

Cheadle Royal Healthcare Limited

Directors' report and financial statements

Period from 19 March 2010 to 31 December 2010

Registered number 03254624

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Directors' report

The directors present their report and the audited financial statements of the company for the period from 19 March 2010 to 31 December 2010. The comparative figures are for the period from 1 July 2009 to 18 March 2010.

Principal activity

The company's principal activity is the provision of private healthcare.

Business review and future developments

The results for the period are set out in the Profit and loss account on page 5 and the position of the company as at the period 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 profit margins. Gross profit margins have increased from 35.9% in the prior period to 36.8% in the current period.

The future developments of the company are aligned to the strategy of the Priory Group, headed by Priory Investments Holdings Limited. The group's strategy for the future development of the business is included in the group's annual report which does not form part of this report.

Financial risk management

The company's operations mean that it is exposed to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The directors monitor the risks in order to limit the adverse effects on the financial performance by reviewing levels of debt finance and the related finance costs, however these are integrated with the risks of group and not managed separately. Accordingly, the financial risk management policies of Priory Investment Holdings Limited, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of Priory Investment Holdings Limited, which includes the company, is discussed in the group's annual report which does not form part of this report.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of Priory Investments Holdings Limited, which include those of the company, are discussed in the Group's annual report which does not form part of this report.

Directors' report *(continued)*

Going concern

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.

Dividends

The directors do not recommend the payment of a dividend (2009 £nil)

Directors

The directors who held office during the period and up to the date of signing the financial statements were as follows:

P Scott
M Franzidis
J Lock

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

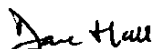
Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

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 a 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



D Hall
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

10 March 2011

Statement of directors' responsibilities

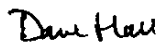
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



D Hall
Company Secretary

10 March 2011

Independent auditors' report to the members of Cheadle Royal Healthcare Limited

We have audited the financial statements of Cheadle Royal Healthcare Limited for the period ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers
LLP
Chartered Accountants and Statutory Auditors
Newcastle-Upon-Tyne

10 March 2011

Profit and loss account

for the period from 19 March 2010 to 31 December 2010 (comparative period 1 July 2009 to 18 March 2010)

	Note	Period from 19 March 2010 to 31 December 2010 £000	Period from 1 July 2009 to 18 March 2010 £000
Turnover	2	21,309	19,968
Cost of sales		(13,466)	(12,801)
Gross profit		7,843	7,167
Administrative expenses		(2,423)	(2,661)
Operating profit		5,420	4,506
Interest payable and similar expenses	6	(4)	-
Profit on ordinary activities before taxation	3	5,416	4,506
Tax on profit on ordinary activities	7	(1,583)	(919)
Profit for the financial period	16	3,833	3,587

The results for the period and the prior period derive from continuing activities

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

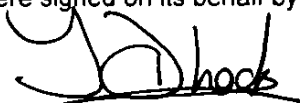
There is no difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents

Balance sheet

as at 31 December 2010 (comparative period as at 18 March 2010)

	Note	31 December 2010 £000	18 March 2010 £000
Fixed assets			
Investments	8	-	-
Tangible fixed assets	9	11,186	11,414
		<u>11,186</u>	<u>11,414</u>
Current assets			
Stocks	10	-	33
Debtors			
- amounts due within one year	11	2,752	2,372
- amounts due after more than one year	11	27,296	34,468
Deferred tax asset	12	234	224
Cash at bank and in hand		1,083	334
		<u>31,365</u>	<u>37,431</u>
Creditors amounts falling due within one year	13	<u>(3,117)</u>	<u>(13,270)</u>
Net current assets		28,248	24,161
Total assets less current liabilities		39,434	35,575
Creditors amounts falling due after more than one year	14	<u>(5,271)</u>	<u>(5,245)</u>
Net assets		34,163	30,330
Capital and reserves			
Called up share capital	15	-	-
Share premium account	16	213	213
Capital redemption reserve	16	907	907
Profit and loss account	16	33,043	29,210
Total shareholder's funds	17	<u>34,163</u>	<u>30,330</u>

The financial statements on pages 5 to 15 were approved by the board of directors on 10 March 2011 and were signed on its behalf by



