

Priory Central Services Limited

Directors' report and financial statements

Year ended 31 December 2004

Registered number 04391278



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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 to provide management services to group undertakings.

Business review

The results for the period are set out on page 4.

Dividends

The directors do not recommend the payment of a dividend (2003: £nil).

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.

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 Priory Central Services Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet 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 loss 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		11,915	8,207
Administrative expenses (including operating exceptional costs of £2.2 million: 2003 – £nil)		(11,563)	(7,986)
Operating profit		352	221
Profit on sale of fixed assets		326	5
Profit on ordinary activities before interest and tax	2	678	226
Net interest payable and similar charges		(332)	(145)
Profit on ordinary activities before tax		346	81
Tax on profit on ordinary activities	5	(378)	(137)
Loss for the financial year	13	(32)	(56)

The company has no recognised gains or losses other than the loss for the year.

The historical cost retained loss and the reported retained loss are the same.

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

Balance sheet
at 31 December 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	6	2,642	1,065
Investments	7	-	50
		<u>2,642</u>	<u>1,115</u>
Current assets			
Stocks	8	9	11
Debtors	9	46,750	46,696
Cash at bank and in hand		1,251	1,748
		<u>48,010</u>	<u>48,455</u>
Creditors: amounts falling due within one year	10	<u>(50,503)</u>	<u>(49,469)</u>
Net current liabilities		<u>(2,493)</u>	<u>(1,014)</u>
Total assets less current liabilities		<u>149</u>	<u>101</u>
Creditors: amounts falling due after more than one year	11	<u>(178)</u>	<u>(98)</u>
Net assets		<u>(29)</u>	<u>3</u>
Capital and reserves			
Called up share capital	12	301	301
Profit and loss account	13	(330)	(298)
		<u>(29)</u>	<u>3</u>
Shareholders' funds – equity	13	<u>(29)</u>	<u>3</u>

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



PJ Greensmith
 Director

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 UK accounting standards and under the historical cost accounting rules. The going concern basis has been used to prepare the financial statements notwithstanding the deficiency of net assets at 31 December 2004, since the company's parent company has undertaken to provide such support as is necessary to enable the company to meet its obligations as and when they fall due.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Priory Healthcare Investments Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets

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:

Plant, fixtures and fittings	-	3 to 10 years
Motor vehicles	-	over the shorter of the lease and 4 years

Fixed asset investments are stated at cost less provision for any impairment in value.

Stocks

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

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 the change.

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)

2 Profit/(loss) on ordinary activities before taxation

	2004 £000	2003 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration (inclusive of VAT)	9	9
Depreciation and other amounts written off tangible fixed assets:		
Owned	621	269
Leased	91	57
Rentals under operating leases:		
Hire of plant and machinery	37	-
Other operating leases	304	322
Profit on sale of fixed assets		
- profit on sale of trade investments	(320)	-
- profit on sale of tangible assets	(6)	(5)
	<hr/>	<hr/>

3 Remuneration of directors

	2004 £000	2003 £000
Directors' emoluments	886	892
Contributions to money purchase pension schemes	56	55
	<hr/>	<hr/>

The emoluments of the highest paid director were £693,000 (2003: £687,000), and pension contributions of £43,000 (2003: £43,000) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to two directors (2003: two) of the company under money purchase schemes.

4 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
Administrative staff	84	68
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2004 £000	2003 £000
Wages and salaries	4,191	2,855
Social security costs	490	325
Other pension costs	206	145
	<hr/>	<hr/>
	4,887	3,325
	<hr/>	<hr/>

Notes (continued)

5 Taxation

	2004 £000	2003 £000
Corporation tax credit on result for the year at 30%	371	146
Adjustment relating to prior years	7	5
	<hr/>	<hr/>
	378	151
Deferred taxation	-	(14)
	<hr/>	<hr/>
	378	137
	<hr/>	<hr/>

The tax charge of £371,000 (2003: £146,000) 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 period, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the period is above the standard rate for the reasons set out in the following reconciliation:

	2004 £000	2003 £000
Profit on ordinary activities before tax	346	81
	<hr/>	<hr/>
Tax on profit on ordinary activities at standard rate	104	24
<i>Factors affecting charge for the period</i>		
Capital allowances for year in excess of depreciation	214	-
Other timing differences	(27)	-
Expenses not deductible for tax purposes	80	41
Depreciation on non-qualifying assets	-	1
Tax losses not recognised	-	80
Adjustment to tax charge in respect of prior years	7	5
	<hr/>	<hr/>
Total actual amount of current tax	378	151
	<hr/>	<hr/>

Notes (continued)

6 Tangible fixed assets

	Assets in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost				
At beginning of the year	-	1,418	221	1,639
Additions	236	1,857	163	2,256
Disposals	-	(35)	(70)	(105)
Inter-company additions	-	-	223	223
Inter-company disposals	-	-	(94)	(94)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	236	3,240	443	3,919
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of the year	-	495	79	574
Charge for the year	-	621	91	712
On disposals	-	(31)	(49)	(80)
On inter-company additions	-	-	111	111
On inter-company disposals	-	-	(40)	(40)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	-	1,085	192	1,277
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2004	236	2,155	251	2,642
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	-	923	142	1,065
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of motor vehicles is £251,000 (2003: £142,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £91,000 (2003: £57,000).

7 Fixed asset investments

	Total £000
Trade investments	
Cost	
At beginning of the year	50
Disposals	(50)
	<hr/>
	-
	<hr/>
Net book value	
At 31 December 2004	-
	<hr/>
At 31 December 2003	50
	<hr/>

Notes (continued)

8 Stocks

	2004	2003
	£000	£000
Consumable supplies	9	11

9 Debtors

	2004	2003
	£000	£000
Trade debtors	-	4
Amounts due from group undertakings	46,389	46,249
Other debtors	89	67
Prepayments and accrued income	272	376
	46,750	46,696

10 Creditors: amounts falling due within one year

	2004	2003
	£000	£000
Bank loans and overdrafts	27,544	27,350
Obligations under finance lease contracts	95	50
Trade creditors	516	365
Amounts due to group undertakings	19,814	19,996
Group relief payable	371	146
Other taxes and social security	148	117
Other creditors	66	39
Accruals and deferred income	1,949	1,406
	50,503	49,469

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Obligations under finance lease contracts	178	98
Obligations under finance lease contracts are payable as follows:		
Within one year or less	95	50
Within one to two years	87	50
Within two to five years	91	48
	273	148

12 Called up share capital

	2004 £	2003 £
Authorised		
350,000 (2003: 350,000) ordinary shares of £1 each	350,000	350,000
Allotted, called up and fully paid		
301,263 (2003: 301,263) ordinary shares of £1 each	301,263	301,263

13 Reconciliation of movement in shareholders' funds

	Share capital £	Profit and loss account £	2004 Total £	2003 Total £
At beginning of the year	301	(298)	3	59
Retained loss for the year	-	(32)	(32)	(56)
At end of the year	301	(330)	(29)	3

Notes (continued)

14 Commitments

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	-	-	-	-
In the second to fifth years inclusive	-	163	-	-
Over five years	304	-	304	-
	<hr/>	<hr/>	<hr/>	<hr/>
	304	163	304	-
	<hr/>	<hr/>	<hr/>	<hr/>

15 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.

16 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 £102,000 (2003: £90,000).

As at 31 December 2004, there were outstanding contributions of £8,000 (31 December 2003: £11,000).

17 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.