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Touche**

Deloitte Touche
Kobayashi



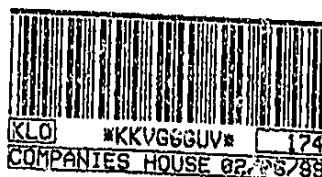
Company Registration No. 2998874

CARE CONTINUUMS LIMITED

Report and Financial Statements

30 November 1998

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**





REPORT AND FINANCIAL STATEMENTS 1998

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

E A Millard
J R W Ansdell (resigned 1 April 1999)
C J Sandham
P H Easterman (appointed 1 April 1999)

SECRETARY

P D A Green

REGISTERED OFFICE

Broadwater Park
Denham
Uxbridge
Middlesex UB9 5HP

BANKERS

The Royal Bank of Scotland plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

SOLICITORS

Eversheds
1 Royal Standard Place
Nottingham NG1 6FZ

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 November 1998.

PRINCIPAL ACTIVITY

The company's principal activity was the provision of psychiatric hospital services for NHS patients requiring treatment in a controlled environment. This activity ceased on 30 June 1998.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Both the level of business for the period of trading and the year end financial position were satisfactory. The company's principal activity ceased on 30 June 1998.

RESULTS AND DIVIDENDS

The profit for the year attributable to shareholders amounts to £121,817 (1997 - £81,144). The directors do not recommend the payment of a dividend (1997 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the year are those listed on page 1. None of the directors had any beneficial interests in the share capital of the company during the year. The directors' interests in the ultimate parent company, Priory Healthcare Limited, are shown in that company's financial statements.

EMPLOYEE INVOLVEMENT

The company is committed to involving all employees in its performance and development. Employees are encouraged to discuss with management matters of interest to the employees and subjects affecting day to day operations of the company.

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

YEAR 2000

During the course of the year the Board appointed a Year 2000 Project Manager, reporting to the Finance Director, to identify areas of exposure to Year 2000 risks and, once identified, to formulate and implement solutions.

As part of the review, all hardware and software in use within the Company has been assessed. The Company's major IT systems are fully Year 2000 compliant. Peripheral areas where non compliance has been identified are being dealt with, and equipment replaced, as part of normal business upgrades.

The Company is reviewing its exposure to all significant suppliers at each of its locations and is developing appropriate contingency measures.

It is impossible to determine the costs of the above review, and any necessary rectification work identified, at this stage; however it is estimated that these costs will not be material.



DIRECTORS' REPORT

AUDITORS

A resolution to reappoint Deloitte & Touche as auditors of the company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



PDA Green
Secretary

27th May 1999

**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 as at the end of the financial year 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 accounting standards have been followed;
- prepare the financial statements on a 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 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

PDA Green
Secretary

27th May 1999



CARE CONTINUUMS LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 6 to 11 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 30 November 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors

28 May 1999

**Deloitte Touche
Tohmatsu**

Aburdeen, Belfast, Birmingham, Blackwell, Bristol, Cambridge, Cardiff, Crawley,
Edinburgh, Glasgow, Leeds, Leicester, Liverpool, London, Manchester, Milton Keynes,
Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principals' place of business at which a list of partners' names is available:
Stonecutter Court, 1 Stonecutler Street, London EC4A 4TR.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on
investment business.



PROFIT AND LOSS ACCOUNT
Year ended 30 November 1998

	Note	1998 £	1997 £
Turnover	2	740,052	1,072,635
Cost of sales		(470,023)	(769,140)
Gross profit		<u>270,029</u>	<u>303,495</u>
Administrative expenses		(148,212)	(225,996)
OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	121,817	77,499
Tax credit on profit on ordinary activities	6	-	3,645
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>121,817</u>	<u>81,144</u>

All activities derive from discontinued activities.

There are no recognised gains or losses in either the current or preceding year other than the profit attributable to shareholders of the company.



BALANCE SHEET
30 November 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	-	6,501
CURRENT ASSETS			
Debtors	8	213,260	181,584
Cash at bank and in hand		20,219	33,399
		<u>233,479</u>	<u>214,983</u>
CREDITORS: amounts falling due within one year	9	<u>(6,922)</u>	<u>(116,744)</u>
NET CURRENT ASSETS		<u>226,557</u>	<u>98,239</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>226,557</u>	<u>104,740</u>
CAPITAL AND RESERVES			
Called up share capital	10	2	2
Profit and loss account	11	<u>226,555</u>	<u>104,738</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>226,557</u>	<u>104,740</u>

These financial statements were approved by the Board of Directors on 27 May 1999.