J Lock
Director

Notes to 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 401 of the Companies Act 2006 from the requirement to prepare group accounts on the grounds that it is included in the consolidated financial statements of a parent undertaking. These financial statements present information about the company as an individual undertaking and not about its group

Under Financial Reporting Standard 1 'Cash flow statements' (revised 1996) 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 publicly available 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 Financial Reporting Standard 8 'Related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group

Tangible assets and depreciation

Tangible assets are stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use

On all assets, depreciation is provided on cost or valuation in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows

Fixtures and fittings	-	7 years
Freehold land and buildings	-	50 years

The expected useful lives of the assets to the business are re-assessed periodically in light of experience

Stocks

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

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more, or a right to pay less, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements

Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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.

Post-retirement benefits

The company operates a defined contribution pension scheme. Defined contribution pension costs are charged to the profit and loss account as they become payable by the group. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Turnover and revenue recognition

Revenue is recognised when the company has obtained the right to receive consideration in exchange for its performance of the provision of private healthcare services. Revenue is recognised on a daily basis in accordance with the patients' stay in the private healthcare units provided by the group.

2 Turnover

The group's turnover and profit on ordinary activities before taxation are attributable to one activity, the provision of healthcare services. Turnover is stated exclusive of value added tax and substantially arises from services provided in the United Kingdom.

3 Profit on ordinary activities before taxation

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration (inclusive of Value Added Tax)		
- Audit fees for the audit of the company's financial statements	5	5
- Non audit fees	-	-
Depreciation and other amounts written off tangible assets		
Owned	330	433
Rentals under operating leases		
Hire of plant and machinery	43	36
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	Period from 19 Mar 2010 to 31 Dec 2010	Period from 1 Jul 2009 to 18 Mar 2010
Nursing & other clinical staff	430	417
Admin	79	88
	<u>509</u>	<u>505</u>

The aggregate payroll costs of these persons were as follows

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
Wages and salaries	9,522	9,917
Social security costs	906	1,024
Other pension costs	384	451
	<u>10,812</u>	<u>11,392</u>

5 Directors' remuneration

Costs relating to the directors' services have been borne by another group undertaking. 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.

6 Interest payable and similar expense

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
On bank overdrafts	<u>4</u>	<u>-</u>

Notes to the financial statements *(continued)*

7 Tax on profit on ordinary activities

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
<i>Current taxation</i>		
Group relief	1,593	1,213
Group relief adjustment in respect of prior years	-	(70)
Total current tax	1,593	1,143
Deferred tax		
Origination and reversal of timing differences	(10)	(224)
Total deferred tax	(10)	(224)
Total tax charge	1,583	919

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (*prior period 28%*). The actual tax charge for the current period differs from the standard rate for the reasons set out in the following reconciliation

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
Profit on ordinary activities before tax	5,416	4,506
Tax on profit on ordinary activities at standard rate	1,516	1,262
<i>Factors affecting charge for the period</i>		
Depreciation in excess of capital allowances	12	105
Short term timing differences	(2)	-
Transfer pricing adjustment	-	(154)
Prior period adjustments	-	(70)
Depreciation of non qualifying assets	58	-
Rate differences	9	-
Total current tax charge for the period	1,593	1,143

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The proposed reductions of the main rate of corporation tax by 1% per annum to 24% by 1 April 2014 are expected to be enacted separately each year.

Notes to the financial statements *(continued)*

8 Investments

	Total £
Shares in group undertakings	
Cost and net book value	
At 19 March 2010 and 31 December 2010	102

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

	Principal activities	Class and percentage of share held
Subsidiary undertakings		
Cheadle Royal Hospital Limited	Dormant	100% ordinary

All subsidiary and associated undertakings are registered in England and Wales

The directors consider that the carrying value of the investments is supported by their underlying net assets

9 Tangible assets

	Land and buildings £000	Fixtures and fittings £000	Total £000
Cost			
At 19 March 2010	10,946	5,442	16,388
Additions	-	116	116
Disposals	-	(2,734)	(2,734)
At 31 December 2010	10,946	2,824	13,770
Accumulated depreciation			
At 19 March 2010	924	4,050	4,974
Charge for the period	26	304	330
On disposals	-	(2,720)	(2,720)
At 31 December 2010	950	1,634	2,584
Net book value			
At 31 December 2010	9,996	1,190	11,186
At 18 March 2010	10,022	1,392	11,414

