Annual report & accounts 2007

Changing lives for the better

Excellence in the provision of mental health care

Partnerships in care

www.partnershipsincare.co.uk

2007 – a strong year

- Turnover up 2.4% from £149.4m to £152.9m
- EBITDA up 22.2% from £39.6m to £48.4m
- Capital investment of £38.5m on new and existing facilities
- 8% reduction in costs per patient day
- Occupancy rates at 87%
- Available beds increased from 932 to 1,038
- 380 new admissions
- 1,152 patients treated
- 177 patients moved to lower security

Contents

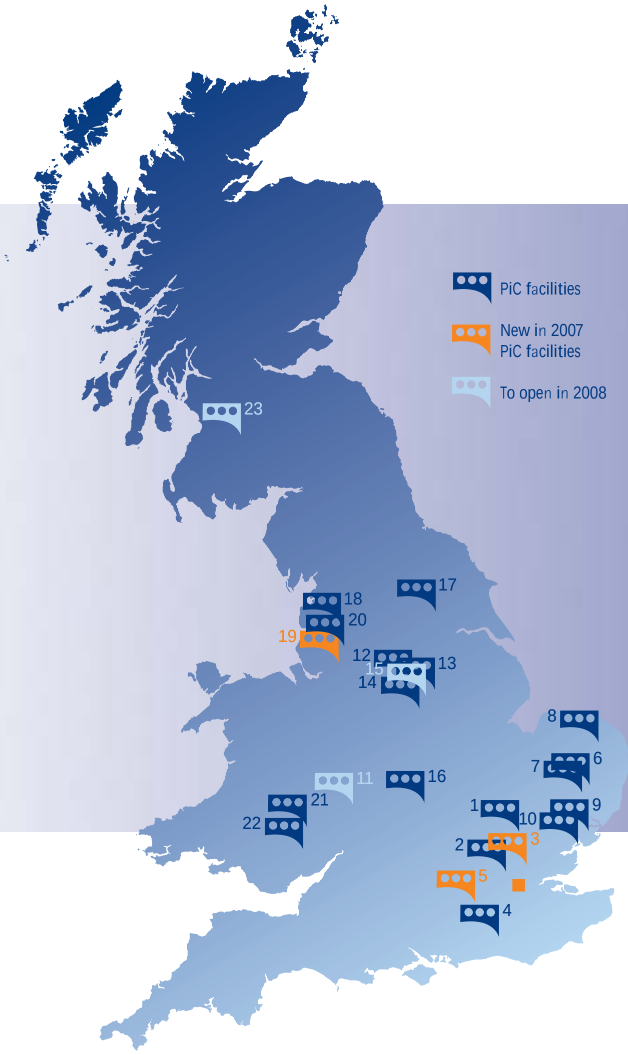
Partnerships in Care (PiC) offers the largest independent network of secure mental health hospitals and facilities in the UK. We have over 20 years of experience caring for people with complex mental health needs and specialise in:

- Mental illness
- Personality disorders
- Learning disabilities
- Brain injury rehabilitation

Our 23 centres provide services to over 180 primary care trusts (PCTs), commissioning consortia and social services departments.

We provide individual care pathways through specialist assessment, treatment and rehabilitation services to help prepare patients for their return to local community services or alternative residential accommodation. Where patients require secure treatment, we provide the appropriate levels of security throughout their placement and work to ensure that they are able to move on to safe and suitable community placements whenever possible.

We offer our independently recognised training in the management of violence and aggression to the NHS as well as other independent healthcare providers.



PiC has 23 facilities in England, Wales and Scotland. We also provide residential houses within the community.

Year at a glance

March 2007

The acquisition of Suttons Manor strengthens PiC's North London region. The three hospitals in the region offer integrated service pathways to referrers and commissioners.

May 2007

PiC appoints Kevin Beeston as Non-Executive Chairman.

June 2007

PiC wins the Medical Futures Best Public-Private Partnership Award for a joint initiative, the life minus violence programme, with Mersey Care NHS Trust.

September 2007

A £3 million improvement programme provides an expanded London based care pathway for male patients at The North London Clinic featuring rapid response, secure rehabilitation and supported recovery services.

PiC's new Head Office opens in Borehamwood bringing together central management, finance, human resources (HR) and communications in one place for the first time to improve efficiency.

October 2007

Our 24 hour central referrals enquiry line is launched to offer a dedicated central call service for all customers, together with a rapid response service. Rapid response allows a patient to be assessed and admitted in an emergency within eight hours.

After a major refurbishment programme, Pelham Woods, near Dorking, opens as a locked rehabilitation unit for women. Together with The Dene, the South East region now offers integrated and secure pathways for women with a mental illness, personality disorder or learning disability.

PiC wins a three year contract with the North West specialised commissioning team for the provision of between 25 and 30 long-term medium secure male beds at Arbury Court in Warrington.

November 2007

After a major development programme, a new unit opens at Arbury Court which further strengthens the North West region.

London & South East

- Partnerships in Care Head Office
  Borehamwood, Hertfordshire

1 Kneesworth House
Royston, Cambridgeshire

2 The North London Clinic
Edmonton, London

3 Suttons Manor
Romford, Essex

4 The Dene
Hassocks, West Sussex

5 Pelham Woods
Dorking, Surrey

Eastern

6 St John's House
Diss, Norfolk/Suffolk

7 Burston House
Diss, Norfolk/Suffolk

8 Lombard House and Richmond House
Harleston, Norfolk/Suffolk

9 Oaktree Manor
Tendring, Essex

10 Brain Injury Services Essex
Colchester, Essex

Midlands

11 Abbey House
Malvern Wells, Worcestershire

12 Annesley House
Annesley, Nottinghamshire

13 Hazelwood House
Chesterfield, Derbyshire

14 The Willows
Newark, Nottinghamshire

15 Calverton Hill
Arnold, Nottinghamshire
(Opening Mid 2008)

16 Brain Injury Services, Northamptonshire
Grafton Regis, Northampton

North East

17 Stockton Hall
Stockton-on-the-Forest, York

North West

18 Kemple View
Blackburn, Lancashire

19 Arbury Court
Warrington, Cheshire

20 The Spinney
Atherton, Manchester

Wales

21 Llanarth Court
Abergavenny, Monmouthshire

22 Aderyn
Nr Pontypool, Monmouthshire

Scotland

23 The Ayr Clinic
Ayr, Ayrshire

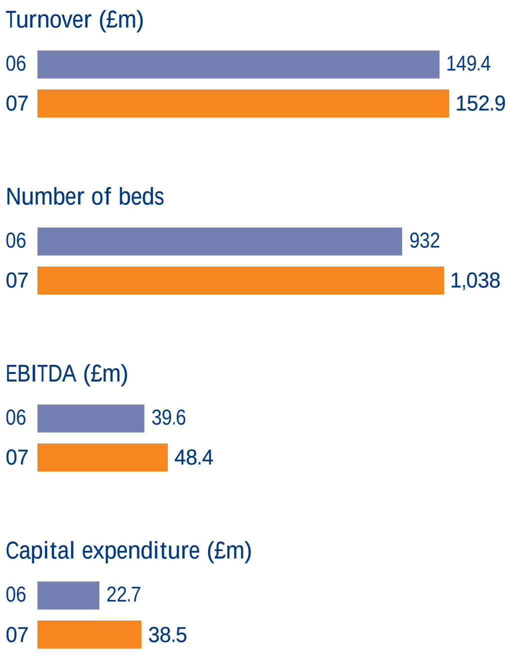
December 2007

By year end 1,152 patients had received treatment in PiC facilities, occupancy rates were at 87% and costs per patient day had been reduced by 8%.

February 2008

PiC purchases its first facility in Scotland, The Ayr Clinic, a low secure, purpose built psychiatric facility with plans for expansion.

New website launched to include online job application and referral process www.partnershipsincare.co.uk



Chairman's statement

2007 was a year of good progress for PiC. We started the year as a strong business, with an excellent reputation for providing patient focused psychiatric care of the highest quality. By the end of the year we had opened a range of new facilities, added new programmes and put in place all of the central management functions and other factors needed for our next phase of growth.

Under the leadership of Fred Sinclair-Brown, and his management team this investment has been achieved at the same time as producing a strong set of operational and financial results.

We ended the year with 1,038 beds (2006: 932). This makes us not only one of the longest established but also the largest independent provider of secure mental health hospitals and services in the UK. Occupancy rates for the year were at 87% and improved efficiency reduced our costs per patient day by 8%. This resulted in turnover increasing 2.4% to £152.9 million (2006: £149.4 million) and EBITDA increasing 22.2% to £48.4 million (2006: £39.6 million).

PiC is gearing up for the future. We are committed to delivering quality services, which extend the choice and range of provision to patients and purchasers. The independent sector now plays a crucial part in the provision and improvement of patient care in collaboration with the NHS, in everything from the building of new hospitals to the provision of primary care services, as well as providing many 'back office' functions. Recent figures from Oxford Economics show that £44.3 billion was spent by the government on goods and services in the health sector in 2005/06. With health spending continuing to rise, the role of the independent sector in the NHS is set to grow.

The independent sector has been providing psychiatric care services to the NHS for over 20 years – PiC was one of the first such providers. The relationships between market participants are developing and maturing. The most forward looking and progressive purchasers amongst the PCTs and mental health trusts are moving to establish longer term, strategic partnerships with their independent sector suppliers to facilitate better planning for future service provision.

The market for secure mental healthcare is maturing and there is political recognition of the importance of the independent sector's contribution. PiC, with its excellent and long standing reputation, is therefore ideally positioned to contribute to the further development of service provision.

