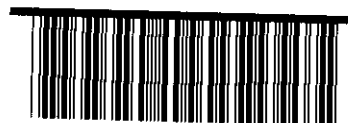


Blenheim House Limited

Directors' report and financial statements

Year ended 31 December 2001

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 2001.

Principal activities

The principal activity of the company was 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.

Proposed dividend

The directors do not recommend the payment of a dividend (2000: £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

Ms S Stewart

JD Weight

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 the directors in the share capital of Priory Healthcare Holdings Limited (formerly Westminster Health Care Holdings Limited) were as follows:

	Interest at end of the year		Interest at start of year	
	A shares	B shares	A shares	B shares
Dr CB Patel	909,278	9	909,278	9
AG Heywood	75,773	1	75,773	1
JD Weight	15,155	-	-	-

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.

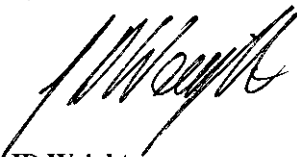
Good and effective employee communications are particularly important, and throughout the business it is the directors' policy to promote the understanding by all employees of the company's business aims and performance. This is achieved through internal publications, presentations on performance and 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 KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



JD Weight
Company secretary

Westminster House
Randalls Way
Leatherhead
Surrey
KT22 7TZ

10 June 2002

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.

Report of the independent auditors', KPMG Audit Plc, to the members of Blenheim House Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company is not disclosed.

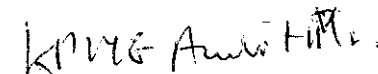
Basis of audit opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 June 2002

Profit and loss account
for the year to 31 December 2001

	<i>Note</i>	31 December 2001 £000	31 December 2000 £000
Turnover	2	15,778	13,466
Cost of sales		(12,515)	(10,782)
Gross profit		3,263	2,684
Administrative expenses	4,5	(300)	(209)
Profit on ordinary activities before interest		2,963	2,475
Net interest payable and similar charges	6	(58)	(70)
Profit on ordinary activities before taxation	2,3	2,899	2,405
Tax on profit on ordinary activities	7	11	(871)
Retained profit for the financial year		2,916	1,534

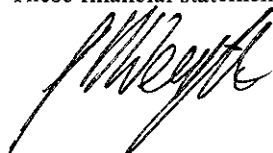
The results for both the current and prior period derive from continuing activities.

The company has no recognised gains or losses other than the profit for the period.

Balance sheet
at 31 December 2001

	<i>Note</i>	31 December 2001	31 December 2000
		£000	£000
Fixed assets			
Tangible assets	8	29,939	26,605
Current assets			
Stocks	9	16	15
Debtors	10	1,411	2,079
Cash at bank and in hand		7,821	4,229
		<u>9,248</u>	<u>6,323</u>
Creditors: amounts falling due within one year	11	(12,770)	(9,483)
Net current liabilities		<u>(3,522)</u>	<u>(3,160)</u>
Total assets less current liabilities		<u>26,417</u>	<u>23,445</u>
Creditors: amounts falling due after more than one year	12	(44)	(37)
Provision for liabilities and charges	13	(49)	-
Net assets		<u>26,324</u>	<u>23,408</u>
Capital and reserves			
Called up share capital	14	11,901	11,901
Revaluation reserve	15	9,526	9,526
Profit and loss account	15	4,897	1,981
Shareholders' funds – equity		<u>26,324</u>	<u>23,408</u>

These financial statements were approved by the board of directors on 10 June 2002 and were signed on its behalf by:



JD Weight
Director

Note of historical cost profits and losses
for the year to 31 December 2001

	31 Dec 2001 £000	31 Dec 2000 £000
Reported profit on ordinary activities before taxation	2,899	2,405
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	230	123
Historical cost profit on ordinary activities before taxation	3,129	2,528
Historical cost profit for the period retained after taxation and dividends	3,140	1,657

Reconciliation of movements in shareholders' funds
for the year to 31 December 2001

	31 £000	31 Dec 2000 £000
Profit for the financial year	2,916	1,534
Net addition to shareholders' funds	2,916	1,534
Opening shareholders' funds	23,408	21,874
Closing shareholders' funds	26,324	23,408

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 Holdings Limited (formerly Westminster Health Care 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.

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.

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

Turnover represents the amounts (excluding value added tax) derived from the provision of services.

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

	31 Dec 2001 £000	31 Dec 2000 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration (inclusive of VAT):		
Audit	5	5
Other services - fees paid to the auditor and its associates	-	-
Depreciation and other amounts written off tangible fixed assets:		
Owned	648	610
Leased	15	12
Hire of plant and machinery - rentals payable under operating leases	31	-
Hire of other assets - operating leases	33	-
<i>after crediting</i>		
Rental income (third party)	-	58
Profit on sale of fixed assets	6	-

Notes (continued)

4 Remuneration of directors

	31 Dec 2001 £000	31 Dec 2000 £000
Directors' emoluments	16	-

The cost of remunerating the directors is borne by another group company.

