Priory Secure Services Limited

Directors' report and financial statements

Year ended 31 December 2009

Registered number 6244878

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Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2009

Principal activities

The principal activity of the company is the management of long-term medium secure units for individuals with chronic behavioural problems

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

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 improved to 20 1% in 2009 from 14 4% in 2008

During the year, a charge of £50,000 *(2008 £514,000)* 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 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

Directors' report *(continued)*

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

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 the signing of 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

Independent auditors

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

Directors' report *(continued)*

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

Dave Hall

D Hall
Company Secretary

28 May 2010

Independent auditors' report to the members of Priory Secure Services Limited

We have audited the financial statements of Priory Secure Services 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 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 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

R Bunter

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	**46,266**	43,772
Cost of sales		**(36,989)**	(37,459)
Gross profit		**9,277**	6,313
Administrative expenses *(including operating exceptional costs of £50,000, 2008 £514,000)*	3	**(3,168)**	(2,918)
Operating profit		**6,109**	3,395
Profit on disposal of fixed assets	3	**11**	3
Profit before interest and tax		**6,120**	3,398
Net interest payable and similar charges	6	**(10,916)**	(12,137)
Loss on ordinary activities before taxation	3	**(4,796)**	(8,739)
Tax credit on loss on ordinary activities	7	**469**	649
Loss for the financial year	14	**(4,327)**	(8,090)

The results for the current and 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
at 31 December 2009

	Note		2009		2008
		£000	£000	£000	£000
Fixed assets					
Intangible assets	8		25,501		26,965
Tangible assets	9		119,326		122,766
			144,827		149,731
Current assets					
Debtors	10	16,568		7,017	
Cash at bank and in hand		1,323		4,203	
		17,891		11,220	
Creditors amounts falling due within one year	11	(25,055)		(18,833)	
Net current liabilities			(7,164)		(7,613)
Total assets less current liabilities			137,663		142,118
Creditors. amounts falling due after more than one year	12		(155,894)		(156,022)
Net liabilities			(18,231)		(13,904)
Capital and reserves					
Called up share capital	13		10		10
Profit and loss account	14		(18,241)		(13,914)
Total shareholders' deficit	15		(18,231)		(13,904)

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

Registered number 6244878

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

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 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 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)*

1 Accounting policies *(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

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, loss before taxation and net liabilities arise primarily from its principal activity of the management of long-term medium secure units for individuals with chronic behavioural problems in the United Kingdom

Notes to the financial statements *(continued)*

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging /(crediting)	**2009 £000**	2008 £000
Auditors' remuneration (inclusive of Value Added Tax)	**23**	28
Depreciation and other amounts written off tangible assets		
Owned	**675**	640
Leased	**5,156**	5,168
Amortisation of capitalised goodwill	**1,464**	1,465
Rentals under operating leases		
Hire of plant and machinery	**63**	60
Other operating leases	**1,562**	1,634
Operating exceptional items		
- re-organisation and rationalisation costs	**50**	316
- patient and employee legal claims	**-**	198
Profit on disposal of fixed assets	**(11)**	(3)

The re-organisation and rationalisation costs of £50,000 (2008 £316,000) incurred in the year primarily relate to employee redundancy payments made as the company re-organised and streamlined its operations

4 Remuneration of directors

	2009 £000	2008 £000
Directors' emoluments	**-**	35
Contributions to money purchase pension schemes	**-**	2
Compensation for loss of office	**-**	126

The emoluments stated above are in respect of one director who resigned during 2008 The costs relating to the other 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 other directors' services and the directors do not believe that it is practical to allocate these costs between group companies

Notes to the financial statements *(continued)*

5 Staff numbers and costs

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

	Number of employees	
	2009	2008
By activity		
Nursing and other clinical staff	**683**	702
Administrative staff	**125**	113
	808	815

The aggregate payroll costs of these persons were as follows

	2009	2008
	£000	£000
Wages and salaries	**19,069**	19,457
Social security costs	**1,917**	1,978
Other pension costs (note 18)	**319**	316
	21,305	21,751

6 Net interest payable and similar charges

	2009	2008
	£000	£000
Interest payable and similar charges		
On overdrafts	**1**	2
Interest payable to group undertakings	**1,843**	3,092
Finance charges payable in respect of finance leases	**6**	7
Finance charges payable in respect of finance leases with group undertakings	**9,066**	9,055
	10,916	12,156
Interest receivable and similar income		
On bank deposits	**-**	(19)
	10,916	12,137

Notes to the financial statements *(continued)*

7 Tax on loss on ordinary activities

	2009 £000	2008 £000
UK corporation tax		
Current tax (charge)/credit arising in the year	(225)	757
Current tax adjustment in respect of prior years	603	(108)
Total current tax	378	649
Deferred tax charge arising in the year	(57)	-
Deferred tax adjustment in respect of prior years	148	-
Total deferred tax	91	-
	469	649

The current tax credit of £378,000 *(2008 credit of £649,000)* 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 and prior year is lower than the standard rate for the reasons set out in the following reconciliation