"PiC is gearing up for the future. We are committed to delivering quality services, which extend the choice and range of provision to patients and purchasers. The independent sector now plays a crucial part in the provision and improvement of patient care in collaboration with the NHS."

Kevin Beeston Chairman

Public service ethos

PiC was founded on a strong ethos of public service. Our reputation for providing the highest quality care in partnership with our commissioners, is based on that ethos. In all of my visits to our facilities over the last year I have been struck again and again by the care, skills and enthusiasm of our staff. It is their genuine dedication to positive patient outcomes that is at the heart of PiC. The Board and I thank them for their outstanding contribution.

Majority shareholder

PiC became an independent company when it separated from General Healthcare Group in April 2005 and was acquired by Cinven, the leading European private equity firm. Cinven has extensive experience in the healthcare sector and its involvement has enabled us to invest in and expand the company, increasing and improving our service offering. Our professional relationship is based on regular and productive meetings with the Cinven team.

Board

We thank Peter Farrier, who retired from the Board at the end of the year. Peter was instrumental in the set up of PiC and had been Managing Director from 1985 to 2006 following which he continued to give us valuable non-executive advice on the Board. His lifetime achievement award at the Laing and Buisson 2007 Healthcare Awards was but one recognition of his outstanding contribution to mental healthcare in this country. We wish him a long and happy retirement.

After the year end Simon Rowlands, one of our Cinven nominated non-executive directors also stepped down: we thank him for his contributions. David Barker replaced him on the Board on 31 January.

Outlook

When I joined PiC in May 2007 I said that I was looking forward to working with Fred Sinclair-Brown and the management team in positioning the company for strong future growth. Much has already been achieved to that end and we are now well placed for the future. The market is evolving as the public sector learns the best ways in which to work in partnership with independent providers to achieve the best and most efficient patient outcomes. While competition is intensifying and our growth plans are ambitious and stretching, I am convinced that we have the drive, enthusiasm and patient focus to achieve even better results this year.

Kevin Beeston
Chairman

Group Chief Executive's statement

2007 was a pivotal year for PiC. A strong operational performance combined with growth and restructuring has placed the company in a strong position for the next phase in its development. This annual report, the first under the latest voluntary reporting guidelines for private companies, gives a comprehensive overview of the Group, its services, markets, performance and strategy going forward.

Company overview

PiC is the leading independent provider of specialist mental healthcare and related services in the UK. In the last decade we have invested more than £100 million in establishing a range of specialised services including: medium and low secure mental health, personality disorder and learning disability units, specialised services for women, brain injury rehabilitation units, supported living facilities, and through our Care First division, employee assistance in the form of advice and counselling.

PiC's first hospital was opened over 20 years ago at Kneesworth House near Royston, Hertfordshire. Since then increasing demand for our services has allowed us to expand to provide more than 1,000 beds across 23 sites throughout England, Wales and Scotland.

Care pathways

PiC provides care for patients with mental illness, personality disorder, learning disability and brain injury across the UK. Some of our hospitals focus on one of these key services; others are equipped to offer the full range of services. Our expertise and experience enables us to treat some of the most challenging patients in society, patients that other services are often unable to help. PiC employs over 2,300 nurses and 400 psychiatrists, psychologists and therapists which enables us to offer a continuity of care for patients that is second to none.

We are committed to the delivery of care and treatment through integrated care pathways that consider clinical and security needs. Treatment packages are individually tailored and delivered by experienced multi-disciplinary teams. Patients in our hospitals are offered a range of therapies including cognitive and dialectical behavioural therapies; treatment pathways ensure that, where appropriate, talking therapies are combined with drug based interventions to ensure optimum treatment responses.

Thorough and continuing risk assessments inform decisions in respect of the levels of security in which a patient receives treatment. With services in medium, low and step down levels of security, treatment is delivered in the optimum environment at all times. Whilst there is a continuous focus on the successful return to society, a robust care programme approach ensures that decisions to move along the care pathway are shared with all key stakeholders.

> “2007 was a pivotal year for PiC. Strong operational performance combined with growth and restructuring has placed the company in a strong position for the next phase in its development.”
>
> Fred Sinclair-Brown Group Chief Executive

Whilst some patients are able to progress through our care pathways relatively quickly this is not necessarily always the case. Some patients need to be in our care for a number of years. However, success rates are high. Modern mental healthcare has come a long way from large Victorian asylums. Our hospitals focus on care pathways with close links to local communities and are achieving considerable success in improving patients’ mental health and enabling them to resume life in the wider community; quite literally, changing lives for the better.

A number of representative treatment showcases are featured in this report to illustrate care pathways in action, and a glossary on the inside back cover explains some of the technical terms used throughout the report.

Current developments

When PiC became an independent company, it had an excellent reputation for providing the highest quality secure mental healthcare and specialist services. However, because of the way in which the company had grown, these services were being delivered by a decentralised organisation of largely autonomous hospitals.

Starting in 2006, a new executive management team has undertaken a two part process of improvement and expansion designed to build upon the company’s market leading size and reputation, and to position the organisation for further growth.

2007 saw the continuation of the restructuring process, which commenced in 2006, aimed at standardisation and streamlining the organisation across all our facilities. The greater consistency and efficiencies this has achieved not only improves service provision and patient outcomes, but also meets the evolving needs of our main purchasers within the NHS.

Current expansion plans, involving the development of new facilities, the refurbishment and development of existing facilities and selected acquisitions, have enabled us to increase patient bed numbers from 932 in 2006 to 1,038 in 2007. By mid 2008 we will have over 1,200.

This restructuring and expansion is driven by our response to trends within the overall market and the needs of our customers.

Strategy

Our aim is to deliver high quality, value for money services, extending the choice and range of provision to patients and purchasers.

PiC’s core business is the provision of secure care. We offer a high quality service for patients with a mental illness, learning disability or brain injury, focusing on extending care pathways to ensure that patients receive consistent care throughout their transition from medium to low secure and rehabilitation.

Treatment showcase

George, 41, was diagnosed in 1989 with depression and was treated with psychotherapy. By 1998 George had developed paranoid schizophrenia with personality difficulties. He was admitted to several psychiatric hospitals and was noncompliant with medication.

During the first six weeks of his transfer to PiC Suttons Manor, George attended one to one sessions, focusing on building rapport and trust, and a suitable medication regime was established.

After three months George was attending the social skills, confidence building and art group. After six months George was compliant with medication, appeared to be benefiting from the structure in his day and was given periods of leave within the community.

Links were established with a local low secure service prior to George moving to a hostel. Our staff worked with the service to ensure a smooth transition. After 11 months George moved to the hostel with a planned pathway for eventual discharge.

Group Chief Executive's statement (continued)

PiC's current strategy is to ensure the comprehensive provision of this care throughout the UK.

We aim to:

- improve patient outcomes by continuing to develop care pathways and innovative clinical programmes which recognise the needs of patients and purchasers
- continue to work in partnership with the NHS, ensuring our services complement and extend those already provided by the NHS
- continue to attract, motivate and retain the best calibre staff
- maintain a clear focus on the quality of service delivery by adhering to regulatory requirements and developing robust systems of clinical and corporate governance
- maintain our position as the UK's leading independent sector provider of specialist mental health and related services
- ensure that our corporate systems and processes provide effective and efficient modes of working and enhance communication at a corporate, regional and local level
- ensure the future growth and development of the company and in doing so, meet the expectations of our investors, customers and employees.

Delivering the strategy in 2007

Mental Healthcare, Learning Disability and Brain Injury Services

2007 was a year of major investment and growth for PiC. Through expansion and investment at many existing units, PiC can now provide care pathways in more areas of the country.

At the end of 2007 the company had a total of 1,038 patient beds across all services. Of these, 592 patient beds were of medium security; 264 of low security and 182 either step down/rehabilitation or supported living. Male services occupied 683 beds; female services occupied 223 beds; and 132 could take either male or female patients for rehabilitation or step down.

The acquisition of Suttons Manor, a medium secure unit for men with mental illness early in 2007, expanded our range of services in the North London region. This was followed in September with the re-opening of the North London Clinic after a £3 million refurbishment programme.

In October, the opening of Pelham Woods, a step down unit for women in the South East, extended our care pathways for women. In November 2007, we opened the first phase of the Arbury Court development – a purpose built 30 bed unit for men. Not only did this enhance our offering in the North West region, but it enabled PiC to win a long-term contract with the North West specialised commissioning team.

By the end of the year 1,152 patients had received treatment in our facilities, occupancy rates were at 87% and costs per patient day had been reduced by 8%.

During the year there were 380 admissions, whilst 177 patients were successfully moved to a lower secure setting.

In 2007, 90% of patients treated were detained under the Mental Health Act. Of 1,152 patients, 308 were transferred from HM Prisons, with the balance being referred from other secure hospitals, NHS and independent units, the court system and the community.

Our specialist Brain Injury Services (BIS) are based in Essex and Northamptonshire. Facilities are set in extensive grounds, providing assessment, treatment and rehabilitation services for men and women with an acquired brain injury. In 2007 we opened a new eight bed low secure brain injury ward at Oaktree Manor in Tendring, Essex.

The services at BIS are comprehensive enough to allow patients to experience a smooth transition through each stage of their rehabilitation, and flexible enough to accommodate patients entering or leaving at any point in the process.

Management of violence and aggression

PiC provides recognised training in the safe and therapeutic management of violence and aggression (MVA) for all staff who work directly with patients. We are committed to the dissemination and promotion of best practice within this specialist field, hence training is also supplied to staff working in other private and public sector services.