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	
	31 Dec 2001	31 Dec 2000
Nursing staff	281	240
Hotel services staff	40	59
Administrative staff	42	21
	<u>363</u>	<u>320</u>

The aggregate payroll costs of these persons were as follows:

	31 Dec 2001 £000	31 Dec 2000 £000
Wages and salaries	6,518	5,577
Social security costs	617	534
Other pension costs	84	84
	<u>7,219</u>	<u>6,195</u>

6 Net interest payable and similar charges

	31 Dec 2001 £000	31 Dec 2000 £000
Intercompany interest payable	55	66
Finance charges payable in respect of finance leases	3	4
	<u>58</u>	<u>70</u>

Notes (continued)

7 Taxation

	31 Dec 2001 £000	31 Dec 2000 £000
Corporation tax		
Current tax on income for the year at 30%	959	871
Adjustment relating to prior years	(1,019)	-
	<hr/>	<hr/>
	(60)	871
Deferred tax (see note 13)	49	-
	<hr/>	<hr/>
	(11)	871
	<hr/>	<hr/>

The tax charge of £959,000 in 2001 has been relieved by the surrender of losses by other group companies in exchange for payment of the same amount. Payment is based upon the losses surrendered at 30%. The tax charge of £871,000 in the prior year has been relieved by the surrender of losses by the other group companies, originally in exchange for payment of the same amount. The decision was subsequently taken in 2001 to write off any amounts owed by group companies for losses surrendered, hence the 2000 tax charge was adjusted so that no consideration was paid for the losses surrendered to the company.

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	25,167	2,565	57	27,789
Additions	2,821	623	26	3,470
Transfers	527	-	-	527
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	28,515	3,188	83	31,786
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of the year	512	654	18	1,184
Charge for the year	512	136	15	663
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	1,024	790	33	1,847
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
Cost	18,272	2,398	50	20,720
Valuation	9,219	-	-	9,219
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	27,491	2,398	50	29,939
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	24,947	1,875	8	26,830
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

8 Tangible fixed assets (continued)

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 £21,534,000 (2000: £18,891,000) of depreciable assets.

Included in the total net book value of motor vehicles is £50,000 (2000: £39,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £15,000 (2000: £12,000).

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

	31 Dec 2001 £000	31 Dec 2000 £000
Historical cost of land and buildings	18,986	15,638
Aggregate depreciation thereon	(711)	(429)
	<hr/>	<hr/>
Historical cost net book value	18,275	15,209
	<hr/>	<hr/>

9 Stocks

	31 Dec 2001 £000	31 Dec 2000 £000
Consumable supplies	16	15
	<hr/>	<hr/>

10 Debtors

	31 Dec 2001 £000	31 Dec 2000 £000
Trade debtors	1,370	1,647
Amounts owed by group undertakings	-	324
Other debtors	11	7
Prepayments and accrued income	30	101
	<hr/>	<hr/>
	1,411	2,079
	<hr/>	<hr/>

Notes (continued)

11 Creditors: amounts falling due within one year

	31 Dec 2001 £000	31 Dec 2000 £000
Obligations under finance leases (see note 12)	9	11
Trade creditors	361	309
Amounts owed to group undertakings	10,638	6,865
Group relief payable	811	871
Corporation tax	169	169
Other taxes and social security	220	182
Other creditors	61	607
Accruals and deferred income	501	469
	<u>12,770</u>	<u>9,483</u>

12 Creditors: amounts falling due after more than one year

	31 Dec 2001 £000	31 Dec 2000 £000
Obligations under finance leases	<u>44</u>	<u>37</u>

Obligations under finance leases are payable as follows:

	31 Dec 2001 £000	31 Dec 2000 £000
Within one year or less	9	11
Within one to two years	36	11
Within two to five years	8	26
	<u>53</u>	<u>48</u>

Notes (continued)

13 Provisions for liabilities and charges

	£000
<i>Deferred tax</i>	
At beginning of the year	-
Charge for the year	49
	<hr/>
At end of year	49
	<hr/>

Deferred tax has been provided in full as follows:

31 Dec 2000
 £000

Difference between accumulated depreciation and capital allowances	49
	<hr/>

No provision has been made for deferred tax on the excess of the cost to the company over the tax base cost on the company's properties since it is not expected that any such potential tax liability will be crystallised in the foreseeable future.

14 Called up share capital

	31 Dec 2001 £	31 Dec 2000 £
<i>Authorised</i>		
1,500,000,000 (2000: 1,500,000) "A" Ordinary shares of 1 pence each	15,000,000	15,000,000
15,000 (2000: 15,000) "B" shares of 1 pence each	150	150
	<hr/>	<hr/>
	15,000,150	15,000,150
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
1,190,085,000 (2000: 1,190,085) "A" Ordinary shares of 1 pence each	11,900,850	11,900,850
15,000 (2000: 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	9,526	1,981
Retained profit for the year	-	2,916
	<hr/>	<hr/>
At end of the year	9,526	4,897
	<hr/>	<hr/>

16 Commitments

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

	31 Dec 2001 £000	31 Dec 2000 £000
Contracted	25	-
	<hr/>	<hr/>

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

	Land and buildings £000	31 Dec 2001 Other £000	Land and buildings £000	31 Dec 2000 Other £000
Operating leases which expire:				
Within one year	106	14	-	-
In the second to fifth years inclusive	-	4	-	-
Over five years	150	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	256	18	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

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 £396,000 at 31 December 2001 (2000: £nil).
- (b) An intermediate parent undertaking has obtained a secured bank loan amounting to £101,750,000 as at 31 December 2001 (2000: £99,625,000). 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.

Notes (continued)

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 £84,000 (2000: £84,000).

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

19 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of, and is controlled by, Priory Healthcare Holdings Limited (formerly Westminster Health Care Holdings Limited) which is incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Priory Healthcare Holdings Limited (formerly Westminster Health Care Holdings Limited). No other group accounts include the results of the company.