Priory (Stoke 1) Limited

Directors' report and financial statements

Period from 1 April 2009 (date of incorporation) to 31 December 2009

Registered number 6866823

Contents

Directors' report

The directors present their report and the audited financial statements for the period from 1 April 2009 (date of incorporation) to 31 December 2009. These are the company's first financial statements

Principal activities

The principal activity of the company is the management of facilities providing residential and nursing care for elderly people.

Business review and future developments

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

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

Key performance indicators

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

Financial risk management

The company's operations mean that is exposed it 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

Going concern

The ultimate parent company, Priory Investments Holdings Limited, has confirmed that it will continue to provide financial support to the company for the foreseeable future and for at least 12 months from the date of approval of these financial statements Accordingly the financial statements have been prepared on the going concern basis

Directors' report *(continued)*

Dividends

The directors do not recommend the payment of a dividend

Directors

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

P Scott	(appointed 1 April 2009)
D Hall	(appointed 1 April 2009)
J Lock	(appointed 1 April 2009)

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

Independent auditors

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

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board

Dave Hall

D Hall
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

28 May 2010

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Dan Hall

D Hall
Company Secretary

28 May 2010

Independent auditors' report to the members of Priory (Stoke 1) Limited

We have audited the financial statements of Priory (Stoke 1) Limited for the period ended 31 December 2009 which comprise the Profit and loss account, the Balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial 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

RBunter

Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

28 May 2010

Profit and loss account

for the period from 1 April 2009 to 31 December 2009

	Note	**Period from 1 April 2009 to 31 December 2009 £000**
Turnover		**402**
Cost of sales	2	**(603)**
Loss on ordinary activities before taxation	2	**(201)**
Tax credit on loss on ordinary activities	5	**41**
Loss for the financial period	12	**(160)**

The results for the period derive from continuing activities

The company had no other recognised gains or losses for the period 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 period stated above and their historical cost equivalents

Balance sheet
at 31 December 2009

	Note	£000	2009 £000
Fixed assets			
Investments	6		-
Tangible assets	7		6,494
			6,494
Current assets			
Debtors	8	155	
Cash at bank and in hand		31	
		186	
Creditors: amounts falling due within one year	9	(6,806)	
Net current liabilities			(6,620)
Total assets less current liabilities			(126)
Provisions for liabilities and charges	10		(34)
Net liabilities			(160)
Capital and reserves			
Called up share capital	11		-
Profit and loss account	12		(160)
Total shareholders' deficit	13		(160)

The financial statements on pages 5 to 14 were approved by the board of directors on 28 May 2010 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

Investments

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

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

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 and long leasehold buildings	-	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

Asset impairment

Tangible assets are tested for impairment by management when a trigger event that might affect asset values has occurred An impairment loss is recognised in the profit and loss account 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

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

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

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 Revenue invoiced in advance is included in deferred income until service is provided. Revenue in respect of services provided but not yet invoiced by the period end is included within accrued income

2 Turnover and loss on ordinary activities before taxation

The company's turnover, loss on ordinary activities before taxation and net liabilities arise primarily from its principal activity of the management of facilities providing residential and nursing care for elderly people in the United Kingdom

3 Loss on ordinary activities before taxation

	Period from 1 April 2009 to 31 December 2009 £000
Loss on ordinary activities before taxation is stated after charging	
Depreciation and other amounts written off tangible assets	
Owned	71

The remuneration of the auditors in the period was borne by another group undertaking

The directors received no emoluments for services to the company during the period

Notes to the financial statements *(continued)*

4 Staff numbers and costs

The company did not have any employees during the period. Costs associated with 17 staff providing services for the Company in the period were recharged from another group undertaking and are analysed as follows

	Period from 1 April 2009 to 31 December 2009 £000
Wages and salaries	**184**
Social security costs	**13**
	197

5 Tax on loss on ordinary activities

	Period from 1 April 2009 to 31 December 2009 £000
UK corporation tax	
Current tax arising in the year	75
Deferred tax arising in the year	(34)
	41

The current tax credit of £75,000 in the period is to be surrendered to other group companies in exchange for payment of the same amount

Notes to the financial statements *(continued)*

5 Tax on loss on ordinary activities *(continued)*

The standard rate of tax for the period, based on the UK standard rate of corporation tax is 28% The actual tax credit for the period is higher than the standard rate for the reasons set out in the following reconciliation

	Period from 1 April 2009 to 31 December 2009 £000
Loss on ordinary activities before taxation	(201)
Tax on loss on ordinary activities at standard rate	56
Factors affecting charge for the period	
Depreciation of non-qualifying assets	(15)
Timing difference	34
	75

6 Investments

	Total £
Shares in group undertakings	
Cost and net book value	
At 31 December 2009	2

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

	Principal activities	Class and percentage of share held
Priory (Stoke 2) Limited	Non-trading	100% ordinary
Priory (Stoke 3) Limited	Non-trading	100% ordinary

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

Notes to the financial statements *(continued)*

7 Tangible assets

	Land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Total £000
Cost				
At 1 April 2009	-	-	-	-
Additions	**6,112**	**12**	**441**	**6,565**
At 31 December 2009	**6,112**	**12**	**441**	**6,565**
Accumulated depreciation				
At 1 April 2009	-	-	-	-
Charge for the period	51	-	20	71
At 31 December 2009	**51**	**-**	**20**	**71**
Net book value				
At 31 December 2009	**6,061**	**12**	**421**	**6,494**

8 Debtors

	2009 £000
Due within one year	
Trade debtors	**63**
Amounts due from group undertakings	**13**
Group relief recoverable	**75**
Other debtors	**1**
Prepayments and accrued income	**3**
	155

Notes to the financial statements *(continued)*

9 Creditors: amounts falling due within one year

	2009 £000
Trade creditors	4
Amounts due to group undertakings	6,665
Other creditors	8
Accruals and deferred income	129
	6,806

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

10 Provisions for liabilities and charges

An analysis of deferred tax, included within provisions for liabilities and charges, is as follows·

	£000
Deferred tax	
At beginning of the period	-
Credit for the period	34
At end of the period	**34**

Deferred tax arises on the following timing differences:	2009 £000
Accelerated tax depreciation	34
	34

11 Called up share capital

	2009 £
Authorised	
1,000 ordinary shares of £1 each	1,000
Allotted and fully paid	
1 ordinary share of £1 each	1

During the period one ordinary share was issued at par for consideration of £1.

Notes to the financial statements *(continued)*

12 Profit and loss account

	£000
At 1 April 2009	-
Loss for the financial period	**(160)**
At 31 December 2009	**(160)**

13 Reconciliation of movements in shareholders' deficit

	2009 £000
Loss for the financial period	(160)
New share capital subscribed	-
Net deduction from shareholders' deficit	(160)
Opening shareholders' deficit	-
Closing shareholders' deficit	(160)

14 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 2009

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

15 Commitments and post balance sheet event

At 31 December 2009, the company was the beneficial owner of a 999 year lease in respect of a property used by the company The lease is accounted for as a finance lease A lease premium of £6m was paid at inception of the lease, and at 31 December 2009 the company was required to pay a rent of £1,000 per annum for the remaining term of the lease (998 years) In May 2010, the company sold its interest in the lease to a third party for a consideration of £6m

Notes to the financial statements *(continued)*

16 Ultimate parent company

The company's immediate parent company, which is incorporated in the United Kingdom, is Priory Elderly Care Holdings Limited

The ultimate parent company of the group 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