	2009 £000	2008 £000
Loss on ordinary activities before taxation	(4,796)	(8,739)
Tax on loss on ordinary activities at standard rate	1,343	2,491
Factors affecting charge for the year		
Capital allowances for year in excess of depreciation	57	-
Capital allowances adjustment	170	
Other timing differences	-	84
Depreciation of non-qualifying assets	(1,383)	(1,400)
Expenses not deductible for tax purposes (including goodwill amortisation)	(412)	(418)
Adjustment to tax credit in respect of prior years	603	(108)
Total current tax credit	378	649

Notes to the financial statements *(continued)*

8 Intangible assets

	Goodwill £000
Cost	
At 1 January 2009 and 31 December 2009	29,289
Amortisation	
At 1 January 2009	2,324
Charge for the year	1,464
At 31 December 2009	3,788
Net book value	
At 31 December 2009	**25,501**
At 31 December 2008	26,965

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	125,570	-	6,296	114	131,980
Additions	-	22	2,280	104	2,406
Disposals	-	-		(45)	(45)
Transfers	-	(18)	18	-	-
At 31 December 2009	**125,570**	**4**	**8,594**	**173**	**134,341**
Accumulated depreciation					
At 1 January 2009	7,811	-	1,337	66	9,214
Charge for the year	4,915	-	872	44	5,831
Disposals	-	-	-	(30)	(30)
At 31 December 2009	**12,726**	**-**	**2,209**	**80**	**15,015**
Net book value					
At 31 December 2009	**112,844**	**4**	**6,385**	**93**	**119,326**
At 31 December 2008	117,759	-	4,959	48	122,766

Notes to the financial statements *(continued)*

9 Tangible assets *(continued)*

Included in the total net book value of land and buildings is £112,618,000 *(2008 £117,524,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £4,906,000 *(2008 4,919,000)*

Included in the total net book value of fixtures and fittings is £1,205,000 *(2008 £1,411,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £206,000 *(2008 £206,000)*

Included in the total net book value of motor vehicles is £93,000 *(2008 £48,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £44,000 *(2008 £43,000)*

Freehold and leasehold land and buildings	**2009**	2008
	£000	£000
Freehold	**226**	235
Short leasehold	**112,618**	117,524
	112,844	117,759

10 Debtors

	2009	2008
	£000	£000
Trade debtors	**5,544**	4,382
Amounts due from group undertakings	**10,420**	1,883
Other debtors	**2**	16
Group relief recoverable	**378**	649
Prepayments and accrued income	**133**	87
Deferred tax	**91**	-
	16,568	7,017

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
Deferred tax	
At beginning of the year	-
Credit for the year	91
At end of the year	**91**

Notes to the financial statements *(continued)*

10 Debtors *(continued)*

Deferred tax arises on the following timing differences.	2009 £000	2008 £000
Accelerated tax depreciation	54	-
Short term timing differences	37	-
	91	-

11 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	604	529
Amounts due to group undertakings	6,556	5,468
Obligations under finance lease contracts (note 12)	31	33
Obligation under finance lease contracts with group undertakings (note 12)	9,236	9,010
Taxation and social security	579	573
Other creditors	1,263	1,186
Accruals and deferred income	6,786	2,034
	25,055	18,833

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

Notes to the financial statements *(continued)*

12 Creditors: amounts falling due after more than one year

	2009	2008
	£000	£000
Amounts due to group undertakings	**38,845**	38,845
Obligations under finance leases	**68**	26
Obligation under finance lease contracts with group undertaking	**116,981**	117,151
	155,894	156,022

Obligations under finance leases are payable as follows

	2009	2008
	£000	£000
Within one year or less	**31**	33
Within one to two years	**24**	19
Within two to five years	**44**	7
	99	59

Obligations under finance leases with group undertakings are payable as follows

	2009	2008
	£000	£000
Within one year or less	**9,236**	9,010
Within one to two years	**9,466**	9,236
Within two to five years	**107,515**	107,915
	126,217	126,161

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)*

13 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

14 Profit and loss account

	£000
At 1 January 2009	**(13,914)**
Loss for the financial year	**(4,327)**
At 31 December 2009	**(18,241)**

15 Reconciliation of movements in shareholders' deficit

	2009 £000	2008 £000
Loss for the financial year	**(4,327)**	(8,090)
Net deduction from shareholders' deficit	**(4,327)**	(8,090)
Opening shareholders' deficit	**(13,904)**	(5,814)
Closing shareholders' deficit	**(18,231)**	(13,904)

16 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)*

17 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	**247**	855

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

	2009 Land and buildings £000	2009 Other £000	2008 Land and buildings £000	2008 Other £000
Operating leases which expire				
Within one year	**3**	**18**	84	12
In the second to fifth years inclusive	**1,546**	**45**	1,546	2
	1,549	**63**	1,630	14

18 Pension scheme

The company operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £319,000 *(2008 £316,000)*

As at 31 December 2008, there were outstanding contributions of £36,000 *(2008 £41,000)*

19 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