

~~Not Nil~~ ~~Not~~

EC 24699

Priory Finance Company Limited
(formerly Priory Healthcare Finance Limited)

Directors' report and financial statements

Year ended 31 December 2003

Incorporated in the Cayman Islands with registered
number 100676



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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2003.

The company changed its name from Priory Healthcare Finance Limited to Priory Finance Company Limited on 21 May 2003.

Principal activities

The principal activity of the company is to raise finance on behalf of fellow subsidiary undertakings. The company did not trade during the year.

Directors and directors' interests

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

PJ Greensmith	(appointed 22 May 2003)
Dr CB Patel	
SPV Management Limited	(resigned 9 May 2003)
Ms CA Valenti	(appointed 22 May 2003)

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.

The interests of the other director in the share capital of Priory Healthcare Investments Limited were as follows:

	Interest at end of the year		Interest at start of the year or date of appointment if later	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Ms CA Valenti	10,000	-	10,000	-
By order of the board				



PJ Greensmith
 Director

c/o Maples and Calder
 Ugland House, South Church Street
 PO Box 309
 George Town, Grand Cayman
 Cayman Islands

20 May 2004

Statement of directors' responsibilities

The directors of Priory Finance Company Limited (formerly Priory Healthcare Finance Limited) ('the directors') are responsible for these financial statements for the year ended 31 December 2002 which are intended to 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 these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed;
- prepared the financial statements on the going concern basis as they believe 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. 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 Finance Company Limited (formerly Priory Healthcare Finance 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 2003 and of its profit 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

20 May 2004

Profit and loss account
for the year ended 31 December 2003

	Note	2003 £000	2002 £000
Operating profit		-	-
Profit on ordinary activities before interest and tax	2	-	-
Other interest receivable and similar income	3	5,637	-
Net interest payable and similar charges	4	(5,631)	-
Profit on ordinary activities before taxation		6	-
Tax on profit on ordinary activities	5	119	-
Profit for the financial year		125	-

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

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

The results for the year derive from continuing activities.

Balance sheet
at 31 December 2003

	Note	2003 £'000	2002 £'000
Current assets			
Debtors	6	231,442	1
Creditors: amounts falling due within one year	7	(17,380)	-
Net current assets			
Due within one year		126	1
Debtors due after more than one year		213,936	-
		214,062	1
Creditors: amounts falling due after more than one year	8	(213,936)	-
Net assets		126	1
Capital and reserves			
Called up share capital	10	1	1
Profit and loss account	11	125	-
Shareholders' funds – equity		126	1

These financial statements were approved by the board of directors on 20 May 2004 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 accounting standards and under the historical cost accounting rules.

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.

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 FRS19.

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 the change.

2 Auditors and directors' remuneration

The remuneration of the auditors in the year and the prior year was borne by another group undertaking.

The directors received no emoluments for services to the company during the year (2002: £nil).

3 Other interest receivable and similar income

	2003 £000	2002 £000
Inter-company interest receivable	5,235	-
Reverse premium on novation of swap	402	-
	<hr/> 5,637 <hr/>	<hr/> - <hr/>

Notes (continued)

4 Net interest payable and similar charges

	2003 £000	2002 £000
<i>Interest payable and similar charges</i>		
On securitised loan notes	5,229	-
Reverse premium on novation of swap	402	-
	<u>5,631</u>	<u>-</u>

5 Taxation

	2003 £000	2002 £000
Corporation tax credit on loss for the year at 30%	(119)	

The tax credit of £119,000 in the year (*prior period: £nil*) 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 30%. The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2003 £000	2002 £000
Profit on ordinary activities before tax	6	-
Tax on profit on ordinary activities at standard rate	2	-
<i>Factors affecting charge for the year</i>		
Expenses not deductible for tax purposes	(121)	-
Total actual amount of current tax	<u>(119)</u>	<u>-</u>

Notes (continued)

6 Debtors

	2003 £'000	2002 £'000
Amounts owed by group undertakings	217,207	1
Group relief recoverable	119	-
Prepayments and accrued income	14,116	-
	<u>231,442</u>	<u>1</u>

Debtors include amounts owed by group undertakings of £201,073,000 and prepayments and accrued income of £12,863,000 due after more than one year.

7 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Other loans	5,166	-
Amounts owed to group undertakings	9,952	-
Other creditors	35	-
Accruals and deferred income	2,227	-
	<u>17,380</u>	<u>-</u>

Notes (continued)

8 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Other loans	201,073	-
Accruals and deferred income	12,863	-
	<hr/>	<hr/>
	213,936	-
	<hr/>	<hr/>
<i>Debt can be analysed as falling due:</i>		
In one year or less	5,166	-
In more than one year but not more than two years	5,367	-
In more than two years but not more than five years	17,389	-
In more than five years	178,317	-
	<hr/>	<hr/>
	206,239	-
	<hr/>	<hr/>
<i>Amounts repayable by instalments some of which fall due in more than five years:</i>		
Securitised loan notes		
Class A notes – Fixed/Floating Rate Notes due 2023 (5.853% up to 2011, LIBOR plus 2.24% thereafter)	98,317	-
Class B notes – Floating Rate Notes due 2027 (LIBOR plus 2.75% up to 2011, LIBOR plus 5.50% thereafter)	67,500	-
Class C notes – Floating Rate Notes due 2033 (LIBOR plus 6.25% up to 2011, LIBOR plus 9.375% thereafter)	12,500	-
	<hr/>	<hr/>
	178,317	-
	<hr/>	<hr/>

Included within other loans due within one year and due after more than one year are £206,239,000 securitised loan notes which are secured on certain freehold and leasehold properties of fellow subsidiary undertakings.

