

Priory Healthcare Acquisition Co Limited

Directors' report and financial statements

Period from 8 May 2002 (date of incorporation)
to 31 December 2002

Registered number 04433255



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Directors' report

The directors present their report and the audited financial statements for the period from 8 May 2002 (date of incorporation) to 31 December 2002.

The company was incorporated on 8 May 2002 in the name of De Facto 996 Limited. The company changed its name on 22 May 2002 to Priory Healthcare Acquisition Co Limited.

Principal activities

The principal activity of the company is to act as an intermediate holding company and to raise finance on behalf of fellow subsidiary undertakings.

Business review

The results for the period are set out in the profit and loss account on page 5.

On 10 June 2002, the company acquired the entire issued share capital of Priory Healthcare Holdings Limited for a consideration of £182.8 million.

On 23 December 2002, as part of a general re-organisation of the Group's structure, the company:

- acquired the entire issued share capital of Priory Healthcare Europe Limited from Priory Healthcare Limited (a fellow subsidiary undertaking) for a consideration of £2 to be left outstanding as a debt repayable on demand;
- acquired the entire issued share capital of Community Addiction Services Limited from The Nottingham Clinic Limited (a fellow subsidiary undertaking) for a consideration of £100 to be left outstanding as a debt repayable on demand;
- acquired the entire issued share capital of Care Continuums Limited, Employee Management Services Limited, Public Health Solutions Limited, Nottcor6 Limited, Sturt House Clinic Limited, Priory Behavioural Health Limited, Jacques Hall Foundation Limited, Jacques Hall Limited and The Nottingham Clinic Limited from Priory Hospitals Limited (a fellow subsidiary undertaking) for a consideration of £668,000 to be left outstanding as a debt repayable on demand;
- acquired the entire issued share capital of Priory Securitisation Limited from Priory Healthcare Holdings Limited (a fellow subsidiary undertaking) for a consideration of £1,000 to be left outstanding as a debt repayable on demand;
- acquired the entire issued share capital of Highbank Private Hospital Limited from Highbank Health Care Limited (a fellow subsidiary undertaking) for a consideration of £351,000 to be left outstanding as a debt repayable on demand;
- acquired the entire issued share capital of Medical Imaging (Essex) Limited from Priory Healthcare Holdings Limited (a fellow subsidiary undertaking) for a consideration of £41,000 to be left outstanding as a debt repayable on demand;
- disposed of its investment in Priory Healthcare Holdings Limited to Priory Securitisation Limited (a fellow subsidiary undertaking). The consideration was satisfied by the issue of shares in Priory Securitisation Limited.

The results for the period are set out on page 5.

Dividends

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Directors and directors' interests

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

| | |
|-----------------------------------|---|
| Travers Smith Limited | (appointed 8 May 2002, resigned 22 May 2002) |
| Travers Smith Secretaries Limited | (appointed 8 May 2002, resigned 22 May 2002) |
| Dr CB Patel | (appointed 22 May 2002) |
| Ms SJ Stewart | (appointed 22 May 2002, resigned 5 December 2002) |
| KJ Terry | (appointed 22 May 2002) |
| RJ Hanson | (appointed 10 June 2002) |
| PJ Greensmith | (appointed 13 September 2002) |

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

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

Auditors

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

By order of the board



PJ Greensmith
Company secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

8 May 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Priory Healthcare Acquisition Co Limited

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

8 May 2003

Profit and loss account
for the period from 8 May 2002 to 31 December 2002

| | Note | Period from 8 May to 31 December 2002 £000 |
|--|------|--|
| Administrative expenses | | (900) |
| Operating loss | | (900) |
| Net interest payable and similar charges | 3 | (19,257) |
| Loss on ordinary activities before taxation | | (20,157) |
| Tax on loss on ordinary activities | 4 | 2,065 |
| Loss for the financial year | | (18,092) |

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

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

The results for the period derive from continuing activities.

