

Priory Healthcare Limited

Directors' report and financial statements

Year ended 31 December 2009

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 2009

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 and future developments

The results for the period are set out in the Profit and loss account on page 6 and the position of the company as at the period end is set out in the Balance sheet on page 7

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 decreased from 9.3% in 2008 to 8.8% in 2009.

During the year, a charge of £203,000 (2008: £874,000) was recognised in respect of exceptional items as noted in note 3.

The future developments of the company are aligned to the strategy of the Priority Group, headed by Priority 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.

Financial risk management

The company's operations mean that it is exposed 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 Priority 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.

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 Priority Investment Holdings Limited, which includes the company, is discussed in the group's annual report which does not form part of this report.

Directors' report *(continued)*

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.

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.

Dividends

The directors do not recommend the payment of a dividend (2008 *£nil*)

Directors

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

C Thompson
S Bradshaw (resigned 14 July 2009)
P Scott
M Franzidis
J Lock

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

Employees

The directors recognise that the continued position of the company in the healthcare 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.

Directors' report *(continued)*

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



D Hall
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

28 May 2010

Statement of directors' responsibilities

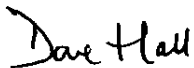
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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.

By order of the board



David Hall
Company Secretary

28 May 2010

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 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 4 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 year 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
Manchester

28 May 2010

Profit and loss account
for the year ended 31 December 2009

	Note	2009 £000	2008 £000
Turnover	2	87,264	88,442
Cost of sales		(79,616)	(80,240)
Gross profit		7,648	8,202
Administrative expenses (including operating exceptional costs of £120,000, 2008 £874,000)	3	(5,286)	(5,749)
Operating profit		2,362	2,453
Loss on termination of operations	3	(83)	(903)
Profit/ (loss) on disposal of fixed assets	3	18	(2)
Profit before interest and tax		2,297	1,548
Interest payable and similar charges	6	(3,684)	(5,824)
Loss on ordinary activities before taxation	3	(1,387)	(4,276)
Tax on loss on ordinary activities	7	649	1,146
Loss for the financial year	15	(738)	(3,130)

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 on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

Balance sheet
as at 31 December 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets	8	36,863	38,980
Tangible assets	9	16,518	10,499
		<u>53,381</u>	<u>49,479</u>
Current assets			
Stocks	10	4	11
Debtors	11	28,470	23,940
Cash at bank and in hand		1,986	4,837
		<u>30,460</u>	<u>28,788</u>
Creditors: amounts falling due within one year	12	<u>(22,426)</u>	<u>(16,095)</u>
Net current assets		<u>8,034</u>	<u>12,693</u>
Total assets less current liabilities		<u>61,415</u>	<u>62,172</u>
Creditors: amounts falling due after more than one year	13	<u>(69,926)</u>	<u>(69,945)</u>
Net liabilities		<u>(8,511)</u>	<u>(7,773)</u>
Capital and reserves			
Called up share capital	14	10	10
Profit and loss account	15	(8,521)	(7,783)
Total shareholders' deficit	16	<u>(8,511)</u>	<u>(7,773)</u>

The financial statements on pages 6 to 18 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, Prory 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 Prory 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, being the period expected to benefit

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	-	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)*

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 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. 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. 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

The company's turnover, less on ordinary activities before taxation and net liabilities 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

	2009 £000	2008 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration (inclusive of Value Added Tax)	23	28
Depreciation and other amounts written off tangible assets		
Owned	1,832	1,147
Leased	209	230
Amortisation of capitalised goodwill	2,117	2,116
Rentals under operating leases		
Hire of plant and machinery	204	306
Other operating leases	18,273	18,348
Operating exceptional items		
- re-organisation and rationalisation costs	72	262
- patient and employee legal claims	48	612
Loss on termination of an operation	83	903
(Profit)/ loss on disposal of tangible assets	(18)	2

The re-organisation and rationalisation costs of £155,000 (2008 £262,000) incurred in the year primarily relate to employee redundancy payments made as the company re-organised and streamlined its operations

Loss on termination of an operation in 2008 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	
	2009	2008
<i>By activity</i>		
Nursing and other clinical staff	1,450	1,724
Administrative staff	558	650
	2,008	2,374

Notes to the financial statements *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows

	2009 £000	2008 £000
Wages and salaries	31,788	34,254
Social security costs	2,884	3,159
Other pension costs (note 19)	632	687
	<u>35,304</u>	<u>38,100</u>

6 Interest payable and similar charges

	2009 £000	2008 £000
<i>Interest payable and similar charges</i>		
On bank overdrafts	239	214
Interest payable to group undertakings	3,191	5,354
Finance charges payable in respect of finance leases	14	17
Finance charges payable in respect of finance leases with group undertaking	240	239
	<u>3,684</u>	<u>5,824</u>

Notes to the financial statements (continued)

7 Tax on loss on ordinary activities

	2009 £000	2008 £000
<i>UK corporation tax</i>		
Current tax (charge)/credit arising in the year	(60)	763
Current tax adjustment in respect of prior years	602	383
Total current tax	542	1,146
Deferred tax charge arising in the year	(218)	-
Deferred tax adjustment in respect of prior years	325	-
Total deferred tax	107	-
	649	1,146

The current tax credit of £542,000 (2008 credit of £1,146,000) 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% (2008 28.5%)
The actual tax credit for the year is higher (2008 lower) than the standard rate for the reasons set out in the following reconciliation