With more than 15 years experience providing specialist training in the management of violent incidents, we facilitate and oversee recognised General Services Association (GSA) tutor training. This is one of the specific areas of care for which PiC is viewed nationally as a centre of excellence. Training is provided across the UK, including the Isle of Wight and the Channel Islands.

Care First

Our subsidiary, Care First, offers private and public sector organisations specialist people management tools, such as employee assistance programmes (EAPs), which are aimed at enabling staff to reach their maximum potential. We provide high quality resources for managers and their employees to help them manage their teams, reduce sickness absence and solve people problems. Recognising that their people are their greatest asset, organisations use Care First services to support and improve work place performance of employees and managers.

Group Chief Executive's statement (continued)

Care First was set up to support both PiC staff as well as employees of other organisations, and now over a million people have access to these services. With current annual turnover of some £3 million, over the last twelve months Care First has continued to provide services for Network Rail, Leeds City Council, Crown Estate, OFSTED and English Heritage amongst many others. In 2007 Care First was awarded contracts with Medway Council, Lewisham Council and the Environment Agency amongst many new client organisations.

Improving management and services

In September 2007 the company moved into a new head office in Borehamwood, bringing together central management, finance, HR and communications in one place for the first time. This has substantially improved efficiency.

During the year, in response to our purchasers' requests, we introduced a central referrals enquiry line and rapid response service. The central referrals line, open 24 hours a day, gives customers further information on PiC hospitals and assistance to find a suitable placement for patients. It also gives customers access to the rapid response service, which offers an emergency service whereby a patient can be assessed and admitted within eight hours of referral, a service of most benefit to the prison service. Every effort is made to assess patients in person and our referral staff work with purchasers to ensure a smooth transition from first contact to admission.

Our new central communications team has achieved substantial progress in developing a coherent corporate identity to reflect our strong brand. Central to our communications is our redesigned website – www.partnershipsincare.co.uk – which was launched at the beginning of 2008.

Our people

PiC employs over 2,300 nursing staff and 400 psychiatrists, psychologists and therapists. The company seeks to attract the best people, offer job fulfilment, clear development pathways and progression.

During 2007 we centralised our recruitment process at the new headquarters in Borehamwood. The re-designed website includes a 'live' recruitment page that encourages prospective employees to apply online. Centralised recruitment has strengthened delivery of the PiC brand message to potential new employees and the unified PiC brand is now immediately identifiable to anyone interested in working in the psychiatric sector.

We have invested significant resources in structured training programmes. Training is crucial to attract and retain staff and deliver the highest quality patient care. We have recognised development and competence pathways for nursing staff and are intending to introduce similar opportunities for healthcare workers.

Treatment showcase

Julie, 45, was transferred to PiC Kneesworth House medium secure women's ward from prison. Her diagnoses were of schizophrenia and borderline personality disorder, complicated by heroin dependence. She was receiving pharmacological treatment.

The immediate clinical goals were the reduction of her psychosis, self-harm and aggressive behaviour and management of her drug dependency. Close observations, behavioural management and alteration of her antipsychotic medication led to improvements in all of these areas, with a marked reduction in psychotic symptoms.

Julie's substance misuse treatment needs were considerable. The primary goal was to withdraw from methadone treatment. This was achieved over six months using a proportionally constant reduction regime of methadone with adjunctive medication.

Julie has transferred to our low secure women's ward where she is more actively engaged in daily living activities and constructing a rehabilitation plan. The current clinical goals are to simplify her medication regime and commence drug relapse prevention using cognitive behavioural therapy to prepare her for discharge into 24 hour staffed accommodation.

Attracting the best and most suited staff and developing their talents is the basis of our HR strategy. Another vital element is recognising outstanding contribution and performance. To encourage and motivate employees a Staff Recognition Award has been introduced. This award recognises both individual as well as team excellence and will assist in maintaining our profile as the leading independent provider of mental health services.

PiC and the individual hospitals within the Group have been committed to the Investor in People status for many years. The company has achieved the new Investors in People standard which will further stretch the business in areas of people management and development. It will also allow us to benchmark ourselves against best in class practices.

A key development that brings together these various elements has been the redefining and restructuring of the HR function during 2007 to provide a focused and professional approach to staff management. The HR function has been regionalised to include three Area HR Managers responsible to the HR Director. This has ensured commonality of approach and the flexibility to develop as the business expands.

Investing for the future

During 2007 PiC invested £38.5 million in new and improved facilities and services. During 2008 we will continue to invest with a planned programme of some £22.1 million.

A number of major build projects will come to fruition in 2008 to extend the provision of care pathways further. In July 2008 a 64 bed purpose built medium secure service, Calverton Hill, will open in Nottinghamshire, extending our existing clinical pathway of medium, enhanced low and low secure services in the Midlands.

Expansions and new developments at several other units – The Dene, St John's and Arbury Court – will be complete in the first half of 2008.

In 2008, we plan to open a new purpose built National Training Centre on the site of one of our newest hospital developments, Arbury Court, near Warrington. This state-of-the-art facility will offer a 60 seat lecture theatre, several seminar rooms, a breakout area and a gymnasium which can be used for management of violence and aggression (MVA) and break away training. This centre will run a wide spectrum of training and development courses for both our own staff and the wider mental health community, with training focused on key issues in psychiatry, management and service development, as well as developing the skills of delegates as trainers. We also plan to establish our

Treatment showcase

Maggie, 21, had a history of behavioural problems and set fire to her room in an attempt to kill herself. She was bailed to prison and later assessed by the local forensic psychiatrist.

She was admitted to PiC The Dene medium secure service, under Section 38 of the Mental Health Act. Here she engaged well and was able to talk about her problems, which centred on her distress concerning her flashbacks, her unstable mood and impulsiveness.

Following an individual assessment Maggie benefited from Dialectical Behaviour Therapy (DBT), psychological therapy sessions and prescribed medication. The DBT helped her to cope with her feelings of distress without resorting to behaviours which put either herself or others at risk. In time, she began to understand her flashbacks and other post traumatic symptoms.

She successfully moved onto a rehabilitation ward within the hospital and after further improvements moved on to a low secure facility to continue her rehabilitation.

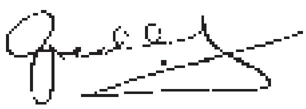
Group Chief Executive's statement (continued)

PiC Academy for the further development of research into mental healthcare.

PiC works in a collaborative and dynamic market place. In the longer term we will continue to develop services in response to changing demands.

PiC staff and management are committed to delivering quality services, which extend the choice and range of care for patients and purchasers which provide good value for money. We have provided care in our specialist areas for over 20 years and are both ambitious and confident that we will remain the first choice service provider for our customers as competition in this healthcare sector increases.

Finally, I would like to take this opportunity to thank all PiC staff, firstly for the passion they have in their work and secondly for their commitment to PiC. We could not deliver the high quality treatment programmes that our patients need and deserve without the support and dedication of all of our staff. We look forward to continued success and delivery in the provision of mental healthcare and in our ability to change lives for the better.



Fred Sinclair-Brown
Group Chief Executive

Business and market environment

Markets and business environment

Market size

In 2006 the value of the UK independent mental health hospital market was estimated at £830 million and the independent care homes for learning disabled and mentally ill adults at £2,508 million. These two markets show very different levels of independent (as opposed to NHS) provision.

The independent sector dominates the residential provision of care for learning disabled and mentally ill adults with an estimated market share of 83% by volume and 75% by value.

Conversely, the vast majority of mental health hospital services in the UK are provided by the NHS – 78% by volume compared with 22% by independent providers. Despite this, the provision of mental healthcare has been one of the fastest growing sectors of independent provision in the last few years.

Market growth

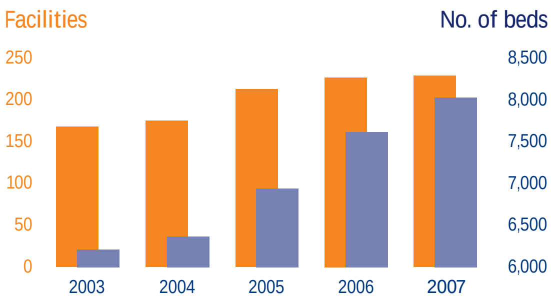
NHS outsourcing dominates the funding of the independent mental health sector, providing some 84% of payment sources (Private Medical Insurance: 7%, Self pay: 9%). There are two main drivers for the growth that has taken place in NHS outsourcing.

Many PCTs are too small for specialist units to be viable within their own catchment areas. They find it preferable to transfer the development and operating risk involved in covering wider areas to the independent sector.

But more importantly it has been NHS policy, under the National Framework for Mental Health, to offer patients appropriate services and accommodation, throughout a complete care pathway. The market is currently experiencing further development of low secure and step down accommodation as the independent sector seeks to offer services along the whole care pathway.

Business and market environment (continued)

Fig 1. Independent mental health facilities and beds 2003-07



(Source: Laing & Buisson)

Figure 1 shows the increase in independent mental health facilities and beds between 2003/07.

Market segmentation and market share

NHS provision dominates the overall mental healthcare sector. The independent sectors's share of all mental health hospital and community services is under 10%. However, its share of hospital bed capacity is substantially higher, at around 33%, reflecting the fact that the independent sector is focused on in-patient rather than community services.

PiC is the largest independent supplier of medium and low secure psychiatric hospitals and services in the market. The company has around 40% of the market for medium secure beds, with our nearest competitors, Care Principles and St Andrew's Group, holding about 14% each.

Market opportunities

Following the growth in independent sector secure services over the last few years, pressure of demand is greatest in low secure and step down services due to the National Service Framework's desire to place patients appropriately within care pathways. This sector should provide major opportunities in the future.

PiC has invested heavily in the area of low secure care increasing this to represent 29% of the portfolio from 4% in 2005.

