

Priory Healthcare Limited

Directors' report and financial statements

Year ended 31 December 2008

Registered number 6244860



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Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008. The comparatives are for the period from 11 May 2007 (date of incorporation) to 31 December 2007.

Principal activities

The company's principal activity is the operation of hospitals providing in-patient and out-patient treatment in the areas of general psychiatry, addiction treatment, eating disorders and adolescent psychiatry.

Business review

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 improved to 9.3% in 2008 from 5.6% in 2007.

During the year, a charge of £874,000 (2007: £453,000) was recognised in respect of exceptional items as noted in note 3.

Further information regarding the operations and key performance indicators of the group are set out in the directors' report of Priory Investments Holdings Limited.

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:

Professor C Thompson

S Bradshaw

S Mukerji (resigned 7 July 2008)

P Scott (appointed 17 April 2008)

M Franzidis (appointed 12 June 2008)

J Lock (appointed 15 September 2008)

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

Directors' report *(continued)*

Employees

The directors recognise that the continued position of the company in the education 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. In addition, employees are encouraged to participate in the performance of the Group through share ownership by the Employee Incentive Trust.

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 auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

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 Healthcare Limited

We have audited the financial statements of Priory Healthcare Limited for the year ended 31 December 2008 which comprise the Profit and loss account, the Balance sheet 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 (prior period: 11 May 2007 to 31 December 2007)

	Note	Year ended 31 December 2008 £000	Period from 11 May 2007 to 31 December 2007 £000
Turnover	2	88,442	49,477
Cost of sales		(80,240)	(46,719)
Gross profit		8,202	2,758
Administrative expenses (including operating exceptional costs of £874,000; 2007: £453,000)	3	(5,749)	(4,302)
Operating profit/(loss)		2,453	(1,544)
Loss on termination of operations	3	(903)	-
Loss on sale of fixed assets	3	(2)	(9)
Profit/(loss) before interest and tax		1,548	(1,553)
Net interest payable and similar charges	6	(5,824)	(3,544)
Loss on ordinary activities before taxation	3	(4,276)	(5,097)
Tax credit on loss on ordinary activities	7	1,146	444
Loss for the financial year	15	(3,130)	(4,653)

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

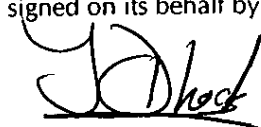
The company had no other recognised gains or losses for the year other than the loss above, therefore no statement of total recognised gains and losses is presented.

There is no difference between the loss before taxation and the profit for the financial period stated above and their historical cost equivalents.

Balance sheet
as at 31 December 2008

	Note	2008 £000	2007 £000
Fixed assets			
Intangible assets	8	38,980	41,096
Tangible assets	9	10,499	9,031
		<u>49,479</u>	<u>50,127</u>
Current assets			
Stocks	10	11	68
Debtors	11	23,940	15,440
Cash at bank and in hand		4,837	16,513
		<u>28,788</u>	<u>32,021</u>
Creditors: amounts falling due within one year	12	(16,095)	(16,764)
		<u>12,693</u>	<u>15,257</u>
Net current assets			
		<u>62,172</u>	<u>65,384</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	(69,945)	(70,027)
		<u>(7,773)</u>	<u>(4,643)</u>
Net liabilities			
Capital and reserves			
Called up share capital	14	10	10
Profit and loss account	15	(7,783)	(4,653)
		<u>(7,773)</u>	<u>(4,643)</u>
Total shareholders' deficit	16		
		<u>(7,773)</u>	<u>(4,643)</u>

The financial statements on pages 5 to 17 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 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.

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.

Goodwill

Goodwill relating to acquisitions of businesses, which represents the excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired, is capitalised in the balance sheet in the year of acquisition and amortised over a period not exceeding 20 years.

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.

Assets in course of construction represent the direct costs of purchasing, constructing and installing tangible fixed assets ahead of their productive use. No depreciation is provided on an asset that is in the course of construction until it is completed and transferred to an asset heading that is appropriate.

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
Fixtures and fittings	-	3 to 16 years
Motor vehicles	-	over the shorter of the lease and 4 years

Land is not depreciated on the basis that land has an unlimited life.

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

Notes to the financial statements *(continued)*

1 **Accounting policies *(continued)***

Asset impairment

Goodwill and tangible assets are tested for impairment by management when a trigger event that might affect asset values has occurred. An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from an income-generating unit, which is an individual business operational unit. Goodwill is also subject to an impairment review at the end of the first full year following an acquisition.

