

Priory Specialist Health Division Limited

Directors' report and financial statements

Year ended 31 December 2002

Registered number 3893502



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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2002.

Principal activities and business review

The company is a holding company.

The results for the year are set out in the profit and loss account on page 4.

Proposed dividend

The directors do not recommend the payment of a dividend (2001: *£nil*).

Directors and directors' interests

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

AG Heywood (resigned 30 April 2002)

Dr CB Patel

JD Weight (resigned 10 June 2002)

Ms S J Stewart (appointed 10 June 2002, resigned 5 December 2002)

PJ Greensmith (appointed 13 September 2002)

In accordance with the articles of association, no directors retire by rotation. None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

The interests of Dr CB Patel and PJ Greensmith in the shares of Priory Healthcare Investments Limited (the ultimate parent company) are disclosed in the financial statements of that company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



PJ Greensmith
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

8 May 2003

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 and of the profit or loss 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, 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Priory Specialist Health Division Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

8 May 2003

Profit and loss account
for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Profit on ordinary activities before interest and tax	3	-	-
Income from shares in group undertakings		4,952	-
Amounts written off investments		(7,634)	-
Net interest receivable	4	1,025	1,120
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	2	(1,657)	1,120
Tax on (loss)/profit on ordinary activities	5	(308)	(336)
		<hr/>	<hr/>
Retained (loss)/profit for the financial year		(1,965)	784
		<hr/>	<hr/>

The company has no recognised gains or losses other than the retained loss for the year.

The historical cost retained loss and the reported loss are the same.

The results for the year derive from continuing activities.

Balance sheet
at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Investments	6	44,866	52,500
Current assets			
Debtors	7	-	28,964
Creditors: amounts falling due within one year	8	(45,019)	(79,652)
Net current liabilities			
Due within one year		(45,019)	(64,688)
Debtors due after more than one year	7	-	14,000
		(45,019)	(50,688)
Net (liabilities)/assets		(153)	1,812
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	10	(153)	1,812
Shareholders' funds – equity	10	(153)	1,812

These financial statements were approved by the board of directors on 8 May 2003 and were signed on its behalf by:



PJ Greensmith
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of section 228 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 (revised) 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 Priory Healthcare Investments 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.

Fixed assets

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 FRS 19.*

Group relief

Payment is generally made for group relief at a rate of 30% 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.

2 Profit on ordinary activities before taxation

The remuneration of the auditors in the current and preceding financial year was borne by another group company.

3 Remuneration of directors

The directors received no emoluments for services to the company during the year (2001: £nil).

Notes (continued)

4 Net interest receivable

	2002	2001
	£000	£000
Inter-company interest receivable	1,025	1,120

5 Taxation

	2002	2001
	£'000	£000
Corporation tax charge on income for the year at 30%	308	336

The UK corporation tax on profit on ordinary activities of £308,000 has been relieved by the surrender of losses by other group companies in exchange for payment of the same amount.

In the prior year, the UK corporation tax on profit on ordinary activities of £336,000 has been relieved by the surrender of losses by 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 30%. The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2002	2001
	£000	£000
(Loss)/profit on ordinary activities before tax	(1,657)	1,120
Tax on (loss)/profit on ordinary activities at standard rate	(497)	336
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	(1,485)	-
Profit/loss on non-qualifying assets	2,290	-
Total actual amount of current tax	308	336

Notes (continued)

6 Fixed asset investments

Total
£000

Shares in group undertakings

Cost

At the beginning and end of the year

52,500

Provisions

At beginning of the year

-

Provided in year

7,634

At end of the year

7,634

Net book value

At 31 December 2002

44,866

At 31 December 2001

52,500

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>		
Priory Specialist Health Limited	Procurement company	100% ordinary

7 Debtors

2002
£000

2001
£000

Due within one year

Amounts owed by group undertakings

-

14,964

Due after more than one year

8% unsecured loan stock due 2010 owed by direct subsidiary

-

14,000

Total debtors

-

28,964

Notes (continued)

8 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Amounts owed to group undertakings	44,711	79,316
Group relief payable	308	336
	<u>45,019</u>	<u>79,652</u>

9 Called up share capital

	2002 £	2001 £
Authorised		
750,000 (2001: 750,000) ordinary shares of £1 each	750,000	750,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
1 (2001: 1) ordinary shares of £1 each	1	1
	<u> </u>	<u> </u>

10 Reconciliation of movement in shareholders' funds

	Share capital	Profit and loss account £000	2002 Total £000	2001 Total £000
At beginning of the year	-	1,812	1,812	1,028
Retained (loss)/profit for the year	-	(1,965)	(1,965)	784
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At end of the year	-	(153)	(153)	1,812
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

11 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 2002 (2001: £396,000).

Notes *(continued)*

12 Ultimate parent company

The company is a subsidiary undertaking of Priory Healthcare Holdings Limited which is incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Priory Healthcare Investments Limited. No other group accounts include the results of the company.