A maturing marketplace

The NHS is PiC's major customer, but until recently purchasing and commissioning of independent mental healthcare services has tended to be on a local and fragmented basis.

Treatment showcase

Neil, 20, has a severe learning disability and autism. He has little speech and communicates through Makaton (a multi-modal language programme). All previous placements had broken down due to his aggression. After assaulting his carers, Neil came to PiC Oaktree Manor.

Neil's early days at Oaktree Manor were particularly challenging. He caused a great deal of damage to his bedroom and the ward environment.

Over time Neil learnt to understand social boundaries and expressed his needs without the use of aggression. His use of medication was greatly reduced and his vocabulary increased significantly. Neil is no longer isolative and can join in activities with other residents, even attending club activities in Colchester.

We identified a care pathway that would eventually see him living close to his parents. This has enabled Neil to acquire the skills to achieve the goals that not long before seemed totally unrealistic.

When they were originally established the key commissioners were the 303 English PCTs. Typically covering a population of 150-200,000 people, the PCTs were relatively small and many struggled to put in place effective purchasing and long-term care provision strategies. Some groups of PCTs came together to coordinate their efforts via Strategic Health Authorities (SHAs), whilst others delegated outsourcing to their area NHS Mental Health Trust (of which there are 84 in England).

In 2006, following the Our Health, Our Care, Our Say White Paper, several reforms were put in place to improve efficiency and the effectiveness of strategic commissioning. The number of PCTs was reduced to 152, effectively doubling each in size and the number of SHAs was reduced from 28 to 10. Further improvements in the strategic approach to commissioning were instituted in 2007. The provision of medium and low secure mental healthcare was included in services to be commissioned at a regional level, and the SHAs were required to set up specialised commissioning groups of which all PCTs were required to be members. In parallel the Department of Health commercial directorate set up a series of regional procurement organisations, or ‘hubs’, which aim to accelerate savings by collaborative purchasing on behalf of PCTs.

The result of all these developments is an increasing focus on longer term, strategic partnership purchasing of mental healthcare services, often based on service level agreements (SLAs). With our size, established reputation and focus on appropriate care pathways for patients, PiC is well placed to benefit from these trends.

The company has established SLAs with a number of commissioning bodies and at the end of 2007 confirmed an additional long-term medium secure contract with the North West specialised commissioning team.

(Source market data: Laing & Buisson.)

Treatment showcase

After a serious road accident, David, 28, suffered significant changes in behaviour and personality. Due to his aggression he was detained for treatment under the Mental Health Act 1983 and admitted to PiC Brain Injury Services Essex with short-term memory problems, destructive behaviours, non-cooperation with medication and mobility problems.

Through an appropriate treatment programme David's self-harming and destructive behaviours decreased rapidly. A mobility programme including regular swimming and daily assisted physiotherapy sessions was also set up and David was soon able to walk and carry out tasks unaided. An individual care pathway was instigated to aid David's functional skills, memory and cognition with a focus on a transfer to a lower secure environment. He responded to the new pathway engaging in this part of his rehabilitation programme. It resulted in his behaviours becoming settled, allowing him to gain further independence.

Just over three years from admission to Elm Park, he moved into his own bungalow with continued support from a social worker and community mental health nurse.

Corporate responsibility

PiC's approach to corporate responsibility is firmly based on the core value of partnership. The Group acts as an ethical operator at all times, working in partnership with health and social care commissioners and providers as an integral part of local communities.

Company overview

All our hospitals have formed local liaison groups with their communities. We encourage these groups to take an active interest in the work of their local PiC facility, sharing information and obtaining views from the local communities on any plans or areas of interest.

Activities at the local level range from local sponsorships to coordinated awareness raising around events such as World Mental Health Day. Many of our hospitals participate in the Koestler Awards which award and exhibit art produced by patients in secure psychiatric services.

Environmental impact of the business

We are beginning the process of reviewing our carbon footprint. Since 2007 we have been monitoring our energy use and seeking energy efficient solutions whenever possible. All our new developments are designed to be energy efficient.

An example of this approach in action can be seen in the use of video conferencing. To coincide with the head office move to Borehamwood, the Group has been equipped with new video conferencing facilities, enabling electronic meetings, minimising travel and reducing our carbon footprint.

We regularly recycle equipment and send goods that are no longer required to relevant organisations and charities. Following computer upgrades in 2007 we donated all the older computers to Computer Aid International to help improve access to information technology in schools and community organisations in the developing world. We will continue to do this over the coming years.

Health and safety

It is our policy to ensure the health, safety and welfare of our employees whilst they are at work, and of others who may be affected by their undertakings. We comply with the Health and Safety at Work etc Act 1974 and all other allied relevant legislation as appropriate.

We consult with our employees on health and safety matters and have established the corporate management group as the Group risk management committee. We have also established a health and safety committee to provide a forum for continued consultation.

Stakeholder dialogue

PiC was an early adopter of the care programme approach, an initiative now required in this sector. To ensure consistent, focused, individualised care, each patient is

reviewed regularly using an enhanced care programme approach. We encourage referring clinical teams, patients and advocates to attend these meetings, where we jointly review and plan each person's care.

In addition to this, we also meet regularly with relevant stakeholder groups, including commissioners and carers groups. We also participate in the Secure Services Forum, a meeting between the independent sector providers and the commissioners of secure services.

Where we open new or update existing services we develop relationships locally. On a national level we are a member of the NHS Confederation, and more specifically the Confederation's Mental Health Network.

PiC is proud to be the first independent sector organisation to be involved in the Department of Health's Delivering Race Equality for Mental Health programme. We are involved in working groups with the Department of Health, Mental Health Act Commission and regulators.

Research

We encourage research by our own staff and collaboration with academic institutions in ethically approved research. We are working alongside Cardiff University on a major longitudinal outcome study of PiC patients. PiC has a number of links with first-class university research centres, including Manchester University and the Institute of Psychiatry, London.

Performance and measurement

We have a comprehensive approach to clinical governance and employ a clinical governance manager to ensure all developments are communicated to all units. There is a schedule of audits across the organisation which is linked to our regulatory requirements.

When we purchase new hospitals we assess them against our standards and where necessary put in plans to improve them.

Patient experience

Each hospital carries out annual patient surveys. They also all have patient representative groups to discuss quality of service and improvements. Any information from these is fed into the local management groups.

We actively support independent advocacy at all of our units. In 2007 advocacy services were improved through the development of tailored contracts with Rethink and WISH. Complaints are initially dealt with at the local unit level, and are all monitored by the Director of Policy of Regulation. We introduced a standard format and process for dealing with complaints in 2007 with a view to improving the complaint resolution at an early stage to help speed up actions.

Regulation

Our services are subject to the Care Standards Act 2000. Where patients are detained, they are also subject to standards of the Mental Health Act 1983. Our mental health hospitals are regulated by the Healthcare Commission and our care homes by the Commission for Social Care Inspection. In Wales they are regulated by the Healthcare Inspectorate Wales.

In addition to the regulatory inspections, standards are monitored at an operating unit level by our Director of Policy and Regulation. Reports are sent to the relevant regulatory body and also reviewed by our corporate management group.

The government has announced a rationalisation of the regulatory regime with the intended merger of the Healthcare Commission, the Commission for Social Care Inspection and the Mental Health Act Commission in 2009, to form the Care Quality Commission. The proposal for these changes is now out for consultation.

The Mental Health Act 2007 received Royal Assent on 19 July 2007 and will be implemented in November 2008. All PiC facilities are preparing for the implementation of the new Act.

We have a strong emphasis on security and employ an external security consultant who reviews these arrangements across all facilities.

Risks and uncertainties

PiC operates in the care sector, one of the most closely monitored and regulated areas of business. Our services are subject to external inspections by registration and other authorities, which are followed up by publicly available reports. We also regularly conduct our own internal inspections.

There is an ongoing process for identifying, evaluating and managing the risks – both financial and clinical – faced by the Group. This process is regularly reviewed by the directors.

The external audit and central compliance functions, such as internal audit, clinical governance and health and safety, which have Group-wide remits, provide further independent assurance to the Board.

The systems stated above are designed to manage rather than eliminate risks to which the business is exposed.

Increased competition from other independent providers and the NHS is always a continued risk to the development of our business. Changes in outsourcing and purchasing policy or budget restrictions from the Department of Health could also impact our business.

Treatment showcase

Alan, 27, had a difficult family background, a mild learning disability and a history suggestive of an Attention Deficit Hyperactivity Disorder (ADHD). At 21 he was convicted of grievous bodily harm and admitted to PiC St John's House, a medium secure learning disability unit.

Alan was found to have features of both dissocial and emotionally unstable personality disorders. The chosen treatment plan emphasised the importance of providing support, structure and containment whilst promoting patient involvement. It was implemented in an environment where he had access to individual and group psychotherapy, nursing care, organised activities and opportunities for education and vocational training.

There was slow but steady progress which allowed Alan to move on to a community based rehabilitation unit. He was confident and capable enough to find a voluntary work placement. Today, six years after his admission, Alan is making plans to move on to a supported living placement.

Retaining key personnel

PiC manages its risks and uncertainties largely through the strong partnerships and relationships it has built with stakeholders. We concentrate on investing in facilities and services that are required and which form part of a balanced and flexible provision framework for the future. We also continue to ensure our services are focused on recovery, enabling people to build a life for themselves as part of the community.

Key established procedures include: a clear organisational structure with appropriate delegation of responsibility to operational management; the definition of authorisation limits, both financial and otherwise; written operational procedures; a system of financial reporting encompassing an annual budget, updated forecasts and the monthly reporting of actual results measured against both budget and forecast; and the regular assessment of risks facing the business and the reporting of operational performance to the Board, including internal and external clinical audit reports.

