

Priory Group Limited

Directors' report and financial statements

Year ended 31 December 2008

Registered number 04433255



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The principal activity of the company is to act as an intermediate holding company.

Business review

The results for the year are set out in the Profit and loss account on page 5 and the position of the company as at the year end is set out in the Balance sheet on page 6.

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.

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.

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.

Dividends

The directors do not recommend the payment of a dividend (2007: £nil).

Directors

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

S Bradshaw	(resigned 24 November 2008)
Professor C Thompson	(resigned 24 November 2008)
S Mukerji	(resigned 7 July 2008)
J Lock	(appointed 15 September 2008)
D Hall	(appointed 24 November 2008)

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

Directors' report *(continued)*

Auditors

In accordance with Section 386 of the Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, PricewaterhouseCoopers LLP will continue in office as auditors.

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 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

28 May 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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). The financial statements are required by law to 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 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

28 May 2009

Independent auditors' report to the members of Priory Group Limited

We have audited the financial statements of Priory Group Limited for the year ended 31 December 2008 which comprise the Profit and loss account, the Balance sheet funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

28 May 2009

Profit and loss account
for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Operating result		-	-
Profit on disposal of fixed asset investments		-	24
		<hr/>	<hr/>
Profit before interest and tax		-	24
Interest receivable and similar income	3	10,703	9,907
Interest payable and similar charges	4	(14,305)	(19,989)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(3,602)	(10,058)
Tax credit on loss on ordinary activities	5	1,027	4,393
		<hr/>	<hr/>
Loss for the financial year	11	(2,575)	(5,665)
		<hr/>	<hr/>

The company had no other recognised gains and 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 before taxation and the loss for the year stated above and their historical cost equivalents.

The results for the year derive from continuing activities.

Balance sheet
at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Investments	6	103,018	103,018
Current assets			
Debtors due within one year	7	43,649	52,481
Debtors due after more than one year	7	111,370	105,106
Cash at bank and in hand		60	79
		<u>155,079</u>	<u>157,666</u>
Creditors: amounts falling due within one year	8	(5)	(17)
Net current assets		<u>155,074</u>	<u>157,649</u>
Total assets less current liabilities		<u>258,092</u>	<u>260,667</u>
Creditors: amounts falling due after more than one year	9	(179,703)	(179,703)
Net assets		<u>78,389</u>	<u>80,964</u>
Capital and reserves			
Called up share capital	10	250	250
Share premium	11	250	250
Profit and loss account	11	77,889	80,464
Total shareholders' funds	12	<u>78,389</u>	<u>80,964</u>

These financial statements on pages 5 to 11 were approved by the board of directors on 28 May 2009 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 going concern basis has been used to prepare the financial statements 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.

The company is exempt by virtue of section 228A 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 '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.

Fixed asset investments

Fixed asset investments are stated at cost less provision for any impairment in 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 the current tax 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.

2 Loss on ordinary activities before taxation

The remuneration of the auditors in the year and the prior year was borne by another group undertaking.

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.

The company had no employees during the year (2007: nil).

Notes to the financial statements (continued)

3 Interest receivable and similar income

	2008 £000	2007 £000
On bank deposits	1	-
Interest receivable from group undertakings	10,702	9,907
	<u>10,703</u>	<u>9,907</u>

4 Interest payable and similar charges

	2008 £000	2007 £000
Interest payable to group undertakings	14,305	19,989
	<u>14,305</u>	<u>19,989</u>

5 Tax on loss on ordinary activities

	2008 £000	2007 £000
Current tax on losses of the financial year	(1,026)	(4,393)
Adjustment relating to prior years	(1)	-
	<u>(1,027)</u>	<u>(4,393)</u>

The tax credit of £1,026,000 (2007: £4,393,000) is to be surrendered to 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 28.5% (2007: 30%). The actual tax credit for the year is higher than (2007: *higher than*) the standard rate for the reasons set out in the following reconciliation:

	2008 £000	2007 £000
Loss on ordinary activities before tax	(3,602)	(10,058)
Tax on loss on ordinary activities at standard rate	(1,026)	(3,017)
<i>Factors affecting charge for the year</i>		
Other timing differences	-	(1,370)
Expenses not deductible for tax purposes	-	1
Profit/loss on non-qualifying assets	-	(7)
Adjustment to tax charge in respect of prior years	(1)	-
Total actual amount of current tax	<u>(1,027)</u>	<u>(4,393)</u>

Notes to the financial statements (continued)

5 Taxation (continued)

No provision has been made for a deferred tax asset of £6.4 million (2007: £6.4 million) in respect of tax losses due to there being insufficient current year group taxable profits available to utilise those losses. The recoverability of the tax losses in future years is dependent on the future profitability of the company.

