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Priory Finance Company Limited

Directors' report and financial statements

Year ended 31 December 2007

Incorporated in the Cayman Islands with registered

FC number 100676

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2007

Principal activities

The principal activity of the company is to raise finance on behalf of fellow subsidiary undertakings

Business review

The results for the year are set out in the Profit and loss account on page 5 and the position of the company as at the year end is set out in the Balance sheet on page 6

As the company's subsidiaries are focussed on the health and education sector, their performance can be impacted by external factors. The principal factors are changes in the UK government's policy towards outsourcing of health and education, changes in the regulatory regime and competitive threats from other independent providers

Priory manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business

Further information regarding the operations and key performance indicators of the group are set out in the directors' report of Priory Investments Holdings Limited

Dividends

Dividends of £nil were paid during the year (2006 £nil)

Directors

The directors who held office during the year were as follows

PJ Greensmith	(resigned 22 March 2007)
Dr CB Patel	(resigned 9 March 2007)
Ms CA Valenti	
S Bradshaw	(appointed 23 April 2007)
Professor C Thompson	(appointed 23 April 2007)

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

Auditors

In accordance with Section 386 of the Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, PricewaterhouseCoopers LLP will continue in office as auditors

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 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


S Mukerji
Company Secretary

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

26 June 2008

Statement of directors' responsibilities

The directors of Priory Finance Company Limited ('the directors') are responsible for these financial statements for the year ended 31 December 2007 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

We have audited the financial statements of Priory Finance Company Limited for the year ended 31 December 2007 which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 applicable to overseas companies, and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

1 July 2008

Profit and loss account
for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Interest payable and similar charges	3	-	(2)
Result/(loss) on ordinary activities before taxation	2	-	(2)
Tax credit on result/(loss) on ordinary activities	4	252	135
Profit for the financial year	9	252	133

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

There is no difference between the result before taxation and the profit for the year stated above and their historical cost equivalents

The results for the year derive from continuing activities

Balance sheet
at 31 December 2007

	Note	£'000	2007 £'000	£'000	2006 £'000
Fixed assets					
Investments	5		-		-
Current assets					
Debtors	6	767		518	
Cash at bank and in hand		37		37	
		<u>804</u>		<u>555</u>	
Creditors: amounts falling due within one year	7	<u>(35)</u>		<u>(38)</u>	
Net current assets			<u>769</u>		<u>517</u>
Total assets less current liabilities			<u>769</u>		<u>517</u>
Net assets			<u>769</u>		<u>517</u>
Capital and reserves					
Called up share capital	8		1		1
Profit and loss account	9		768		516
Shareholders' funds – equity			<u>769</u>		<u>517</u>

These financial statements were approved by the board of directors on 26 June 2008 and were signed on its behalf by



Professor C Thompson
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in the company's financial statements

Basis of preparation

The company is incorporated in the Cayman Islands and registered in both the Cayman Islands and the UK and conducts its operations entirely within the UK. The purpose of these financial statements is to meet the obligations for filing in both the UK and the Cayman Islands. The filing requirement for the Cayman Islands are significantly less in scope than those for the UK and accordingly the financial statements have been prepared in accordance with applicable UK accounting standards and UK companies legislation and under the historical cost convention. References in these financial statements to Companies Act and other legislation are therefore references to UK legislation.

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.

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 Investments 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.

Fixed asset investments

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 FRS19.

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 the change.

Notes (continued)

2 Result on ordinary activities before taxation

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

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.

The company had no employees during the year (2006: nil)

3 Interest payable and similar charges

	2007 £000	2006 £000
Financing fees	-	2

4 Taxation

	2007 £000	2006 £000
Corporation tax credit on loss for the year	(252)	(135)

The tax credit of £252,000 (2006: £135,000) in the current year was 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% (2006: 30%). The actual tax credit for the year is higher than (2006: higher than) the standard rate for the reasons set out in the following reconciliation:

	2007 £000	2006 £000
Result/(loss) on ordinary activities before tax	-	(2)
Tax on result/(loss) on ordinary activities at standard rate	-	(1)
<i>Factors affecting charge for the year</i>		
Income from interest in partnership	(252)	(135)
Tax losses not recognised	-	1
Total actual amount of current tax	(252)	(135)

No provision has been made for a deferred tax asset of £3.6 million (2006: £4.0 million) in respect of tax losses due to there being insufficient current year group taxable profits available to utilise those losses. The recoverability of the tax losses in future years is dependent on the future profitability of the company.

Notes (continued)

5 Fixed asset investments

<i>Interest in Partnership</i>	£
Cost	
At beginning and end of the year	470
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Provisions	
At beginning and end of the year	-
	<hr/>
Net book value	
At 31 December 2007 and 31 December 2006	470
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As at 31 December 2007, the company had a 47% economic interest in the partnership capital of Priory Finance Property LLP. The principal activity of the partnership is to raise finance and to lease properties to fellow group undertakings.

6 Debtors

	2007 £'000	2006 £'000
Amounts owed by group undertakings	515	383
Group relief recoverable	252	135
	<hr/>	<hr/>
	767	518
	<hr/> <hr/>	<hr/> <hr/>

Amounts due from group undertakings are non-interest bearing and repayable on demand.

7 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed to group undertakings	-	3
Accruals and deferred income	35	35
	<hr/>	<hr/>
	35	38
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Called up share capital

	2007 £	2006 £
Authorised		
10,000 (2006 10,000) ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
1,000 (2006 1000) ordinary shares of £1 each	1,000	1,000

9 Reserves and reconciliation of movement in shareholders' funds

	Share capital £000	Profit and loss account £000	2007 Total £000	2006 Total £000
At beginning of the year	1	516	517	384
Retained profit for the year	-	252	252	133
At end of the year	1	768	769	517

10 Ultimate parent company

The company's immediate parent company, which is incorporated in the Cayman Islands, is Priory Health No 2 Limited

The ultimate parent company and the largest group of which the company is a member and for which group accounts are prepared is that headed by Priory Investments Holdings Limited. A copy of the consolidated accounts can be obtained from the Company Secretary at Priory House, Randalls Way, Leatherhead, Surrey KT22 7TP