Our recruitment and remuneration packages are among the best in the industry. Our training programmes are designed to ensure continued development of staff.

We provide mentoring and coaching programmes for key staff, such as inviting them to sit in on senior management team meetings for a period of up to one year so that they can engage with the business at a higher level.

We strive as an organisation to keep staff informed of business developments and continually review our internal communication procedures to ensure dialogue and successful internal marketing.

Financial review

The year to 31 December 2007 was a strong period for the PiC Group from a trading perspective, with increased capacity and occupancy coupled with improved productivity and margins.

Challenges

In 2007 PiC continued its strategy of developing strong regional hubs to work in partnership with its purchasers in providing the best possible care pathways for patients. Existing services were reconfigured to better meet local needs and the Group continued to diversify its service offering into low secure and locked rehabilitation units.

Managing the capital programmes, which have affected practically every PiC service, could have been seen as a challenge. However the dedication and enthusiasm of the teams across the Group have ensured that the projects have been completed on time, within budget and without compromising the care provided to patients.

The financial highlights for 2007 were:

- Increase in turnover to £152.9 million
- Group EBITDA of £48.4 million, up £8.8 million (22.2%) on the prior year
- Cash generated from operations of £51.2 million, up £15.1 million on the prior year
- Capital investment of £38.5 million during the year
- Repayment of bank debt in the year of £12.8 million
- Cash at bank and in hand at year end of £32.0 million

Group Turnover and Profit Before Interest and Tax

	2007 £m	2006 £m	Growth +/(-) £m
Turnover	152.9	149.4	3.5
EBITDA	48.4	39.6	8.8
Depreciation	(13.7)	(13.0)	(0.7)
Profit before interest and tax	34.7	26.7	8.0

Group turnover increased by £3.5 million (2.4%) to £152.9 million, compared with the prior year (£149.4 million), driven by growth in available beds following the completion of developments, the acquisition of Suttons Manor in March 2007 and the impact of a full year's trading from the 2006 Arbury Court acquisition.

"The year to 31 December 2007 was a strong period for the Group from a trading perspective, with increased capacity and occupancy coupled with improved productivity and margins."

Joy Chamberlain Chief Financial Officer

Group EBITDA was £48.4 million compared with £39.6 million in the prior year, reflecting significant operational improvements through the year.

Depreciation of £13.7 million in the year includes the amortisation costs of the intangible assets arising from the acquisition of the Partnerships in Care Limited and Oaktree Care Group Ltd in 2005.

As a result, profit before interest and tax increased by 30.0% or £8.0 million to £34.7 million from £26.7 million in the prior year.

Cashflow

The Group remains highly cash-generative. During the year to 31 December 2007, net cash inflow from operations increased by £15.1 million to £51.2 million, compared with £36.1 million in the previous year. Of this cash inflow from operations, £38.5 million was re-invested in the Group to fund capital expenditure (as summarised below) and £22.2 million was utilised to meet the cash interest and other financing costs of the Group's bank borrowings. In addition, the Group made a £12.8 million debt repayment in the year, and drew down a £31.7 million from its capital investment facility.

The Group's targeted capital expenditure programme is aimed at developing and maintaining the quality of the Group's property assets. All proposed capital projects are separately appraised both operationally and financially, and the Group sets clear project return targets to assist in assessing the viability and prioritisation of capex projects. The principal capital expenditure projects undertaken in the financial year included: the acquisition of Suttons Manor in March 2007, and the development of four new hospitals, two of which, Pelham Woods and Arbury Court, admitted their first patients in 2007. The remaining projects will be completed in 2008, bringing PiC's bed capacity to more than 1,200.

Bank borrowings

At the end of December 2007, net bank debt was £452.3 million compared with £465.3 million at the end of December 2006. The net bank debt at the year end comprised senior bank debt of £375.5 million, junior bank debt of £62.6 million secured on certain of the properties in the Group and senior bank debt of £46.2 million secured on certain assets; which is partially offset by cash at bank and in hand of £32.0 million.

The Group's bank borrowings are available under a £60.0 million senior credit agreement put in place on 6 July 2005 and amended most latterly on 22 November 2007; a £424.2 million senior credit agreement put in place on 6 July

Treatment showcase

By the age of 28, Abi had had a series of admissions to her local psychiatric hospital, with episodes of depressed mood, auditory hallucinations and paranoid delusions, exacerbated by drug and alcohol misuse, before she was transferred to Stockton Hall.

Assessment confirmed presence of schizoaffective disorder and personality disorder traits, manifested by impulsivity, attempts of self-harm and verbal and physical aggression.

With intensive nursing care, structured ward routines and firm boundaries, her challenging behaviour came under control. She was involved in psycho-education focusing on her drug and alcohol misuse and offending behaviour.

With appropriate occupational therapy sessions, structuring her day and improving her social skills, Abi slowly began to integrate into the real world, with appropriate community leave. Maintaining good links with her family significantly impacted on her good progress.

Following continued liaison with Abi's local services, a clear care pathway was endorsed. Abi was discharged to a local community hostel as a stepping-stone towards a future full discharge into the community.

Financial review (continued)

2005 and most latterly amended on 11 September 2007; and a £70.7 million junior credit agreement most latterly amended on 11 September 2007. Each of the bank credit agreements are long-term and have various repayment dates. The bank credit agreements require the Group to comply with certain financial and non-financial covenants. The financial covenants include annual limitations on capital expenditure and require the maintenance of certain minimum ratios of earnings before interest, taxes, depreciation and amortisation to both net interest payable and net debt. In addition, there is a requirement that the net operating cash flows generated are not less than the Group's cash cost of funding the bank debt. The bank credit agreements are secured by a fixed and floating charge over certain of the Group's assets. Further detail on the Group's borrowings is set out in note 15 of the financial statements.

Included in the Group credit facilities is a revolving facility of £10 million, which is available to finance working capital requirements and for general corporate purposes, and a capital investment facility of £109.9 million. As at 31 December 2007, there had not been any draw down from the revolving facility and £67.3 million had been drawn down (net of repayments) on the capital investment facility. In addition, the Group has investor-funded debt of £205.1 million.

Financial risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential risks for the Group.

The Group's funding, liquidity and exposure to interest rate risk is managed by the Group's finance department and is subject to internal control procedures. All significant financing transactions are authorised by the Board of directors. The most important components of financial risk impacting the Group are interest rate risk, liquidity risk and, to a lesser extent, credit risk – these are discussed in turn below.

Interest rate risk

The Group's trading income and operating cash flows are independent of changes in interest rates. The Group primarily finances its operations through a variety of bank borrowings, including syndicated bank facilities and the private debt markets. The Group's bank borrowings are denominated in sterling and are borrowed at floating interest rates. The Group utilises interest rate swaps to manage its exposure to interest rate fluctuations. At the year end, 93.0% of the Group's bank borrowings were hedged.

Liquidity risk
Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced frequently and are regularly reviewed to ensure that sufficient financial headroom exists for at least a 12-month period. The Group maintains banking facilities, which are long-term with a range of maturity dates, to mitigate any liquidity risk it may face.

Credit risk
Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. With over 90% of our customers being quasi government organisations the default risk is very low. Late payment risk is managed through focused collection activities coupled with both cash clearance and outstanding debt targets.

Going concern
The directors have prepared the financial statements on a going concern basis consistent with their view, formed after reviewing the Group's cash flow forecasts and trading budgets, and after making appropriate enquiries, that the Group is operationally and financially robust, and will generate sufficient cash to meet its borrowing requirements for the next 12 months.

Joy Chamberlain
Chief Financial Officer

Board of directors

Kevin Beeston
Chairman (age 45)

Kevin was appointed Chairman of PiC in May 2007. Kevin is also non-executive Chairman of Serco Group plc, the leading public services business. He previously served as Serco's Executive Chairman, Chief Executive and Finance Director. He is a member of the CBI President's Committee, Chairman of the CBI's Public Services Strategy Board, which promotes the role business has in transforming the UK's public services, and is a Commissioner for the TUC's Commission on Vulnerable Employment. He is Chairman of Infinitas Learning, Chairman of Domestic and General and a non-executive Director of IMI plc and Ipswich Town Football Club plc.

Fred Sinclair-Brown
Group Chief Executive (age 47)

Fred Sinclair-Brown became Group Chief Executive of PiC in September 2006. He qualified as a Chartered Accountant with Price Waterhouse in 1985 before working in corporate finance with both the HSBC Group and Bank of Ireland. In 1993 he joined ANS plc where he spent 13 years, the last 10 as Group Finance Director. For the final five years Fred combined his finance role with that of acting Chief Executive. Fred has brought structure and focus to PiC, developing the management team and the vitality of the organisation.

Joy Chamberlain
Chief Financial Officer (age 44)

Joy qualified as a Chartered Accountant with PriceWaterhouseCoopers in 1990. Working within corporate recovery she managed the property and construction team and was responsible for the operation and sale of numerous hospitals and care homes. In 1998, Joy joined PiC as Commercial Manager. As part of the senior management team she was responsible for the development of the property portfolio and expansion in capacity since 1997.

Rebecca Gibson

Non-executive Director (age 33)

Rebecca joined Cinven in 2002 and has worked on a number of transactions, including Spire Healthcare, USP Hospitales, PiC, Eutelsat, NCP and Gala Coral Group. She is a member of the healthcare and the retail, leisure and consumer sector teams. Prior to this she was a consultant at Bain & Company in Cinven.