6 Investments

	Total £000
Shares in group undertakings	
Cost	
At 1 January 2008 and 31 December 2008	103,018
Provisions	
At 1 January 2008 and 31 December 2008	-
Net book value	
At 31 December 2008 and 31 December 2007	103,018

The principal 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		
Priory Securitisation Holdings Limited *	Intermediate holding company	100% ordinary
Priory Securitisation Limited	Intermediate holding company	100% ordinary
Priory Old Acute Services Limited	Non-trading	100% ordinary
Priory Old Schools Services Limited	Non-trading	100% ordinary
Farleigh Schools Limited	Non-trading	100% ordinary
North Hill House Limited	Non-trading	100% ordinary
Eastwood Grange Limited	Non-trading	100% ordinary
Chelfham Senior School Limited	Non-trading	100% ordinary
Rosendale School Limited	Non-trading	100% ordinary
Autism (GB) Limited	Non-trading	100% ordinary
Solutions (Ross) Limited	Non-trading	100% ordinary
Mark College Limited	Non-trading	100% ordinary
Coxlease School Limited	Non-trading	100% ordinary
Priory Old Grange Services Limited	Non-trading	100% ordinary
Priory Old Forensic Services Limited	Non-trading	100% ordinary
The Nottingham Clinic Limited	Non-trading	100% ordinary
Highbank Private Hospital Limited	Non-trading	100% ordinary

* interests held directly by the company.

A full list of subsidiaries can be obtained by writing to the Company Secretary at Priory House, Randalls Way, Leatherhead, Surrey KT22 7TP.

All subsidiary and associated undertakings are registered in England and Wales.

Notes to the financial statements (continued)

7 Debtors

	2008 £000	2007 £000
<i>Due within one year</i>		
Amounts due from group undertakings	42,622	48,088
Group relief recoverable	1,027	4,393
	<u>43,649</u>	<u>52,481</u>
<i>Due after more than one year</i>		
12% Sub-ordinated loans owed by subsidiary undertakings	56,036	49,772
Amounts due from group undertakings	55,334	55,334
	<u>111,370</u>	<u>105,106</u>
	<u>155,019</u>	<u>157,587</u>

Amounts due from group undertakings due within one year are non-interest bearing and repayable on demand.

Amounts due from group undertakings due after more than one year bear interest at LIBOR plus 2.25% per annum and are repayable on demand. It is not expected that the demand would be made or that these amounts will be received within the current year and accordingly these amounts have been shown as amounts due after more than one year.

8 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Amounts due to group undertakings	5	17

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

9 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Amounts due to group undertakings	179,703	179,703

Amounts due to group undertakings are unsecured, bear interest at LIBOR plus 2.25% per annum and are repayable 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.

Notes to the financial statements (continued)

10 Called up share capital

	2008 £000	2007 £000
Authorised		
232,000,000 (2007: 232,000,000) ordinary shares of 50 pence each	116,000	116,000
Allotted, called up and fully paid		
500,000 (2007: 500,000) ordinary shares of 50 pence each	250	250

11 Reserves

	Share premium £000	Profit and loss account £000
At 1 January 2008	250	80,464
Loss for the financial year	-	(2,575)
At 31 December 2008	250	77,889

12 Reconciliation of movements in shareholders' funds

	2008 £000	2007 £000
Loss for the financial year	(2,575)	(5,665)
Net reduction in shareholders' funds	(2,575)	(5,665)
Opening shareholders' funds	80,964	86,629
Closing shareholders' funds	78,389	80,964

13 Ultimate parent company

The company's immediate parent company, which is incorporated in England, is Priory Healthcare Finance Co Limited.

The ultimate parent company is 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.

The directors consider that there is no ultimate controlling party of the company.