Signed on behalf of the Board of Directors

P H Easterman
Director



NOTES TO THE ACCOUNTS

Year ended 30 November 1998

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The company has not presented a statement of cash flows in accordance with Financial Reporting Standard Number 1 as Priory Healthcare Limited, the only undertaking in the UK to consolidate the results of the company, has published a consolidated statement of cash flows which includes the cash flows of the company.

Depreciation

The cost of fixed assets is written off by equal instalments over their expected useful lives as follows:

Fixtures, fitting and equipment two to five years

Leases

Payments in respect of operating leases are charged to the profit and loss account as incurred.

Pensions

The company is a member of a group defined benefit pension scheme which requires contributions to be made to a separately administered fund. Contributions to the fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the group. The regular cost is attributed to individual years using the current unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are spread over the average expected working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. The actuarial statement for the pension fund is given in the consolidated accounts of the ultimate parent company, Priory Healthcare Limited.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Pre-opening expenses

Pre-opening costs incurred prior to the opening of new hospitals are amortised over the original contract period.

2. TURNOVER

Turnover comprises the invoice value of services supplied by the company excluding VAT. All services have been carried out in the United Kingdom and relate to the principal activities of the company.

3. OPERATING PROFIT

Operating profit is stated after charging the following:

	1998	1997
	£	£
Auditors' remuneration		
- audit services	2,500	2,400
- other services	1,500	1,500
Depreciation	1,103	6,287
Loss on disposal of fixed assets	5,298	-
Amortisation of pre-opening expenses	-	18,263
Operating lease charges		
Buildings	38,074	65,270
Other	800	1,354



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

4. DIRECTORS

None of the directors received any remuneration during the year (1997 - £nil).

5. STAFF COSTS

	1998 £	1997 £
Wages and salaries	281,393	485,654
Social security costs	26,470	45,591
Pension costs	4,677	11,065
	<u>312,540</u>	<u>542,310</u>

The average number of persons employed by the company during the year, including executive directors, was 17 (1997 - 34).

6. TAX CREDIT ON PROFIT ON ORDINARY ACTIVITIES

The credit based on profit for the year comprises:

	1998 £	1997 £
Adjustment in respect of prior years	-	3,645
	<u>-</u>	<u>3,645</u>

UK corporation tax is charged at the rate of 31% (1997 - 31%).

The charge is disproportionate because the company is not paying for group relief.



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

7. TANGIBLE FIXED ASSETS

	Fixtures, fittings and equipment £
Cost	
At 1 December 1997	34,659
Disposals	(34,659)
At 30 November 1998	-
Accumulated depreciation	
At 1 December 1997	28,158
Charge for the year	1,103
Disposals	(29,261)
At 30 November 1998	-
Net book value	
At 30 November 1998	-
At 30 November 1997	6,501

8. DEBTORS

	1998 £	1997 £
Trade debtors	-	92,883
Amounts due from immediate holding company	208,014	75,267
Amounts due from intermediate holding company	5,246	6,496
Corporation tax	-	3,645
Prepayments	-	3,293
	<u>213,260</u>	<u>181,584</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Trade creditors	-	14,355
Other creditors	-	1,409
Corporation tax	4,540	-
Accruals	2,382	100,980
	<u>6,922</u>	<u>116,744</u>



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

10. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Ordinary shares of £1 each: 100 authorised	100	100
2 allotted and fully paid	2	2

11. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total 1998 £	Total 1997 £
At 1 December 1997	2	104,738	104,740	23,596
Profit for the year	-	121,817	121,817	81,144
At 30 November 1998	2	226,555	226,557	104,740

12. FINANCIAL COMMITMENTS

Operating lease commitments

	Land and buildings 1998 £	Other 1998 £	Land and buildings 1997 £	Other 1997 £
Leases which expire: Between two and five years	-	-	65,920	8,124

13. SECURITY AND CONTINGENT LIABILITIES

The group's bank loan and overdraft are secured by fixed and floating charges over the assets of the group.

14. TRANSACTIONS WITH RELATED PARTIES

In accordance with the exemption extended in FRS 8 "Related Party Disclosures", the company has not disclosed transactions or balances between itself and Priory Healthcare Limited and its subsidiary undertakings on the basis that 90 per cent or more of the voting rights of these companies are controlled within the group. The consolidated financial statements in which the company is included are publicly available at the address given below.

15. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling entity is Priory Healthcare Limited, registered in England and Wales. Copies of the group accounts can be obtained from the registered office, Broadwater Park, Denham, Uxbridge, Middlesex, UB9 5HP.