David Barker

Non-executive Director (age 40)

David was appointed to the Board on 31 January 2008. He is a Cinven Partner, having joined the firm in 1996. He has been involved in numerous transactions, including the buyouts of Eutelsat, Springer, Aprovia, MediMedia and Dutch Cable. Before joining Cinven, David worked for the industrial group Morgan Crucible for three years and prior to that he worked at Arthur Andersen.

Simon Rowlands

Non-executive Director (age 51)

Simon Rowlands served on the Board as a representative from Cinven during the year under review. He retired from the Board on 31 January 2008.

Peter Farrier

Non-executive Director (age 65)

Peter Farrier served on the Board during the year under review. He retired from the Board on 31 December 2007.

Corporate governance report

The Company is committed to maintaining high standards of corporate governance, as a key component of being a well run company. Throughout the year under review, the Company has complied with the principles set out in the Code on Corporate Governance issued by the Financial Reporting Council.

The Board

The Board is chaired by a non-executive chairman, who was appointed in May 2007. The Board consists of two executive directors and three non-executive directors. To enable the Board to perform its duties all directors have timely access to all relevant information and to the services of the Company Secretary. The Board meets on a monthly basis, and individual attendance is set out in the table below.

A schedule of matters is reserved for the decision of the Board including all major strategic and financial decisions, the approval of the annual budget, major acquisitions and disposals and material contracts.

Board committees

The Board has two main committees, an audit committee and a remuneration committee, each of which has its own terms of reference.

	7 Feb	1 Mar	29 Mar	25 Apr	22 May	5 July	2 Aug	7 Sept	4 Oct	1 Nov	7 Dec	20 Dec
Kevin Beeston	n/a	n/a	n/a	n/a	✔	✔	✔	✔	✔	✔	✔	✔
Fred Sinclair-Brown	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Joy Chamberlain	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Peter Farrier	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔	–	✔
Simon Rowlands	✔	✔	via video link	✔	✔	✔	✔	✔	✔	✔	✔	✔
Rebecca Gibson	✔	✔	✔	✔	✔	✔	by phone	✔	–	✔	✔	✔
Siân Johnson	✔	✔	✔	✔	✔	✔	–	✔	✔	✔	✔	✔

The audit committee

The members of the audit committee are Kevin Beeston (chair), Rebecca Gibson and Simon Rowlands (non-executive directors) and Joy Chamberlain (executive director). Only committee members have the right to attend meetings, but other individuals such as the Group Chief Executive and internal auditor are regularly invited to attend when appropriate. External auditors attend committee meetings on a regular basis. The committee meets at least twice a year.

Principle matters considered include:

1. the review and approval of the financial statements of the Company;

2. consideration of internal audit reports and the internal audit programme; and

3. approval of the external audit plan and fee proposal.

Also, the committee reviews the Company's systems of internal control and compliance environment.

The remuneration committee

The members of the committee are Kevin Beeston (chair), Simon Rowlands and Rebecca Gibson, who are all non-executive directors. The committee meets at least once a year, or more frequently, if appropriate. Other individuals, such as the Group Chief Executive, may also be invited to attend. The committee's main role is to determine and agree with the Board, the remuneration of the Group Chief Executive, Chairman and the executive directors. The committee also reviews the emoluments of the senior managers of the Company, including salary reviews, the setting of bonus levels and performance targets, with the aim of ensuring that appropriate incentives are in place to encourage the enhanced performance of all concerned.

Directors' report

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

Principal activities

The Partnerships in Care Group provides mental healthcare services. The company is a holding company and was incorporated on 31 March 2005. Reference to the trading activities of the Group can be found on pages 8 to 10.

Business review

During the year the Group completed the purchase of a unit in Essex, Suttons Manor, and exchanged contracts for another unit in Scotland. These units, together with two properties acquired for development will enable the company to increase its bed numbers by 96 by the start of 2008. In addition the Group has continued its programme of expansion and refurbishment of existing facilities in the year, thereby ensuring the quality of its estate is maintained and it continues to be in a strong position to meet customer and service user needs.

The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

Key Performance Indicators (KPIs)

Financial performance

The Group prepares detailed financial budgets and projections for all of its facilities and operations, against which actual performance is monitored.

These projections relate both to operational performance of existing units and to capital projects, where emphasis is placed upon cost control and achievement of completion deadlines.

Quality and compliance with regulations

The Group operates in a highly regulated environment and all of its care facilities are registered by either the Healthcare Commission or the Commission for Social Care Inspection, and in Wales by Healthcare Inspectorate Wales. In addition all of the mental health units are regulated by the Mental Health Act Commission.

The quality of care provided by the Group and its compliance with regulation, including those above, are monitored in a structured manner and subject to continuous review by the senior managers and executive directors.

Position at the year end

The Group's performance against these measures was satisfactory at the year end.

Employees

Our staff are key to providing the highest quality patient care. We have developed training programmes and recognised development and competence pathways for our staff. PiC recognises the value of diversity in the workplace and outstanding achievement is rewarded through a formal recognition scheme.

Principal risks and uncertainties

The Group's main customer for its mental health services is the National Health Service and any change in government policy away from the independent sector would constitute a risk to the company. This has been a risk faced by the Group since it began to trade in 1991. Further information on risks and uncertainties can be found on pages 18 to 19.

Details relating to interest rate risk are set out in the notes to the accounts.

Policy on payment of creditors

It is the Group's policy to comply with the payment terms of suppliers.

Political and charitable contributions

The Group made no political contributions during the period. Charitable donations in the same period were £2,725 (2006: nil).

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

Kevin Beeston	*Appointed 1 May 2007*
Frederick Sinclair-Brown	
Lesley Joy Chamberlain	
Simon Rowlands	*Resigned 31 January 2008*
David Barker	*Appointed 31 January 2008*
Rebecca Gibson	
Peter Farrier	*Resigned 31 December 2007*

The company secretary during the year was Siân Johnson. There are no directors retiring by rotation.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Siân Johnson
Company Secretary
2 Imperial Place
Maxwell Road
Borehamwood
Hertfordshire WD6 1JN

Statement of directors' responsibilities in respect of the report and accounts

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 judgments and 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; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Partnerships in Care Group Limited

We have audited the Group and parent company financial statements of Partnerships in Care Group Limited for the year ended 31 December 2007, which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of directors' responsibilities on page 28, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 directors' report is consistent with the financial statements. We also 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 UK Generally Accepted Accounting Practice, of the state of the Group's and parent company's affairs as at 31 December 2007 and of the Group's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

KPMG LLP
Chartered Accountants and Registered Auditor

London
19 June 2008

Consolidated profit and loss account for the year ended 31 December 2007

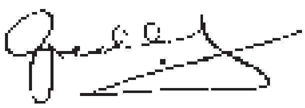
	Note	2007 £000	2006 £000
Turnover	2	152,899	149,366
Cost of sales		(92,515)	(95,479)
Gross profit		60,384	53,887
Administrative expenses		(25,688)	(27,151)
Operating profit		34,696	26,736
Interest receivable	6	1,109	813
Interest payable and similar charges	7	(50,990)	(47,149)
Loss on ordinary activities before taxation	3	(15,185)	(19,600)
Tax on loss on ordinary activities	8	(782)	11
Loss for the year/period	17	(15,967)	(19,589)

As described in the directors' report all operations are continuing.
There is no difference between the loss for the current or prior year and its historic cost equivalent.

Consolidated balance sheet
at 31 December 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets – Goodwill	9	82,552		87,313	
Tangible assets	10	537,874		508,276	
			620,426		595,589
Current assets					
Stocks	12	379		356	
Debtors (including £nil 2006: £nil, due after more than one year)	13	13,512		14,483	
Cash at bank and in hand		32,004		21,922	
		45,895		36,761	
Creditors: amounts falling due within one year	14	(39,492)		(22,493)	
Net current assets			6,403		14,268
Total assets less current liabilities			626,829		609,857
Creditors: amounts falling due after more than one year	15		(661,911)		(629,618)
Provisions for liabilities and charges	8		(865)		(476)
Net liabilities excluding pension liability			(35,947)		(20,237)
Pension liability	19		(856)		(2,063)
Net liabilities including pension liability			(36,803)		(22,300)
Capital and reserves					
Called up share capital	16		16,724		16,553
Profit and loss account	17		(53,527)		(38,853)
Shareholders' deficit			(36,803)		(22,300)

These financial statements were approved by the Board of directors on 19 June 2008 and were signed on its behalf by:

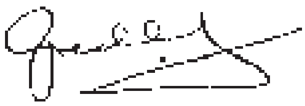


Fred Sinclair-Brown
Director

Company balance sheet
at 31 December 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Investments in subsidiaries	11		14,870		14,870
Current assets					
Debtors	13	1,877		1,897	
Cash at bank and in hand		1,751		1,293	
		3,628		3,190	
Creditors: amounts falling due within one year	14	(994)		(920)	
Net current assets			2,634		2,270
Total assets less current liabilities			17,504		17,140
Creditors: amounts falling due after more than one year	15		(1,057)		(745)
Net assets			16,447		16,395
Capital and reserves					
Called up share capital	16		16,724		16,553
Profit and loss account	17		(277)		(158)
Shareholders' funds			16,447		16,395

These financial statements were approved by the Board of directors on 19 June 2008 and were signed on its behalf by:



