Affinity Hospitals Limited
Annual report and financial statements
for the year ended 31 December 2011

Registered number 3966451

Affinity Hospitals Limited

Annual report and financial statements

for the year ended 31 December 2011

Contents

Affinity Hospitals Limited

Directors' report for the year ended 31 December 2011

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

Principal activities
The principal activity of the company is a holding company for Cheadle Royal Healthcare Limited and Middleton St George Healthcare Limited which are both engaged in the provision of private healthcare services

Business review
The results for the year are set out in the Profit and loss account on page 6 and the position of the company as at the year end is set out in the Balance sheet on page 7

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

During the year, a charge of £nil (2010 £1,138,000) was recognised in respect of operating exceptional items as noted in note 1

Further information regarding the operations and key performance indicators of the group are set out in the Directors' report of Priory Group No 1 Limited

The company's management is committed to a continued growth strategy

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 Group No 1 Limited, which includes the company, is discussed 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 the group and not managed separately Accordingly, the financial risk management policies of Priory Group No 1 Limited, which include those of the company, are 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 Group No 1 Limited, which include those of the company, are discussed in the Group's annual report which does not form part of this report

Affinity Hospitals Limited

Going concern
The ultimate parent company, Priory Group No 1 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 (2010 £nil)

Directors
The directors of the company who held office during the year 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

Employees
The directors recognise that the continued position of the company in the healthcare sector 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 Employees are consulted on issues through workshops, which are run regularly across the Group

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

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

Provision of information to auditors
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Affinity Hospitals Limited

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 prepared 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

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

David Hall
Company Secretary
6 September 2012

21 Exhibition House
Addison Bridge Place
London
W14 8XP

Affinity Hospitals Limited

Independent auditors' report to the members of Affinity Hospitals Limited

We have audited the financial statements of Affinity Hospitals Limited for the year ended 31 December 2011 which comprise the Profit and loss account, the Balance sheet, the Statement of accounting policies 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 Statement of directors' responsibilities set out on page 3 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 In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2011 and of its loss for the year 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 year 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
6 September 2012

Affinity Hospitals Limited

Profit and loss account for the year ended 31 December 2011

	Note	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Administrative expenses (including operating exceptional costs of £nil, 2010 £1,138,000)	1	**(346)**	(2,784)
Operating loss		**(346)**	(2,784)
Interest payable and similar charges	4	**(31)**	(1)
Loss on ordinary activities before taxation		**(377)**	(2,785)
Tax on loss on ordinary activities	5	**(359)**	1,033
Loss for the financial year	12	**(736)**	(1,752)

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

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

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

Affinity Hospitals Limited

Balance sheet as at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	6	-	-
Tangible assets	7	**371**	565
		371	565
Current assets			
Debtors	8	**94**	4,702
Cash at bank and in hand		**4**	185
		98	4,887
Creditors: amounts falling due within one year	9	**(16,060)**	(20,307)
Net current liabilities		**(15,962)**	(15,420)
Total assets less current liabilities		**(15,591)**	(14,855)
Creditors amounts falling due after more than one year	10	**(909)**	(909)
Net liabilities		**(16,500)**	(15,764)
Capital and reserves			
Called up share capital	11	-	-
Share premium account	12	**50**	50
Profit and loss account	12	**(16,550)**	(15,814)
Total shareholders' deficit	13	**(16,500)**	(15,764)

The financial statements on pages 6 to 16 were approved by the board of directors on 6 September 2012 and were signed on its behalf by

J. Lock

Jason Lock
Director

Registered number 3966451

Affinity Hospitals Limited

Statement of 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 accounting reference date was shortened from 18 March to 31 December in the prior period

The ultimate parent company, Priory Group No 1 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 400 of the Companies Act 2006 from the requirement to prepare group financial statements 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 Group No 1 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 accumulated 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

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

Fixtures and fittings - 7 years

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

Investments
Investments in subsidiaries are stated at cost less provision for any impairment in value

Post-retirement benefits
The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period

Affinity Hospitals Limited

Deferred taxation
The charge for taxation is based on the profit for the period and takes into account taxation deferred

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

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

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 the change

Affinity Hospitals Limited

Notes to the financial statements
for the year ended 31 December 2011

1 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Auditors' remuneration (inclusive of Value Added Tax)	1	3
Depreciation and other amounts written off tangible assets		
Owned	206	108
Operating exceptional items		
Re-organisation and rationalisation costs	-	1,138

The re-organisation and rationalisation costs of £nil (2010 £1,138,000) incurred in the year primarily relate to employee redundancy payments made as the company re-organised and streamlined its operations

2 Remuneration of directors

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

3 Staff numbers and costs

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

	Year ended 31 December 2011 Number	Period ended 31 December 2010 Number
By activity		
Administrative staff	2	13

3 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
Wages and salaries	82	789
Social security costs	7	70
Other pension costs (note 14)	6	39
	95	898

4 Interest payable and similar charges

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
On bank loans and overdrafts	-	1
On loans from group companies	31	-
	31	1

5 Tax on loss on ordinary activities

	Year ended 31 December 2011 £'000	Period ended 31 December 2010 £'000
UK corporation tax		
Current tax credit arising in the year	(635)	(1,005)
Adjustment in respect of prior years	1,036	-
Total current tax	**401**	(1,005)
Deferred tax charge arising in the year	(48)	(28)
Deferred tax adjustment in respect of prior periods	2	-
Effect of tax rate change on opening balances	4	-
Total deferred tax (note 8)	**(42)**	(28)
Total tax charge/(credit)	**359**	(1,033)

