

Cheadle Royal Healthcare Limited

Directors' report and financial statements

Period from 1 July 2009 to 18 March 2010

Registered number 03254624



Contents

| | |
|---|---|
| Directors' report | 1 |
| Statement of directors' responsibilities | 3 |
| Independent auditors' report to the members of Cheadle Royal Healthcare Limited | 4 |
| Profit and loss account | 5 |
| Balance sheet | 6 |
| Notes to the financial statements | 7 |

Directors' report

The directors present their report and the audited financial statements of the company for the period from 1 July 2009 to 18 March 2010. The comparative figures are for the year ended 30 June 2009.

Principal activity

The company's principal activity is the provision of private healthcare.

Business review and future developments

The company regards earnings before interest, tax, depreciation and amortisation (EBITDA) to be the most important measure of financial performance.

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|---|--|------------------------------------|
| Profit on ordinary activities before taxation | 4,506 | 8,015 |
| Add back depreciation | 433 | 594 |
| EBITDA | 4,939 | 8,609 |

EBITDA for the current period was £4,939,000, compared with £8,609,000 in the prior year. EBITDA represented 25% of turnover in the period to 18 March 2010, compared with 30% in the year to 30 June 2009. The company expects to continue its current operations in the forthcoming period.

On 18 March 2010, Affinity Healthcare Holdings Limited (the company's ultimate parent company) was acquired by Priory New Investments 3 Limited, a subsidiary of Priory Investments Holdings Limited. As a result of the transaction, the company's ultimate parent company from 18 March 2010 onwards is Priory Investments Holdings Limited (incorporated in the Cayman Islands).

Principal risks and uncertainties

The company operates in a competitive, regulated and changing market. The company provides services almost exclusively to the NHS and works closely with that organisation to ensure that the services provided by the company meet the needs of the NHS. The NHS is moving towards a greater emphasis on commissioning services by means of contract rather than a spot purchase. To date, the company has been successful in responding to such tenders. This approach from the NHS may lead to slightly lower future margins for the company, but potentially a greater degree of certainty for future revenues.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in the financial statements.

Directors' report *(continued)*

Dividends

The directors do not recommend the payment of a dividend (2009 *£nil*)

Directors

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

| | |
|--------------------|---------------------------|
| T MacDonald-Milner | (resigned 18 March 2010) |
| J Shaw | (resigned 18 March 2010) |
| A Evans | (resigned 18 March 2010) |
| P Scott | (appointed 18 March 2010) |
| M Franzidis | (appointed 18 March 2010) |
| J Lock | (appointed 18 March 2010) |

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

Independent auditors

The company's previous auditors, Deloitte LLP, tendered their resignation on 18 March 2010. PricewaterhouseCoopers LLP were subsequently appointed as the company's auditors and 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



D Hall
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

21 December 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.

By order of the board



D Hall
Company Secretary

21 December 2010

Independent auditors' report to the members of Cheadle Royal Healthcare Limited

We have audited the financial statements of Cheadle Royal Healthcare Limited for the period from 1 July 2009 to 18 March 2010 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 18 March 2010 and of its profit 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.



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

21 December 2010

Profit and loss account

for the period from 1 July 2009 to 18 March 2010

| | Note | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|--|------|---|------------------------------------|
| Turnover | 2 | 19,968 | 28,739 |
| Cost of sales | | (12,801) | (16,976) |
| Gross profit | | 7,167 | 11,763 |
| Administrative expenses | | (2,661) | (3,748) |
| Operating profit | | 4,506 | 8,015 |
| Interest receivable and similar income | 6 | - | 2 |
| Profit on ordinary activities before taxation | 3 | 4,506 | 8,017 |
| Tax on profit on ordinary activities | 7 | (919) | (2,110) |
| Profit for the financial period | 16 | 3,587 | 5,907 |

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

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

There is no difference between the profit on ordinary activities before taxation and the profit for the financial period stated above and their historical cost equivalents

Balance sheet
as at 18 March 2010

| | Note | 18 March 2010 | | 30 June 2009 | |
|--|------|---------------|-----------------|--------------|----------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible fixed assets | 9 | | 11,414 | | 11,489 |
| Current assets | | | | | |
| Stocks | 10 | | 33 | | 36 |
| Debtors | | | | | |
| - amounts due within one year | 11 | | 2,372 | | 2,684 |
| - amounts due after more than one year | 11 | | 34,468 | | 29,096 |
| Deferred tax asset | 12 | | 224 | | - |
| Cash at bank and in hand | | | 334 | | 767 |
| | | | 37,431 | | 32,583 |
| Creditors: amounts falling due within one year | 13 | | (13,270) | | (12,084) |
| Net current assets | | | 24,161 | | 20,499 |
| Total assets less current liabilities | | | 35,575 | | 31,988 |
| Creditors: amounts falling due after more than one year | 14 | | (5,245) | | (5,245) |
| Net assets | | | 30,330 | | 26,743 |
| Capital and reserves | | | | | |
| Called up share capital | 15 | | - | | - |
| Share premium account | 16 | | 213 | | 213 |
| Capital redemption reserve | 16 | | 907 | | 907 |
| Profit and loss account | 16 | | 29,210 | | 25,623 |
| Total shareholder's funds | 17 | | 30,330 | | 26,743 |

The financial statements on pages 5 to 15 were approved by the board of directors on 21 December 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 company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group accounts on the grounds that it is included in the consolidated financial statements of a parent undertaking. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (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 published consolidated financial statements.