Fred Sinclair-Brown
Director

Consolidated cash flow statement for the year ended 31 December 2007

	Note	2007 £000	2006 £000
Cash flow statement			
Cash flow from operating activities	20	51,062	36,116
Returns on investments and servicing of finance	21	(22,232)	(28,879)
Taxation		185	(1,400)
Capital expenditure and financial investment	21	(30,594)	(16,330)
Acquisitions and disposals	21	(7,500)	(6,100)
Cash outflow before management of liquid resources and financing		(9,079)	(16,593)
Financing	21	19,161	27,582
Increase in cash in the year		10,082	10,989
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year		10,082	10,989
Cash inflow from increase in debt and lease financing		(19,374)	(25,706)
Non-cash changes		(19,511)	(17,323)
Change in net debt resulting from cash flows		(28,803)	(32,040)
Movement in net debt in the year		(28,803)	(32,040)
Net debt at the start of the year		(621,411)	(589,371)
Net debt at the end of the year	22	(650,214)	(621,411)

Reconciliations of movements in shareholders' funds for the year ended 31 December 2007

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Opening shareholders' (deficit)/funds	(22,300)	16,395	(6,027)	14,687
Loss for the financial year	(15,967)	(172)	(19,589)	(32)
Actuarial gain relating to the year	1,772	–	2,252	–
Deferred tax on actuarial gain relating to the year	(532)	–	(676)	–
New share capital subscribed (net of issue costs)	171	171	1,863	1,863
Own shares issued to Ogier Trust Limited	53	53	(123)	(123)
Closing shareholders' (deficit)/funds	(36,803)	16,447	(22,300)	16,395

Consolidated statement of total recognised gains and losses for the year ended 31 December 2007

	2007 £000	2006 £000
Loss for the financial year	(15,967)	(19,589)
Actuarial gain/(loss) relating to the year	1,772	2,252
Deferred tax on actuarial gain relating to the year	(532)	(676)
Total recognised gains and losses relating to the financial year	(14,727)	(18,013)

Notes

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Group's financial statements except as noted below.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2007. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised.

Fixed asset investments

Fixed asset investments are carried at cost less impairment for any permanent diminution in value.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	over 50 years
Leasehold land and buildings	over primary term of lease
Building structural alterations and refurbishment	over 10 years
Fixtures and fittings	over 7 years
Building major decorative refurbishment	over 5 years
Furniture and fittings	over 7 years straight line
Plant and machinery	over 10 years straight line
Equipment	over 4 or 7 years straight line
Motor vehicles	over 4 years straight line

No depreciation is provided on freehold land.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. 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 Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Group operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Going concern

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate, based on the Group's latest forecasts.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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 FRS 19.

Turnover

Company turnover comprises goods and services supplied in the normal course of business – net of all refunds, allowances and value added tax.

2 Segmental information

The directors are of the opinion that the businesses of the company are substantially similar in that they all relate to the provision of health care services. Turnover and profit before tax on ordinary activities arise from continuing operations entirely in the UK.

3 Loss on ordinary activities before taxation

	2007 £000	2006 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group – audit of financial statements and subsidiaries pursuant to legislation	121	137
– other services related to taxation	135	124
– other services	–	–
Company – audit of financial statements pursuant to legislation	–	20
Depreciation and other amounts written off tangible fixed assets:		
Owned	8,894	8,220
Leased	37	12
Amortisation of goodwill	4,761	4,761
Hire of other assets – operating leases	204	193

4 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	607	581
Highest paid director:		
Included in above emoluments in respect of highest paid director	311	265

The highest paid director is not a member of a defined benefit scheme. In 2006 the highest paid director was a member of the defined benefit scheme, under which his accrued pension at the end of 2006 was £135,900.

	Number of directors 2007	Number of directors 2006
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	2	2

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2007 No.	2006 No.
Operations	2,283	2,697
Administration	116	166
	2,399	2,863

The aggregate payroll costs of these persons were as follows:

	2007 £000	2006 £000
Wages and salaries	71,414	69,070
Social security costs	7,326	6,931
Other pension costs	2,005	2,328
	80,745	78,329

6 Interest receivable and similar income

	2007 £000	2006 £000
Bank interest received	1,074	672
Interest on pension scheme	35	141
	1,109	813

Notes (continued)

7 Interest payable and similar charges

	2007 £000	2006 £000
On bank loans and overdrafts	31,467	29,823
On all other loans	18,702	7,249
Finance charges payable in respect of finance leases and hire purchase contracts	13	3
Interest on deep discount bond	–	9,314
Amortisation of finance costs	808	760
	50,990	47,149

8 Taxation

Analysis of charge/credit in the year

	2007 £000	2007 £000	2006 £000	2006 £000
UK corporation tax				
Current tax on income for the year	374		–	
Adjustment in respect of prior year	–		(145)	
Total current tax		374		(145)
Deferred tax				
Origination/reversal of timing differences	544		633	
In respect of pension scheme	19		(24)	
Adjustments in respect of prior periods	(155)		(475)	
Total deferred tax		408		134
Tax on loss on ordinary activities		782		(11)

Factors affecting the tax credit for the current year

	2007 £000	2006 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(15,185)	(19,600)
Current tax at 30% (2006:30%)	(4,556)	(5,880)
Effects of:		
Expenses not deductible for tax purposes	5,562	3,750
Capital allowances for period in excess of depreciation	(544)	(522)
Other short term timing differences	(9)	(111)
Carry forward tax losses	(79)	2,763
Adjustment in respect of prior periods	–	(145)
Total current tax charge/(credit) (see above)	374	(145)

Factors that may affect future current and total tax charges

The level of disallowable expenses and utilisation of tax losses carried forward will impact future tax charges. The change in the tax rate from 30% to 28% will reduce the deferred tax liability by £22,922.

	2007 £000	2006 £000
Net deferred tax		
At start of year	(476)	(316)
Net charge for the year in the profit and loss account	(544)	(633)
Adjustment for prior periods	155	473
At end of year	(865)	(476)

The amounts provided for deferred tax are set out below:

Accelerated capital allowances	(1,165)	(830)
Short term timing differences	231	354
Tax losses carry forward	69	–
Provision at end of year	(865)	(476)

There is unprovided deferred tax in respect of revaluation uplifts in the properties of £98,988,114 (2006: £98,562,000).

There is unprovided deferred tax in respect of tax losses carried forward of £3,962,315 (2006: £3,096,000).

9 Intangible fixed assets

Goodwill

Group	2007 £000	2006 £000
Cost		
At start of year	95,237	95,237
Acquisition	–	–
At end of year	95,237	95,237
Amortisation		
At start of year	(7,924)	(3,163)
Amortisation	(4,761)	(4,761)
At end of year	(12,685)	(7,924)
Net book value		
At end of year	82,552	87,313

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is amortised over 20 years.

10 Tangible fixed assets

Group	Land and buildings £000	Plant and machinery £000	Furniture and fittings £000	Computers and equipment £000	Motor vehicles £000	Total £000
Cost						
At start of year	515,316	1,559	2,445	2,529	32	521,881
Additions	35,125	1,360	742	892	435	38,554
Transfers	(1,063)	932	131	–	–	–
Disposal	–	(260)	–	(17)	(32)	(309)
At end of year	549,378	3,591	3,318	3,404	435	560,126
Depreciation						
At start of year	10,968	869	578	1,176	14	13,605
Charge for year	7,407	628	369	438	89	8,931
Disposal	–	(253)	–	(17)	(14)	(284)
Transfers	(137)	(463)	600	–	–	–
At end of year	18,238	781	1,547	1,597	89	22,252
Net book value						
At 31 December 2007	531,140	2,810	1,771	1,807	346	537,874
At 31 December 2006	504,348	690	1,867	1,353	18	508,276

Included in the total net book value of motor vehicles is £435,000 (2006: £18,392) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the period on these assets was £18,000 (2006: £12,290).

Notes (continued)

11 Fixed asset investments

Shares in subsidiary undertakings	2007 £000	2006 £000
Cost		
At start of year	14,870	14,870
Shares issued during the year	–	–
At end of year	14,870	14,870
Provisions/amortisation		
At start of year	–	–
Amortised in the year	–	–
At end of year	–	–
Net book value		
At end of year	14,870	14,870

The principal companies in which the company's interest is more than 10% are as follows:

Subsidiary and associated undertakings	Country of registration or incorporation	Principal activity	Percentage of ordinary shares held
Partnerships In Care Holdings Limited	England and Wales	Holding company for trading and property holding companies	100%
Indirect holdings			
Partnerships In Care Management Limited	England and Wales	Holding company for trading companies	100%
Partnerships In Care Limited	England and Wales	Mental Healthcare services	100%
Oaktree Care Group Limited	England and Wales	Mental Healthcare services	100%
Partnerships In Care Property Holding Company Limited	England and Wales	Holding company for property companies	100%
Partnerships In Care Property 1 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 2 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 3 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 4 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 5 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 6 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 7 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 8 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 9 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 10 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 11 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 12 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 13 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 14 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 15 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 16 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 17 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 18 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 19 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 20 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 21 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 22 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 23 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 24 Limited	England and Wales	Property holding company	100%
Partnerships In Care Property 25 Limited	England and Wales	Property holding company	100%

In the opinion of the directors the investments in and amounts due from the company's subsidiary and associated undertakings are worth at least the amounts at which they are stated in the balance sheet.

