



Blenheim Healthcare Limited

Directors' report and financial statements

Year ended 31 December 2004

Registered number 3136041



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activity of the company is the development and management of long-term medium secure units for individuals with chronic behavioural problems.

Business review

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

Dividends

Dividends of £2,000,000 were paid during the year (2003: £8,000,000).

Directors and directors' interests

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

Dr CB Patel
PJ Greensmith

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.

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.

Directors' report *(continued)*

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



PJ Greensmith
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

28 June 2005

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 Blenheim Healthcare Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movement 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28 June 2005

Profit and loss account
for the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	2	36,309	27,281
Cost of sales		(27,520)	(21,673)
Gross profit		8,789	5,608
Administrative expenses		(3,193)	(1,602)
Profit on ordinary activities before interest and taxation		5,596	4,006
Net interest payable and similar charges	6	(2,912)	(908)
Profit on ordinary activities before taxation	2,3	2,684	3,098
Tax on profit on ordinary activities	7	(959)	(1,051)
Profit for the financial year		1,725	2,047
Dividends		(2,000)	(8,000)
Amounts transferred to reserves		(275)	(5,953)

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

Balance sheet
at 31 December 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	8	85,230	64,500
Current assets			
Stocks	9	26	25
Debtors	10	29,541	21,267
Cash at bank and in hand		3,721	15,113
		<u>33,288</u>	<u>36,405</u>
Creditors: amounts falling due within one year	11	<u>(16,989)</u>	<u>(20,240)</u>
Net current assets		16,299	16,165
Total assets less current liabilities		101,529	80,665
Creditors: amounts falling due after more than one year	12	(31,202)	(29,288)
Provision for liabilities and charges	13	(93)	(274)
Net assets		70,234	51,103
Capital and reserves			
Called up share capital	14	11,901	11,901
Revaluation reserve	15	57,209	37,803
Profit and loss account	15	1,124	1,399
Shareholders' funds – equity		70,234	51,103

These financial statements were approved by the board of directors on 28 June 2005 and were signed on its behalf by:



PJ Greensmith
 Director

Statement of total recognised gains and losses
for the year to 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	1,725	2,047
Unrealised surplus on revaluation of properties	19,406	28,277
Total recognised gains for the year	21,131	30,324

Note of historical cost profits and losses
for the year to 31 December 2004

	2004 £000	2003 £000
Reported profit on ordinary activities before taxation	2,684	3,098
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the re-valued amount	559	119
Historical cost profit on ordinary activities before taxation	3,243	3,217
Historical cost profit for the year retained after taxation and dividends	284	(5,834)

Reconciliation of movements in shareholders' funds
for the year to 31 December 2004

	2004 £000	2003 £000
Profit for the financial year	1,725	2,047
Dividends	(2,000)	(8,000)
	(275)	(5,953)
Revaluation surplus	19,406	28,277
Net addition to shareholders' funds	19,131	22,324
Opening shareholders' funds	51,103	28,779
Closing shareholders' funds	70,234	51,103

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.

Under FRS 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.

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. Where the valuation of land and buildings cannot be split, the Directors have estimated that the value attributable to land is 22% of the valuation of the land and buildings.

Revaluation of properties

The company has adopted a policy of revaluation of its properties, as permitted by Financial Reporting Standard 15 - *Tangible Fixed Assets*. The assets are valued by independent Chartered Surveyors each year at the balance sheet date, on a rolling basis designed to ensure that all properties are specifically valued at least every five years. Any surplus or deficit on book value is transferred to the revaluation reserve, except that a deficit, which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charge (or credited) to the profit and loss account.

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.

Notes (continued)

1 Accounting policies (continued)

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.

Stocks

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

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.

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.

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 charging patients and residents through the management of the company's long term medium secure units in the United Kingdom.

3 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated		
<i>after charging</i>		
Auditors' remuneration (inclusive of VAT):		
Audit	20	20
Depreciation and other amounts written off tangible fixed assets:		
Owned	1,703	1,155
Leased	25	29
Rentals under operating leases:		
Hire of plant and machinery	27	14
Other operating leases	235	265
	<hr/>	<hr/>

Notes (continued)

4 Remuneration of directors

The directors received no emoluments for services to the company during the year (2003: £nil).

