002 *(2000: £101,750,000)*. This loan is secured on the freehold and leasehold properties of the company and those of certain of its fellow subsidiaries. In addition, the company's share capital has been pledged as security for this loan.

18 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	-	8	-	6
In the second to fifth years inclusive	-	9	-	-
Over five years	-	-	-	-
	-	17	-	6

19 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 £9,000 *(2001: 5,000)*.

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

20 Ultimate parent company

The company is a subsidiary undertaking of Libra Health Group 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.