9 Financial instruments

Financing is obtained from capital market issues in sterling at fixed and floating rates of interest. The main purpose of these financial instruments is to raise finance for fellow subsidiary undertakings. The main financial covenants are in respect of interest and cash flow cover.

As at 31 December 2003, the company had fixed rate borrowings of £126.2 million and variable interest rate borrowings of £80 million. An interest rate swap is in place to hedge £80 million of variable interest rate borrowings at an average fixed rate of 10.889% up to 2011 and at a rate of 11.658% thereafter.

Treasury policy is that deposits will only be made, and derivatives and other financial instruments entered into, with bank counter-parties which have been approved by the board.

The company does not enter into financial instruments for trading purposes. The company will borrow from and enter into financial instruments with, well-established financial institutions with high credit ratings.

Notes (continued)

9 Financial instruments (continued)

Interest rate risk

The company uses financial instruments as part of an overall interest rate risk management strategy. It does not enter financial instruments for trading purposes. Interest rate risk associated with net debt has been managed during the year by using a combination of fixed and floating rate borrowings and financial derivatives such as interest rate swaps.

Foreign currency risk

The company's functional and reporting currency is sterling. All assets and liabilities are in sterling and therefore the company does not have any exposure to currency risks.

Liquidity risk

The company maintains various facilities to mitigate any liquidity risk it may face. As at 31 December 2003, the company had an un-drawn committed £30 million liquidity facility and an un-drawn £5 million revolving credit facility available.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures.

(a) Interest rate risk profile of financial liabilities

The following interest rate risk profile of the company's financial liabilities are after taking into account interest rate swaps entered into by the company:

	2003 £000	2002 £000
Sterling		
Fixed rate financial liabilities	206,239	-

As at 31 December 2003, the effect of the company's interest rate swap is to classify £80 million (2002: £nil) of sterling borrowings in the above table as fixed rate.

	Weighted average interest rate %	Fixed rate financial liabilities
		Weighted average period for which rate is fixed Years
At 31 December 2003		
<i>Sterling</i>		
Financial liabilities	9.3	27.7
At 31 December 2002		
<i>Sterling</i>		
Financial liabilities	-	-

Notes (continued)

9 Financial instruments (continued)

(b) Interest rate risk profile of financial assets

	2003 £000	2002 £000
Sterling		
Fixed rate financial assets		
- amounts due from group undertakings falling due within one year	5,166	
- amounts due from group undertakings falling due after more than one year	201,073	
	<u>206,239</u>	<u>-</u>

The fixed rate financial assets of £206,239,000 at 31 December 2003 bear a weighted average interest rate of 7.82% up until 2011 and thereafter bear a weighted average interest rate of 9.3%.

(c) Maturity

The maturity of the company's borrowings is set out in note 8.

Borrowing facilities

The company had un-drawn committed borrowing facilities at 31 December 2003, in respect of which all conditions precedent had been met, as follows:

	2003 £000	2002 £000
Expiring in more than two years	35,000	-

(d) Fair value of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arms' length transaction between informed and willing parties, other than a forced or liquidation sale. The estimated fair value of the company's financial instruments is set out below:

Financial assets

	2003		2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Fixed rate financial assets				
- amounts due from group undertakings falling due within one year	5,166	5,166	-	-
- amounts due from group undertakings falling due after more than one year	201,073	201,073	-	-
	<u>206,239</u>	<u>206,239</u>	<u>-</u>	<u>-</u>

Notes (continued)

9 Financial instruments (continued)

(d) Fair value of financial assets and financial liabilities (continued)

Financial liabilities

	2003		2002	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Borrowings due within one year	5,166	5,196		
Borrowings due after one year	201,073	201,388		
	<hr/>	<hr/>	<hr/>	<hr/>
	206,239	206,584	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Borrowings

The fair value of the securitised loans is based on quoted market prices.

(e) Gains and losses on financial instruments used for hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

The table below shows the extent to which the company has unrecognised gains and losses in respect of financial instruments used as hedges at the beginning and end of each period.

	Unrecognised gains £000	Unrecognised losses £000	Net unrecognised gains/(losses) £000
Gains and losses on hedges at 1 January 2003	-	-	-
	<hr/>	<hr/>	<hr/>
Gains and losses not included in 2003 income Arising in 2003	-	(18,270)	(18,270)
	<hr/>	<hr/>	<hr/>
Gains and losses on hedges at 31 December 2003	-	(18,270)	(18,270)
	<hr/>	<hr/>	<hr/>
Of which:			
Gains and losses expected to be included in 2004 income	-	(2,532)	(2,532)
Gains and losses expected to be included in 2005 income or later	-	(15,738)	(15,738)
	<hr/>	<hr/>	<hr/>

Notes (continued)

10 Called up share capital

	2003 £	2002 £
Authorised		
10,000 (2002: 10,000) ordinary shares of £1 each	10,000	10,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
1,000 (2002: 1000) ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>

11 Reconciliation of movement in shareholders' funds

	Share capital £000	Profit and loss account £000	2003 Total £000	2002 Total £000
At beginning of the year	1	-	1	1
Retained profit for the year	-	125	125	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	1	125	126	1
	<hr/>	<hr/>	<hr/>	<hr/>

12 Ultimate parent company

The company is a subsidiary undertaking of Priory Securitisation 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.