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	
	2004	2003
Nursing and other clinical staff	534	456
Administrative staff	89	77
	<hr/>	<hr/>
	623	533
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	14,204	11,175
Social security costs	1,489	1,135
Other pension costs	174	151
	<hr/>	<hr/>
	15,867	12,461
	<hr/>	<hr/>

6 Net interest payable and similar charges

	2004	2003
	£000	£000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	18	-
Inter-company interest payable	2,823	880
Amortisation of issue costs	174	57
Finance charges payable in respect of finance leases	5	6
	<hr/>	<hr/>
	3,020	943
<i>Interest receivable and similar income</i>		
Reverse premium on novation of swap	(108)	(35)
	<hr/>	<hr/>
	2,912	908
	<hr/>	<hr/>

Notes (continued)

7 Taxation

	2004 £000	2003 £000
Corporation tax		
Current tax on income for the year	1,312	1,274
Adjustment relating to prior years	(172)	(3)
	<hr/>	<hr/>
	1,140	1,271
Deferred tax (see note 13)	(181)	(220)
	<hr/>	<hr/>
	959	1,051
	<hr/>	<hr/>

The tax charge of £1,312,000 (2003: £1,274,000) on profits for the year 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% (2003: 30%). The actual tax charge for the year is below the standard rate for the reasons set out in the following reconciliation:

	2004 £000	2003 £000
Profit on ordinary activities before tax	2,684	3,098
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Tax on profit on ordinary activities at standard rate	805	930
<i>Factors affecting charge for the year</i>		
Capital allowances for year in excess of depreciation	201	192
Other timing differences	(9)	(5)
Depreciation of non-qualifying assets	310	154
Expenses not deductible for tax purposes	5	3
Adjustment to tax charge in respect of prior years	(172)	(3)
	<hr/>	<hr/>
Total actual amount of current tax	1,140	1,271
	<hr/>	<hr/>

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £000	Asset in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost or valuation					
At beginning of the year	61,223	68	4,994	131	66,416
Additions	2	2,535	497	63	3,097
Disposals	-	-	(255)	(84)	(339)
Surplus on revaluation	18,451	-	-	-	18,451
At end of the year	79,676	2,603	5,236	110	87,625
Depreciation					
At beginning of the year	-	-	1,837	79	1,916
Charge for the year	955	-	746	27	1,728
On disposals	-	-	(248)	(46)	(294)
Transfer on revaluation	(955)	-	-	-	(955)
At end of the year	-	-	2,335	60	2,395
Net book value					
At 31 December 2004	79,676	2,603	2,901	50	85,230
At 31 December 2003	61,223	68	3,157	52	64,500

Included in the total net book value of motor vehicles is £50,000 (2003: £49,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £25,000 (2003: £29,000).

Analysis of land and buildings at cost or valuation

	2004 £000	2003 £000
At cost	-	-
At valuation	79,676	61,223
	79,676	61,223

The Company's land and buildings were re-valued at 31 December 2004, on the basis of existing use value by independent qualified valuers. The valuations were undertaken in accordance with the Practice Statements set out in the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards – 5th Edition, as amended, by Colliers Conrad Ritblat Erdman, a firm of independent Chartered Surveyors.

The valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year ended 31 December 2004 resulted in a revaluation surplus of £19,406,000 (note 15).