Balance sheet
at 31 December 2002

| | Note | £000 | 2002 £000 |
|---|------|----------|-----------------|
| Fixed assets | | | |
| Investments | 5 | | 184,919 |
| Current assets | | | |
| Debtors | 6 | 163,333 | |
| Creditors: amounts falling due within one year | 7 | (50,908) | |
| Net current assets | | | <u>112,425</u> |
| Total assets less current liabilities | | | <u>297,344</u> |
| Creditors: amounts falling due after more than one year | 8 | | (314,936) |
| Net liabilities | | | <u>(17,592)</u> |
| Capital and reserves | | | |
| Called up share capital | 9 | | 250 |
| Share premium | 10 | | 250 |
| Profit and loss account | 10 | | (18,092) |
| Shareholders' deficit – equity | 10 | | <u>(17,592)</u> |

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



PJ Greensmith
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Priory Healthcare Investments Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets

Fixed asset investments are stated at cost less provision for any impairment in value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by 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 period was borne by another group undertaking.

Fees paid to the auditors for other services amounted to £2,112,000 – this comprises £1,762,000 in respect of due diligence performed at the time of the acquisition by the company of Priory Healthcare Holdings Limited on 10 June 2002 and £350,000 in respect of services rendered in connection with the re-organisation of the Priory Group effected on 23 December 2002.

The directors received no emoluments for services to the company during the period.

Notes (continued)

3 Net interest payable and similar charges

| | 2002 £000 |
|---|--------------|
| <i>Interest payable and similar charges</i> | |
| On bank loans and overdrafts | 7,150 |
| Inter-company interest payable | 9,130 |
| Amortisation of issue costs | 3,065 |
| <i>Interest receivable and similar income</i> | |
| On bank deposits | (17) |
| Inter-company interest receivable | (71) |
| | 19,257 |
| | 19,257 |

4 Taxation

| | 2002 £000 |
|--|--------------|
| Corporation tax credit on result for the year at 30% | (2,065) |
| | (2,065) |
| | (2,065) |

The tax credit of £2,065,000 has been surrendered to other group companies in exchange for payment of the same amount.

The standard rate of tax for the period, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the period is above the standard rate for the reasons set out in the following reconciliation:

| | 2002 £000 |
|---|--------------|
| Loss on ordinary activities before tax | (20,157) |
| Tax on loss on ordinary activities at standard rate | (6,047) |
| <i>Factors affecting charge for the period</i> | |
| Expenses not deductible for tax purposes | 235 |
| Other timing differences | 2,739 |
| Tax losses not recognised | 1,008 |
| | (2,065) |
| | (2,065) |

No provision has been made for a deferred tax asset of £1,008,000 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>Shares in group undertakings</i> | Total £000 |
|-------------------------------------|-----------------------|
| Cost | |
| Additions | 234,873 |
| Disposals | (49,954) |
| | <hr/> |
| At end of the period | 184,919 |
| | <hr/> <hr/> |
| Provisions | |
| At beginning and end of the period | - |
| | <hr/> <hr/> |
| Net book value | |
| At 31 December 2002 | 184,919 |
| | <hr/> <hr/> |

The undertakings in which the company's interest at the year end is more than 20% are as follows:

| | Principal activities | Class and percentage of share held |
|--|--|---|
| Subsidiary undertakings | | |
| Priory Securitisation Limited * | Intermediate holding company | 100% ordinary |
| Priory Hospitals Limited | Psychiatric and other specialist healthcare Services | 100% ordinary |
| Priory Childcare Services Limited | Specialist schools for children with behavioural difficulties | 100% ordinary |
| Priory Services for Young People (IOM) Limited * | Specialist schools for children with behavioural difficulties | 100% ordinary |
| Highbank Healthcare Limited | Brain injury rehabilitation services | 100% ordinary |
| Blenheim House Limited | Forensic psychiatric services | 100% ordinary |
| Priory Healthcare Central Services Limited | Management services | 100% ordinary |
| The Nottingham Clinic Limited * | Development company | 100% ordinary |
| Jacques Hall Foundation Limited * | Development company | 100% ordinary |
| Highbank Private Hospital Limited * | Development company | 100% ordinary |
| Jacques Hall Limited * | Development company | 100% ordinary |
| Priory Healthcare Europe Limited * | Non-trading | 100% ordinary |
| Community Addiction Services Limited * | Non-trading | 100% ordinary |
| Care Continuums Limited * | Non-trading | 100% ordinary |
| Employee Management Services Limited * | Non-trading | 100% ordinary |
| Public Health Solutions Limited * | Non-trading | 100% ordinary |
| Nottcor6 Limited * | Non-trading | 100% ordinary |
| Sturt House Clinic Limited * | Non-trading | 100% ordinary |
| Priory Behavioural Health Limited * | Non-trading | 100% ordinary |
| Medical Imaging (Essex) Limited * | Non-trading | 100% ordinary |
| Priory Healthcare Finance Limited | Financing company | 100% ordinary |
| Priory Specialist Health Limited | Procurement company | 100% ordinary |
| Priory Healthcare Holdings Limited | Intermediate holding company | 100% ordinary |
| Priory Specialist Health Division Limited | Intermediate holding company | 100% ordinary |