5 Tax on loss on ordinary activities (continued)

The current tax charge of £401,000 (2010 £1,005,000 credit) 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 26 49% (2010 28%) The actual tax charge for the year is higher (2010 lower) than the standard rate for the reasons set out in the following reconciliation

	Year ended 31 December 2011	Period ended 31 December 2010
	£'000	£'000
Loss on ordinary activities before tax	**(377)**	(2,785)
Tax on loss on ordinary activities at standard rate	**(100)**	(780)
Factors affecting charge for the year		
Depreciation in excess of capital allowances	**50**	28
Utilisation of tax losses	**-**	(255)
Short term timing difference	**-**	(4)
Rate differences	**-**	6
Expenses not deductible for tax purposes	**1**	-
Transfer pricing adjustment	**(586)**	-
Adjustment in respect of prior years	**1,036**	-
Total current tax charge/(credit) for the year	**401**	(1,005)

The standard rate of corporation tax in the UK changed from 28% to 26% with effect from 1 April 2011 A further reduction in this corporation tax rate effective on 1 April 2012 from 26% to 25% was substantively enacted for the purposes of FRS 19 on 5 July 2011 Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 26 49% and deferred taxation has been calculated based on a rate of 25%

In addition to the changes in rates of corporation tax disclosed above a number of further changes to the UK corporation tax system were announced in the March 2012 UK Budget Statement Changes to the corporation tax rate on 1 April 2012, substantively enacted for the purposes of FRS 19 on 26 March 2012, will reduce to 24%, a 1% reduction from the rate substantively enacted on 5 July 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The proposed reductions of the main rate of corporation tax by 1% per year to 22% by 1 April 2014 are expected to be enacted separately each year The overall effect of the further changes from 25% to 22%, if these applied to the deferred tax balance at the balance sheet date, would be immaterial

6 Investments

	Shares in group undertakings
	£
Cost and net book value	
At 1 January 2011 and 31 December 2011	**99**

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

Subsidiary undertaking	Principal activity	Country of incorporation	Class and percentage of shares held
Cheadle Royal Healthcare Limited	Private Healthcare	United Kingdom	100% ordinary
Middleton St George Healthcare Limited	Private Healthcare	United Kingdom	100% ordinary

The directors consider that the carrying value of the investment is supported by its underlying net assets

7 Tangible assets

	Fixtures and fittings
	£'000
Cost	
At 1 January 2011	1,107
Additions	12
At 31 December 2011	**1,119**
Accumulated depreciation	
At 1 January 2011	542
Charge for the year	206
At 31 December 2011	**748**
Net book amount	
At 31 December 2011	**371**
At 31 December 2010	565

8 Debtors

	2011	2010
	£'000	£ 000
Amounts receivable from group undertakings	-	3,514
Prepayments and accrued income	-	131
Tax recoverable	-	1,005
Deferred tax	94	52
	94	4,702

Amounts owed by group undertakings are non-interest bearing and repayable on demand

An analysis of deferred tax assets, included within debtors, is as follows

	£'000
Deferred tax	
At 1 January 2011	52
Credit for the year	42
At 31 December 2011	**94**

Deferred tax arises on the following timing differences

	2011	2010
	£'000	£'000
Accelerated capital allowances	92	50
Other timing differences	2	2
	94	52

9 Creditors: amounts falling due within one year

	2011	2010
	£'000	£'000
Trade creditors	-	97
Amounts owed to group undertakings	15,659	19,966
Group relief payable	401	-
Taxation and social security	-	107
Other creditors	-	2
Accruals and deferred income	-	135
	16,060	20,307

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

10 Creditors: amounts falling due after more than one year

	2011	2010
	£'000	£'000
Amounts owed to group undertakings	909	909

Amounts owed to group undertakings are unsecured, bear interest at December 2011 LIBOR plus 2 25% per annum and are payable on demand It is not expected that the demand would be made or that these amounts will be paid within one year and accordingly these amounts have been shown as amounts falling due after more than one year

During the prior year, no interest was payable on amounts due to group undertakings as the company received a special dispensation from HMRC which negated the need for interest to be charged

11 Called up share capital

	2011	2010
	£	£
Authorised, allotted, called-up and fully paid		
12,000 A ordinary shares of £0 01 each	120	120
6,150 B ordinary shares of £0 01 each	62	62
	182	182

Affinity Hospitals Limited

12 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2011	50	(15,814)
Loss for the financial year	-	(736)
At 31 December 2011	**50**	**(16,550)**

13 Reconciliation of movements in shareholders' deficit

	2011 £'000	2010 £'000
Loss for the financial year	(736)	(1,752)
Net addition to shareholders' deficit	(736)	(1,752)
Opening shareholders' deficit	(15,764)	(14,012)
Closing shareholders' deficit	**(16,500)**	(15,764)

14 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 £6,000 (2010 £39,000)

At 31 December 2011, there were outstanding contributions of £nil (2010 £7,000)

15 Ultimate parent company and controlling party

The company's immediate parent company, which is incorporated in Scotland, is Affinity Hospitals Group Limited

The ultimate parent undertaking and controlling party is Priory Group No 1 Limited, a company incorporated in England Priory Group No 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

Priory Group No 1 Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2011 Priory Group No 3 PLC is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2011 The consolidated financial statements of Priory Group No 1 Limited and Priory Group No 3 PLC can be obtained from the Company Secretary at 21 Exhibition House, Addison Bridge Place, London, W14 8XP