Notes to the financial statements *(continued)*

10 Stocks

	31 Dec 2010 £000	18 Mar 2010 £000
Raw materials and consumables	-	33

11 Debtors

	31 Dec 2010 £000	18 Mar 2010 £000
<i>Amounts falling due within one year</i>		
Trade debtors	1,456	2,080
Other debtors	4	141
Prepayments and accrued income	52	151
Amounts owed by group undertakings	1,240	-
	<u>2,752</u>	<u>2,372</u>
<i>Amounts falling due after more than one year</i>		
Amounts owed by group undertakings	27,296	34,468
	<u>30,048</u>	<u>36,840</u>

12 Deferred tax asset

	£000
Deferred tax	
At 19 March 2010	224
Credit for the period	10
	<u>234</u>
At 31 December 2010	

	31 Dec 2010 £000	18 Mar 2010 £000
<i>Provision for deferred tax consists of the following amounts</i>		
Depreciation in excess of capital allowances	199	188
Short term timing differences	35	36
	<u>234</u>	<u>224</u>

Notes to the financial statements *(continued)*

13 Creditors amounts falling due within one year

	31 Dec 2010 £000	18 Mar 2010 £000
Trade creditors	144	199
Group relief payable	1,593	11,494
Taxation and social security	413	286
Other creditors	234	326
Accruals and deferred income	733	965
	<u>3,117</u>	<u>13,270</u>

14 Creditors amounts falling due more than one year

	31 Dec 2010 £000	18 Mar 2010 £000
Amounts due to group undertakings	<u>5,271</u>	<u>5,245</u>

15 Called up share capital

	31 Dec 2010 £	18 Mar 2010 £
<i>Called up, allotted and fully paid</i> 97 ordinary shares of £1 each	<u>97</u>	<u>97</u>

16 Reserves

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
At 19 March 2010	213	907	29,210
Profit for the financial period	-	-	3,833
At 31 December 2010	<u>213</u>	<u>907</u>	<u>33,043</u>

Notes to the financial statements *(continued)*

17 Reconciliation of movements in shareholders' deficit

	Period from 19 Mar 2010 to 31 Dec 2010 £000	Period from 1 Jul 2009 to 18 Mar 2010 £000
Profit for the financial period	3,833	3,587
Net addition to shareholder's funds	3,833	3,587
Opening shareholder's funds	30,330	26,743
Closing shareholder's funds	34,163	30,330

18 Defined contribution scheme

The assets of the scheme are held separately from those of the group in independently administered fund. The pension costs charged to the profit and loss account in the period in respect of private pension schemes amounted to £384,000 (*prior period £451,000*). There were outstanding contributions payable to the fund at the end of the period of £67,000 (*prior period £83,000*).

19 Commitments

Annual commitments under non-cancellable operating leases are as follows

	31 Dec 2010 £000 Other	18 Mar 2010 £000 Other
Operating leases which expire		
Within one year	10	8
In the second to fifth years inclusive	17	51
	27	59

Notes to the financial statements *(continued)*

20 Ultimate parent company and controlling party

The company's immediate parent company is Affinity Hospitals Limited, a company incorporated in England and Wales

At 31 December 2010, the company's ultimate parent company was Priory Investments Holdings Limited (incorporated in the Cayman Islands), which is the parent undertaking of the smallest and largest group to consolidate these financial statements. A copy of the consolidated financial statements can be obtained from the Company Secretary at Priory House, Randalls Way, Leatherhead, Surrey KT22 7TP. At that date, the directors considered that there was no ultimate controlling party of the company.

On 4 March 2011, Priory Investments Holdings Limited was acquired by Crown Newco 3 plc, a subsidiary of Crown Newco 1 Limited. As a result of the transaction, the company's ultimate parent company from 4 March 2011 onwards is Crown Newco 1 Limited (incorporated in England). Crown Newco 1 Limited is beneficially owned by funds managed by Advent International Corporation which is considered by the directors to be the ultimate controlling party of the company.