Stocks

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

Leases

Assets acquired under finance leases are capitalised at cost and depreciated over the shorter of the term of the lease and the useful lives for tangible assets set out above. The capital element of future rentals is included under creditors. Interest is charged to the profit and loss account over the period of the lease in proportion to the balance of the capital payments outstanding. 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.

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 Financial Reporting Standard 19 'Deferred tax'. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

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.

Turnover and revenue recognition

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers. Revenue is recognised as the services are provided.

2 **Analysis of turnover and loss on ordinary activities before taxation**

The company's turnover, loss before taxation and net assets arise primarily from its principal activity of the operation of hospitals providing in-patient and out-patient treatment in the areas of general psychiatry, addiction treatment, eating disorders and adolescent psychiatry in the United Kingdom.

Notes to the financial statements (continued)

3 Loss on ordinary activities before taxation

	Year ended 31 Dec 2008 £000	11 May to 31 Dec 2007 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration (inclusive of Value Added Tax)	28	19
Depreciation and other amounts written off tangible assets:		
Owned	1,147	693
Leased	230	146
Amortisation of capitalised goodwill	2,116	1,241
Rentals under operating leases:		
Hire of plant and machinery	306	78
Other operating leases	18,348	10,743
Operating exceptional items:		
- re-organisation and rationalisation costs	262	453
- patient and employee legal claims	612	-
Loss on termination of an operation	903	9
Loss on disposal of tangible assets	2	9

Loss on termination of an operation relates to the costs associated with the closure of Farm Place (£313,000) and to the write off of the company's investment in The Recovery Network Limited (£590,000).

4 Remuneration of directors

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.

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	
	Year ended 31 Dec 2008	11 May to 31 Dec 2007
<i>By activity:</i>		
Nursing and other clinical staff	1,724	1,566
Administrative staff	650	711
	2,374	2,277

Notes to the financial statements *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	Year ended 31 Dec 2008 £000	11 May to 31 Dec 2007 £000
Wages and salaries	34,254	19,441
Social security costs	3,159	1,817
Other pension costs (note 19)	687	393
	<hr/>	<hr/>
	38,100	21,651
	<hr/>	<hr/>

6 Net interest payable and similar charges

	Year ended 31 Dec 2008 £000	11 May to 31 Dec 2007 £000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	214	146
Interest payable to group undertakings	5,354	3,248
Finance charges payable in respect of finance leases	17	12
Finance charges payable in respect of finance leases with group undertaking	239	139
	<hr/>	<hr/>
	5,824	3,545
<i>Interest receivable and similar income</i>		
On bank deposits	-	(1)
	<hr/>	<hr/>
	5,824	3,544
	<hr/>	<hr/>

Notes to the financial statements (continued)

7 Tax on loss on ordinary activities

	Year ended 31 Dec 2008 £000	11 May to 31 Dec 2007 £000
<i>UK corporation tax</i>		
Current tax on losses of the financial period	(763)	(444)
Adjustment to tax charge in respect of prior year	(383)	-
	<u>(1,146)</u>	<u>(444)</u>

The tax credit of £763,000 (2007: £444,000) in the year 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 and prior period is lower than the standard rate for the reasons set out in the following reconciliation:

	Year ended 31 Dec 2008 £000	11 May to 31 Dec 2007 £000
Loss on ordinary activities before tax	(4,276)	(5,097)
Tax on loss on ordinary activities at standard rate	(1,219)	(1,529)
<i>Factors affecting charge for the period</i>		
Capital allowances for period in excess of depreciation	-	(255)
Other timing differences	(293)	17
Depreciation of non-qualifying assets	(24)	53
Profit/losses on non-qualifying assets	-	14
Group relief surrendered for no consideration	-	801
Expenses not deductible for tax purposes (including goodwill amortisation)	773	455
Adjustment to tax charge in respect of prior year	(383)	-
Total actual amount of current tax	<u>(1,146)</u>	<u>(444)</u>

A deferred tax asset of £317,000 (2007: £1,346,000) primarily in respect of accelerated capital allowances has not been recognised in the financial period. There is insufficient evidence that suitable taxable profits will arise in future periods against which such timing differences may reverse

Notes to the financial statements (continued)

8 Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 2008 and 31 December 2008	42,337
Amortisation	
At 1 January 2008	1,241
Charge for the year	2,116
At 31 December 2008	3,357
Net book value	
At 31 December 2008	38,980
At 31 December 2007	41,096