As the company is a wholly owned subsidiary of Affinity Healthcare Holdings 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.

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.

On all assets, depreciation is provided on cost or valuation in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows:

| | | |
|-----------------------------|---|----------|
| Fixtures and fittings | - | 7 years |
| Freehold land and buildings | - | 50 years |

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

Stocks

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

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more, or a right to pay less, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise 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.

Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

Post-retirement benefits

The company operates a defined contribution pension scheme. Defined contribution pension costs are charged to the profit and loss account as they become payable by the group. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Turnover and revenue recognition

Revenue is recognised when the company has obtained the right to receive consideration in exchange for its performance of the provision of private healthcare services. Revenue is recognised on a daily basis in accordance with the patients' stay in the private healthcare units provided by the group.

2 Turnover

The group's turnover and profit on ordinary activities before taxation are attributable to one activity, the provision of healthcare services. Turnover is stated exclusive of value added tax and substantially arises from services provided in the United Kingdom.

3 Profit on ordinary activities before taxation

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|---|--|------------------------------------|
| <i>Loss on ordinary activities before taxation is stated after charging / (crediting)</i> | | |
| Auditors' remuneration (inclusive of Value Added Tax) | | |
| - Audit fees for the audit of the company's financial statements | 5 | 14 |
| - Non audit fees (tax services) | - | 15 |
| Depreciation and other amounts written off tangible assets | | |
| Owned | 433 | 594 |
| Rentals under operating leases | | |
| Hire of plant and machinery | 36 | 39 |

Notes to the financial statements (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by activity, was as follows

| | Number of employees | |
|-----------------------|--|----------------------------|
| | Period from 1 July 2009 to 18 March 2010 | Year ended 30 June 2009 |
| Administrative | 40 | 41 |
| Professional | 417 | 431 |
| Technical and support | 48 | 50 |
| | <u>505</u> | <u>522</u> |

The aggregate payroll costs of these persons were as follows

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|-----------------------|--|------------------------------------|
| Wages and salaries | 9,917 | 14,327 |
| Social security costs | 1,024 | 1,446 |
| Other pension costs | 451 | 539 |
| | <u>11,392</u> | <u>16,312</u> |

5 Directors' remuneration

Costs relating to the directors' services have been borne by another group undertaking. 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.

6 Interest receivable and similar income

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|------------------|--|------------------------------------|
| On bank deposits | - | 2 |
| | <u>-</u> | <u>2</u> |

Notes to the financial statements (continued)

7 Tax on profit on ordinary activities

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|---|--|------------------------------------|
| <i>Current taxation</i> | | |
| Group relief | 1,213 | 2,103 |
| Group relief adjustment in respect of prior years | (70) | 7 |
| Total current tax | 1,143 | 2,110 |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | (224) | - |
| Total deferred tax | (224) | - |
| Tax on profit on ordinary activities | 919 | 2,110 |

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2009 28%). The actual tax credit for the current period differs from the standard rate for the reasons set out in the following reconciliation

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|--|--|------------------------------------|
| Profit on ordinary activities before tax | 4,506 | 8,016 |
| Tax on profit on ordinary activities at standard rate | 1,262 | 2,245 |
| <i>Factors affecting charge for the period</i> | | |
| Capital allowances in the period in excess of depreciation | 105 | (53) |
| Expense not deductible for tax purposes | - | 42 |
| Short term timing differences | - | (17) |
| Transfer pricing adjustment | (154) | (114) |
| Prior period adjustments | (70) | 7 |
| Total current tax credit for the period | 1,143 | 2,110 |

Notes to the financial statements (continued)

8 Investments

| | Total £ |
|-------------------------------------|------------|
| <i>Shares in group undertakings</i> | |
| <i>Cost and net book value</i> | |
| At 1 July 2009 and 18 March 2010 | 102 |

The 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 |
|--------------------------------|----------------------|---------------------------------------|
| <i>Subsidiary undertakings</i> | | |
| Cheadle Royal Hospital Limited | Dormant | 100% ordinary |

All subsidiary and associated undertakings are registered in England and Wales

The directors consider that the carrying value of the investments is supported by their underlying net assets

9 Tangible assets

| | Land and buildings £000 | Fixtures and fittings £000 | Total £000 |
|---------------------------------|-------------------------------|----------------------------------|---------------|
| <i>Cost</i> | | | |
| At 1 July 2009 | 10,934 | 5,096 | 16,030 |
| Additions | 12 | 346 | 358 |
| At 18 March 2010 | 10,946 | 5,442 | 16,388 |
| <i>Accumulated depreciation</i> | | | |
| At 1 July 2009 | 771 | 3,770 | 4,541 |
| Charge for the year | 153 | 280 | 433 |
| At 18 March 2010 | 924 | 4,050 | 4,974 |
| <i>Net book value</i> | | | |
| At 18 March 2010 | 10,022 | 1,392 | 11,414 |
| At 30 June 2009 | 10,163 | 1,326 | 11,489 |