	Year ended 31 Dec 2009 £000	Year ended 31 Dec 2008 £000
Loss on ordinary activities before tax	(1,387)	(4,276)
Tax on loss on ordinary activities at standard rate	388	1,219
<i>Factors affecting charge for the period</i>		
Capital allowances for period in excess of depreciation	239	-
Capital allowances adjustment	21	-
Other timing differences	(21)	293
Depreciation of non-qualifying assets	(91)	24
Expenses not deductible for tax purposes (including goodwill amortisation)	(596)	(773)
Adjustment in respect of prior year	602	383
Total current tax credit for the year	542	1,146

Notes to the financial statements (continued)

8 Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 2009 and 31 December 2009	42,337
Amortisation	
At 1 January 2009	3,357
Charge for the year	2,117
At 31 December 2009	5,474
Net book value	
At 31 December 2009	36,863
At 31 December 2008	38,980

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 2009	2,887	132	9,339	340	12,698
Additions	4	35	8,003	80	8,122
Disposals	-	(7)	(30)	(86)	(123)
Transfers	-	(160)	160	-	-
At 31 December 2009	2,891	-	17,472	334	20,697
Accumulated depreciation					
At 1 January 2009	171	-	1,848	180	2,199
Charge for the year	108	-	1,839	94	2,041
Disposals	-	-	(1)	(60)	(61)
At 31 December 2009	279	-	3,686	214	4,179
Net book value					
At 31 December 2009	2,612	-	13,786	120	16,518
At 31 December 2008	2,716	132	7,491	160	10,499

Notes to the financial statements *(continued)*

9 Tangible assets *(continued)*

Included in the total net book value of land and buildings is £2,461,000 (2008 £2,568,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £107,000 (2008 £107,000)

Included in the total net book value of fixtures and fittings is £40,000 (2008 £47,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £7,000 (2008 £7,000)

Included in the total net book value of motor vehicles is £115,000 (2008 £160,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £94,000 (2008 £116,000)

Freehold and leasehold land and buildings	2009 £000	2008 £000
Freehold	151	148
Short leasehold	2,461	2,568
	<u>2,612</u>	<u>2,716</u>

Included in land and buildings is freehold land of £131,000 as at 31 December 2009 (2008 £131,000) which is not depreciated

10 Stocks

	2009 £000	2008 £000
Consumables	<u>4</u>	<u>11</u>

11 Debtors

	2009 £000	2008 £000
Trade debtors	14,808	11,119
Amounts due from group undertakings	12,330	11,002
Other debtors	27	12
Group relief recoverable	542	1,146
Prepayments and accrued income	656	661
Deferred tax	107	-
	<u>28,470</u>	<u>23,940</u>

Notes to the financial statements (continued)

11 Debtors (continued)

Amounts due from group undertakings due within one year are non-interest bearing and repayable on demand

An analysis of deferred tax assets, included within debtors, is as follows

	£000
<i>Deferred tax</i>	
At beginning of the year	-
Credit for the year	107
	<hr/>
At end of the year	107
	<hr/>

Deferred tax arises on the following timing differences	2009 £000	2008 £000
Accelerated tax depreciation	39	-
Short term timing differences	68	-
	<hr/>	<hr/>
	107	-
	<hr/>	<hr/>

12 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	1,560	1,716
Amounts due to group undertakings	12,256	8,616
Obligations under finance lease contracts (note 13)	62	85
Obligation under finance lease contracts with group undertakings (note 13)	233	227
Taxation and social security	910	978
Other creditors	1,742	736
Accruals and deferred income	5,663	3,737
	<hr/>	<hr/>
	22,426	16,095
	<hr/>	<hr/>

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

Notes to the financial statements (continued)

13 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Amounts owed to group undertakings	67,260	67,260
Obligations under finance leases	96	122
Obligation under finance lease contracts with group undertakings	2,570	2,563
	<u>69,926</u>	<u>69,945</u>

Obligations under finance leases are payable as follows

	2009 £000	2008 £000
Within one year or less	62	85
Within one to two years	48	71
Within two to five years	48	51
	<u>158</u>	<u>207</u>

Obligations under finance leases with group undertakings are payable as follows

	2009 £000	2008 £000
Within one year or less	233	227
Within one to two years	239	233
Within two to five years	2,331	2,330
	<u>2,803</u>	<u>2,790</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.

Notes to the financial statements (continued)

14 Called up share capital

	2009 £	2008 £
Authorised		
10,000 ordinary shares of £1 each	10,000	10,000
Allotted and fully paid		
10,000 ordinary shares of £1 each	10,000	10,000

15 Profit and loss account

	£000
At 1 January 2009	(7,783)
Loss for the financial year	(738)
At 31 December 2009	(8,521)

16 Reconciliation of movements in shareholders' deficit

	2009 £000	2008 £000
Loss for the financial year	(738)	(3,130)
Net deduction from shareholders' deficit	(738)	(3,130)
Opening shareholders' deficit	(7,773)	(4,643)
Closing shareholders' deficit	(8,511)	(7,773)

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 2009 (2008 £nil).

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

Notes to the financial statements (continued)

18 Commitments

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

	2009 £000	2008 £000
Contracted	1,252	92

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

	2009		2008	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	63	99	138	124
In the second to fifth years inclusive	18,210	105	18,210	86
	<u>18,273</u>	<u>204</u>	<u>18,348</u>	<u>210</u>

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 £632,000 (2008 £687,000).

As at 31 December 2009, there were outstanding contributions of £77,000 (2008 £86,000).

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 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.