9 Tangible assets

	Land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2008	3,033	646	5,825	359	9,863
Additions	-	167	2,772	17	2,956
Disposals	(71)	(4)	(10)	(36)	(121)
Transfers	(75)	(677)	752	-	-
At 31 December 2008	2,887	132	9,339	340	12,698
Accumulated depreciation					
At 1 January 2008	63	-	695	74	832
Charge for the year	108	-	1,153	116	1,377
Disposals	-	-	-	(10)	(10)
At 31 December 2008	171	-	1,848	180	2,199
Net book value					
At 31 December 2008	2,716	132	7,491	160	10,499
At 31 December 2007	2,970	646	5,130	285	9,031

Notes to the financial statements (continued)

9 Tangible assets (continued)

Included in the total net book value of land and buildings is £2,568,000 (2007: £2,676,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £107,000 (2007: £63,000).

Included in the total net book value of fixtures and fittings is £47,000 (2007: £54,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £7,000 (2007: £4,000).

Included in the total net book value of motor vehicles is £160,000 (2007: £285,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £116,000 (2007: £79,000).

Freehold and leasehold land and buildings	2008 £000	2007 £000
Freehold	148	294
Short leasehold	2,568	2,676
	<u>2,716</u>	<u>2,970</u>

Included in land and buildings is freehold land of £131,000 as at 31 December 2008 (2007: £164,000) which is not depreciated.

10 Stocks

	2008 £000	2007 £000
Consumables	<u>11</u>	<u>68</u>

11 Debtors

	2008 £000	2007 £000
Trade debtors	11,119	11,628
Amounts due from group undertakings	11,002	3,014
Other debtors	12	36
Group relief recoverable	1,146	444
Prepayments and accrued income	661	318
	<u>23,940</u>	<u>15,440</u>

Notes to the financial statements (continued)

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	1,716	1,565
Amounts owed to group undertakings	8,616	8,789
Obligations under finance lease contracts (note 13)	85	95
Obligation under finance lease contracts with group undertaking (note 13)	227	222
Taxation and social security	978	1,070
Other creditors	736	448
Accruals and deferred income	3,737	4,575
	<u>16,095</u>	<u>16,764</u>

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

13 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Amounts owed to group undertakings	67,260	67,260
Obligations under finance leases	122	216
Obligation under finance lease contracts with group undertaking	2,563	2,551
	<u>69,945</u>	<u>70,027</u>

Obligations under finance leases are payable as follows:

	2008 £000	2007 £000
Within one year or less	85	95
Within one to two years	71	87
Within two to five years	51	129
	<u>207</u>	<u>311</u>

Notes to the financial statements (continued)

13 Creditors: amounts falling due after more than one year (continued)

Obligations under finance leases with group undertaking are payable as follows:

	2008 £000	2007 £000
Within one year or less	227	222
Within one to two years	233	286
Within two to five years	2,330	2,265
	<u>2,790</u>	<u>2,773</u>

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.

14 Called up share capital

	2008 £	2007 £
Authorised		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted and fully paid		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

15 Profit and loss account

	£000
At 1 January 2008	(4,653)
Loss for the financial year	<u>(3,130)</u>
At 31 December 2008	<u>(7,783)</u>

Notes to the financial statements (continued)

16 Reconciliation of movement in shareholders' deficit

	2008 £000	2007 £000
Loss for the financial year	(3,130)	(4,653)
New share capital subscribed	-	10
	<hr/>	<hr/>
Net deduction from shareholders' deficit	(3,130)	(4,643)
Opening shareholders' deficit	(4,643)	-
	<hr/>	<hr/>
Closing shareholders' deficit	(7,773)	(4,643)
	<hr/>	<hr/>

17 Contingent liabilities

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 2008 (2007: £nil).

Bank loans of a fellow group undertaking are secured by fixed and floating charges over all the assets of the company.

18 Commitments

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

	2008 £000	2007 £000
Contracted	92	-
	<hr/>	<hr/>

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

	2008		2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	138	124	62	10
In the second to fifth years inclusive	18,210	86	18,311	16
	<hr/>	<hr/>	<hr/>	<hr/>
	18,348	210	18,373	26
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the financial statements *(continued)*

19 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 £687,000 (2007: £393,000).

As at 31 December 2008, there were outstanding contributions of £86,000 (2007: £83,000)

20 Ultimate parent company

The company's immediate parent company, which is incorporated in the Cayman Islands, is Priory Holdings Company No. 3 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.