Notes (continued)

8 Tangible fixed assets (continued)

Freehold and long leasehold land and buildings

	2004 £000	2003 £000
Freehold	63,700	48,063
Long leasehold	15,976	13,160
	<u>79,676</u>	<u>61,223</u>

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

	2004 £000	2003 £000
Historical cost of land and buildings	25,399	25,397
Aggregate depreciation thereon	(1,779)	(1,383)
	<u>23,620</u>	<u>24,014</u>

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

9 Stocks

	2004 £000	2003 £000
Consumable supplies	<u>26</u>	<u>25</u>

10 Debtors

	2004 £000	2003 £000
Trade debtors	6,211	2,738
Amounts owed by group undertakings	23,284	18,474
Other debtors	2	6
Prepayments and accrued income	44	49
	<u>29,541</u>	<u>21,267</u>

Notes (continued)

11 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Obligations under finance leases (see note 12)	20	21
Trade creditors	790	779
Amounts owed to group undertakings	12,562	16,658
Group relief payable	1,312	1,274
Corporation tax	-	169
Other taxes and social security	517	367
Other creditors	175	75
Accruals and deferred income	1,613	897
	<u>16,989</u>	<u>20,240</u>

12 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Bank loans and overdrafts	903	-
Obligations under finance leases	38	51
Amounts due to group undertakings	29,683	28,715
Un-amortised issue costs	(424)	(588)
Accruals and deferred income	1,002	1,110
	<u>31,202</u>	<u>29,288</u>

Obligations under finance leases are payable as follows:

	2004 £000	2003 £000
Within one year or less	20	21
Within one to two years	14	21
Within two to five years	24	30
	<u>58</u>	<u>72</u>

Notes (continued)

13 Provisions for liabilities and charges

	£000
<i>Deferred tax</i>	
At beginning of the year	274
Credit for the year	(181)
	<hr/>
At end of year	93
	<hr/>

Deferred tax has been provided in full as follows:

	2004 £000	2003 £000
Difference between accumulated depreciation and capital allowances	93	274
	<hr/>	<hr/>

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. At 31 December 2004, the total amount un-provided for was £17.8 million (31 December 2003: £9.7 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

14 Called up share capital

	2004 £	2003 £
Authorised		
1,500,000,000 (2003: 1,500,000) "A" Ordinary shares of 1 pence each	15,000,000	15,000,000
15,000 (2003: 15,000) "B" shares of 1 pence each	150	150
	<hr/>	<hr/>
	15,000,150	15,000,150
	<hr/>	<hr/>
Allotted, called up and fully paid		
1,190,085,000 (2003: 1,190,085) "A" Ordinary shares of 1 pence each	11,900,850	11,900,850
15,000 (2003: 15,000) "B" shares of 1 pence each	150	150
	<hr/>	<hr/>
	11,901,000	11,901,000
	<hr/>	<hr/>

The "A" Ordinary shares have no right to dividends other than those recommended by the directors, have no redemption rights and have an unlimited right to share in the surplus remaining on a winding up after all liabilities have been satisfied. The "A" and "B" Ordinary shares have one vote per share, except with regard to the appointment and removal of directors. A majority of "A" shareholders may appoint up to six directors and remove any such directors and appoint other directors in their place. Each "B" shareholder may appoint one director and remove any such director and appoint another director in their place.

Within the meaning of FRS4 'Capital Instruments' the "A" and "B" Ordinary shares are classified as "equity" shares.

Notes (continued)

15 Reserves

	Revaluation reserve	Profit and loss account
	£000	£000
At beginning of the year	37,803	1,399
Retained loss for the year	-	(275)
Revaluation surplus	19,406	-
At end of the year	57,209	1,124

16 Commitments

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

	2004 £000	2003 £000
Contracted	336	3,461

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

	Land and buildings £000	2004 Other £000	Land and buildings £000	2003 Other £000
Operating leases which expire:				
Within one year	73	-	73	-
In the second to fifth years inclusive	44	4	42	4
Over five years	150	-	150	-
	267	4	265	4

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 2004 (2003: £nil).
- (b) A fellow subsidiary undertaking has issued secured fixed and floating rate notes amounting to £201.1 million as at 31 December 2004 (31 December 2003: £206.2 million). These notes are secured on the freehold and leasehold properties of certain of its fellow subsidiaries. In addition, the company's share capital has been pledged as security for this loan.

Notes *(continued)*

18 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 £174,000 (2003: £151,000).

As at 31 December 2004, there were outstanding contributions of £15,000 (31 December 2003: £12,000).

19 Ultimate parent company

The company is a subsidiary undertaking of Priory Securitisation 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.