* interests held directly by the company.

Notes *(continued)*

5 Fixed asset investments *(continued)*

All subsidiary and associated undertakings are registered in England and Wales with the following exceptions:

| | |
|--|-------------------------------|
| Priory Healthcare Finance Limited | registered in Cayman Islands |
| Priory Services for Young People (IOM) Limited | registered in the Isle of Man |

6 Debtors

2002
£000

| | |
|-------------------------------------|-------------|
| Amounts due from group undertakings | 161,268 |
| Group relief recoverable | 2,065 |
| | <hr/> |
| | 163,333 |
| | <hr/> <hr/> |

7 Creditors: amounts falling due within one year

2002
£000

| | |
|-----------------------------------|-------------|
| Bank loans and overdrafts | 18,097 |
| Amounts due to group undertakings | 31,109 |
| Accruals and deferred income | 1,702 |
| | <hr/> |
| | 50,908 |
| | <hr/> <hr/> |

Notes (continued)

8 Creditors: amounts falling due after more than one year

| | 2002 £000 |
|--|--------------|
| Bank loans and overdrafts | 194,843 |
| Discounted unsecured loan stock 2012 issued at 25.567% owed to Immediate parent undertaking | 124,130 |
| Un-amortised issue costs | (4,037) |
| | <hr/> |
| | 314,936 |
| | <hr/> <hr/> |
| <i>External debt can be analysed as falling due:</i> | |
| More than two years but not more than five years | 2,460 |
| More than five years | 192,383 |
| | <hr/> |
| | 194,843 |
| | <hr/> <hr/> |
| <i>Amounts wholly repayable in more than five years:</i> | |
| Bank loan – LIBOR plus 2.5% 2010 | 190,000 |
| <i>Amounts repayable by instalments some of which fall due in more than five years:</i> | |
| Bank loan – LIBOR plus 2.25% 2005 to 2009 | 2,383 |
| | <hr/> |
| | 192,383 |
| | <hr/> <hr/> |

Included within bank loans due after more than one year is a bank loan of £190 million which is secured on certain freehold and leasehold properties of group undertakings.

9 Called up share capital

| | 2002 £000 |
|--|--------------|
| Authorised | |
| 232,000,000 ordinary shares of 50 pence each | 116,000 |
| | <hr/> |
| Allotted, called up and fully paid | |
| 500,000 ordinary shares of 50 pence each | 250 |
| | <hr/> |
| | Number |
| <i>Movement in ordinary shares during the period</i> | |
| Subscriber shares | 2 |
| Issue of shares | 499,998 |
| | <hr/> |
| | 500,000 |
| | <hr/> <hr/> |

Notes *(continued)*

10 Reconciliation of movement in shareholders' funds

| | Share capital £ | Share premium £ | Profit and loss account £ | 2002 Total £ |
|------------------------------|-----------------------|-----------------------|------------------------------------|--------------------|
| Issue of shares | 250 | 250 | - | 500 |
| Retained loss for the period | - | - | (18,092) | (18,092) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of the period | 250 | 250 | (18,092) | (17,592) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

11 Ultimate parent company

The company is a subsidiary undertaking of Priory Healthcare Finance Co 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.