Notes to the financial statements (continued)

10 Stocks

| | 18 March 2010 £000 | 30 June 2009 £000 |
|-------------------------------|-----------------------|----------------------|
| Raw materials and consumables | 33 | 36 |

11 Debtors

| | 18 March 2010 £000 | 30 June 2009 £000 |
|---|-----------------------|----------------------|
| <i>Amounts falling due within one year</i> | | |
| Trade debtors | 2,080 | 2,432 |
| Other debtors | 141 | 133 |
| Prepayments and accrued income | 151 | 119 |
| | <u>2,372</u> | <u>2,684</u> |
| <i>Amounts falling due after more than one year</i> | | |
| Amounts owed by group undertakings | 34,468 | 29,096 |
| | <u>36,810</u> | <u>31,780</u> |

12 Deferred tax asset

| | | £000 |
|---|-----------------------|----------------------|
| Deferred tax | | |
| At 1 July 2009 | | - |
| Credit for the period | | 224 |
| | | <u>224</u> |
| At 18 March 2010 | | <u>224</u> |
| | 18 March 2010 £000 | 30 June 2009 £000 |
| <i>Provision for deferred tax consists of the following amounts</i> | | |
| Depreciation in excess of capital allowances | 188 | - |
| Short term timing differences | 36 | - |
| | <u>224</u> | <u>-</u> |

Notes to the financial statements (continued)

13 Creditors: amounts falling due within one year

| | 18 March 2010 £000 | 30 June 2009 £000 |
|------------------------------|-----------------------|----------------------|
| Trade creditors | 199 | 628 |
| Group relief payable | 11,494 | 10,351 |
| Taxation and social security | 286 | 432 |
| Other creditors | 326 | 33 |
| Accruals and deferred income | 965 | 640 |
| | <u>13,270</u> | <u>12,084</u> |

14 Creditors: amounts falling due more than one year

| | 18 March 2010 £000 | 30 June 2009 £000 |
|-----------------------------------|-----------------------|----------------------|
| Amounts due to group undertakings | <u>5,245</u> | <u>5,245</u> |

15 Called up share capital

| | 18 March 2010 £ | 30 June 2009 £ |
|---|--------------------|-------------------|
| <i>Called up, allotted and fully paid</i> | | |
| 97 ordinary shares of £1 each | <u>97</u> | <u>97</u> |

16 Reserves

| | Share premium account £000 | Capital redemption reserve £000 | Profit and loss account £000 |
|---------------------------------|----------------------------------|--|------------------------------------|
| At 1 July 2009 | 213 | 907 | 25,623 |
| Profit for the financial period | - | - | 3,587 |
| | <u>213</u> | <u>907</u> | <u>29,210</u> |
| At 18 March 2010 | | | |

Notes to the financial statements *(continued)*

17 Reconciliation of movements in shareholders' deficit

| | Period from 1 July 2009 to 18 March 2010 £000 | Year ended 30 June 2009 £000 |
|-------------------------------------|--|------------------------------------|
| Profit for the financial year | 3,587 | 5,907 |
| Net addition to shareholder's funds | 3,587 | 5,907 |
| Opening shareholder's funds | 26,743 | 20,836 |
| Closing shareholder's funds | 30,330 | 26,743 |

18 Defined contribution scheme

The assets of the scheme are held separately from those of the group in independently administered fund. The pension costs charged to the profit and loss account in the period in respect of private pension schemes amounted to £451,000 (2009 £539,000). There were outstanding contributions payable to the fund at the end of the period of £83,000 (2009 £56,000).

19 Commitments

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

| | 18 March 2010 £000 | 30 June 2009 £000 |
|------------|-----------------------|----------------------|
| Contracted | - | 299 |

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

| | 18 March 2010 £000 Other | 30 June 2009 £000 Other |
|----------------------------|--------------------------------|-------------------------------|
| Group | | |
| <i>Leases which expire</i> | | |
| Within one year | 8 | 13 |
| Between one and two years | 18 | 13 |
| Between two to five years | 33 | 18 |
| | 59 | 44 |

Notes to the financial statements *(continued)*

20 Ultimate parent company

The company's immediate parent company is Affinity Hospitals Limited, a company incorporated in England and Wales. Prior to 18 March 2010, the directors consider Affinity Healthcare Holdings Limited, a company incorporated in England and Wales, to be the company's ultimate parent company.

On 18 March 2010, Affinity Healthcare Holdings Limited was acquired by Priory New Investments 3 Limited, a subsidiary of Priory Investments Holdings Limited. As a result of the transaction, the company's ultimate parent company from 18 March 2010 onwards is Priory Investments Holdings Limited (incorporated in the Cayman Islands). 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 Priory Investments Holdings Limited.