12 Stocks

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Pharmaceuticals	201	–	160	–
Food and consumables	143	–	150	–
Stationery stock	35	–	46	–
	379	–	356	–

13 Debtors

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Trade debtors	7,472	–	9,121	–
Other debtors	134	–	446	–
Amounts due to fellow subsidiaries	–	1,877	–	1,897
Prepayments and accrued income	5,906	–	4,916	–
	13,512	1,877	14,483	1,897

14 Creditors: amounts falling due within one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Bank loans and overdrafts (see note 15)	19,262	–	12,785	–
Other loans (see note 15)	920	920	920	920
Obligations under finance leases and hire purchase contracts	125	–	10	–
Trade creditors	1,614	–	1,134	–
Corporation tax creditor	335	–	–	–
Taxation and social security	32	–	46	–
Other creditors	3,578	–	2,648	–
Accruals and deferred income	13,626	74	4,950	–
	39,492	994	22,493	920

15 Creditors: amounts falling due after more than one year

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Debenture loans	199,996	1,057	180,725	745
Bank loans	461,642	–	448,889	–
Obligations under finance leases and hire purchase contracts	273	–	4	–
	661,911	1,057	629,618	745

Analysis of debt:

Debt can be analysed as falling due:				
In one year or less, or on demand	20,182	920	13,705	920
Between one and two years	23,823	–	19,262	–
Between two and five years	80,763	–	79,547	–
In five years or more	564,591	1,057	538,998	745
	689,359	1,977	651,512	1,665
Less capitalised finance fees	(7,539)	–	(8,193)	–
	681,820	1,977	643,319	1,665

Notes (continued)

15 Creditors: amounts falling due after more than one year (continued)

Analysis of debt (continued):

Debt balances are further analysed in the table below:

	Carrying value at start of period £000	Principal issued during the period £000	Capitalised fees movement in the period £000	Interest rolled into debt during the period £000	Repayment during the period £000	Carrying value at end of period £000
Bank loan to be repaid over 7 years, secured by fixed legal charge over subsidiary company's assets, interest rate varying with LIBOR and is hedged for 10 years at 4.42% on half the loan.	48,879	–	(46)	–	(3,000)	45,833
Bank loan to be repaid over 10 years, comprising main tranche of £385 million and further development loan of £20,652,475 secured by way of fixed legal charge over subsidiary company's properties and a floating charge over all the assets and undertakings of the company. The interest rate varies with LIBOR and is hedged for 10 years at 5.0575% on term loans and 4.645% on development loans.	412,795	31,699	362	–	(9,785)	435,071
Loan from majority shareholder, interest free, due on demand.	920	–	–	–	–	920
Unsecured subordinated loan note due 2020 on which unsecured subordinated PIK notes due 2020 have been issued to satisfy interest at 10%.	179,980	–	338	18,621	–	198,939
Unsecured fixed rate loan note due 2020, compound interest at 7% pa.	271	–	–	19	–	290
Unsecured fixed rate loan note due 2020, compound interest at 10% pa.	474	–	–	48	–	522
Unsecured fixed rate loan note due 2020, compound interest at 10% pa.	–	230	–	15	–	245
	643,319	31,929	654	18,703	(12,785)	681,820

16 Called up share capital

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Authorised				
Ordinary shares of £1 each	16,724	16,724	16,724	16,724
Allotted, called up and fully paid				
Ordinary shares of £1 each				
At start of year	16,553	16,553	14,690	14,690
Allotted during the year	171	171	1,863	1,863
At the end of the year	16,724	16,724	16,553	16,553

17 Profit and loss reserve

Group	2007 £000	2006 £000
At start of year	(38,853)	(20,717)
Loss for the year	(15,967)	(19,589)
Actuarial profit recognised in the pension scheme in the year	1,772	2,252
Deferred tax arising on gains in the pension scheme in the year	(532)	(676)
Own shares disposed/(acquired)	53	(123)
At end of year	(53,527)	(38,853)

Company		
At start of year	(158)	(3)
Loss for the year	(172)	(32)
Own shares disposed/(acquired)	53	(123)
At end of year	(277)	(158)

18 Commitments

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

	Group 2007 £000	Company 2007 £000	Group 2006 £000	Company 2006 £000
Contracted	16,860	–	8,052	–

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

Group	2007 Property £000	2007 Motor vehicles £000	2007 Equipment £000	2007 Total £000	2006 Total £000
Operating leases which expire:					
Within one year	31	6	6	43	171
In the second to fifth years inclusive	221	43	25	289	25
Over five years	52	–	3	55	55
	304	49	34	387	251

19 Partnerships in Care Limited Pension and Life Assurance Plan

The Group operates a defined benefit scheme in the UK. A full actuarial valuation is being carried out as at 1 January 2006 – and this has been updated to 31 December 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31/12/2007	At 31/12/2006	At 31/12/2005
Rate of increase in salaries	3.55%	3.25%	4.75%
Rate of increase to pensions in payment accrued before 6 April1997	3.30%	3.00%	2.75%
Rate of increase to pensions in payment accrued after 5 April 1997	3.30%	3.00%	2.75%
Rate of increase of deferred pensions	3.30%	3.00%	2.75%
Discount rate	5.80%	5.30%	4.80%
Inflation assumption	3.30%	3.00%	2.75%
Mortality	PXA92 Medium Cohort Projected by Year of Birth		

The Group contributions during the accounting period amounted to £936,000. The Company contribution rate for the coming year is 16.5% of pensionable salaries.

The Plan is closed to new entrants. In accordance with FRS 17, the valuation of the Plan's liabilities has been determined using the projected unit method.

In these circumstances the use of this method can lead to the contribution rate underlying the current service cost increasing in future years.

19 Partnerships in Care Limited Pension and Life Assurance Plan (continued)

The assets in the scheme and the expected rate of return were:

Assets	Value at 31 December 2007 £000	Value at 31 December 2006 £000	Value at 31 December 2005 £000
Equities	6,668	9,387	11,851
Bonds	6,032	5,259	202
Property	6,549	2,224	–
Absolute return	2,066	2,167	1,603
Other	1,011	394	3,209
Total market value of assets	22,326	19,431	16,865
Present value of scheme liabilities	(23,515)	(22,378)	(21,986)
Deficit in the scheme – Pension liability	(1,189)	(2,947)	(5,121)
Related deferred tax asset at 30%	333	884	1,536
Net pension liability	(856)	(2,063)	(3,585)

	Long term rate of return 31 December 2007	Long term rate of return 31 December 2006	Long term rate of return 1 May 2005
Equities	7.75%	7.75%	7.75%
Bonds	5.80%	5.30%	4.80%
Absolute return	7.75%	7.75%	–
Property	7.75%	7.75%	7.75%
Other	5.00%	5.00%	4.50%

Movement in deficit during the year

	31 December 2007 £000	31 December 2006 £000
Deficit in scheme at beginning of the year	(2,947)	(5,121)
Movement in year:		
Current service cost	(985)	(1,617)
Contributions	936	1,106
Curtailment gains	–	292
Other finance income	35	141
Actuarial gain	1,772	2,252
Deficit in the scheme at the end of the year	(1,189)	(2,947)

Analysis of other pension costs charged in arriving at operating profit/loss

Current service cost	985	1,617
(Gain)/loss on any settlements and curtailments	–	(292)
	985	1,325

Analysis of amounts included in other finance income/costs

Expected return on pension scheme assets	1,248	1,232
Interest on pension scheme liabilities	(1,213)	(1,091)
Net interest on pension scheme	35	141

Analysis of amount recognised in statement of total recognised gains and losses

Actual return less expected return on scheme assets	1,220	346
Experience loss arising on the scheme liabilities	(433)	(1,546)
Gain arising from changes in assumptions underlying the scheme liabilities	985	3,452
Actuarial gain recognised in statement of total recognised gains and losses	1,772	2,252

19 Partnerships in Care Limited Pension and Life Assurance Plan (continued)

History of experience gains and losses

	31 December 2007	31 December 2006	31 December 2005
Difference between the expected and actual return on scheme assets:			
Amount (£000)	1,220	346	393
Percentage of year end scheme assets	5%	2%	2%
Experience gains and losses on scheme liabilities:			
Amount (£000)	(433)	(1,546)	(276)
Percentage of year end present value of scheme liabilities	2%	(7%)	(1%)
Total amount recognised in statement of total recognised gains and losses:			
Amount (£000)	1,772	2,252	(2,324)
Percentage of year end present value of scheme liabilities	8%	10%	(11%)

20 Reconciliation of operating profit to net cash flow from operating activities

	2007 £000	2006 £000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	34,696	26,736
Depreciation and amortisation charges	13,692	12,993
Decrease/(increase) in stocks	(23)	13
Decrease/(increase) in debtors	746	(3,360)
(Decrease)/increase in creditors	1,933	(389)
Other	18	123
Net cash inflow from operating activities	51,062	36,116

21 Analysis of cash flow

	2007 £000	2007 £000	2006 £000	2006 £000
Returns on investment and servicing of finance				
Interest received	(1,109)		(813)	
Interest paid	23,341		29,692	
		(22,232)		(28,879)
Capital expenditure and financial investment				
Purchase and capital expenditure in respect of tangible fixed assets	30,594		16,330	
		30,594		16,330
Acquisitions				
Delph Park	–		6,100	
Suttons Manor	7,500		–	
		7,500		6,100
Financing				
Issue of ordinary share capital	171		1,863	
Debenture loan	–		(85,291)	
Bank loan				
Drawdowns	31,699		18,419	
Repayments and fees	(12,939)		(6,723)	
Loan notes	230		99,314	
Other loan	–		–	
		19,161		27,582

Notes (continued)

22 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non cash changes £000	At end of year £000
Cash in hand, at bank	21,922	10,082	–	32,004
Debt due after one year	(637,808)	(31,929)	560	(669,177)
Debt due within one year	(13,704)	12,785	(19,263)	(20,182)
Capitalised finance costs	8,193	154	(808)	7,539
Finance leases and hire purchase contracts	(14)	(384)	–	(398)
Debt and finance leases	(643,333)	(19,374)	(19,511)	(682,218)
Total	(621,411)	(9,292)	(19,511)	(650,214)

23 Related party disclosures

Peter Farrier, a director, has provided an unsecured fixed rate loan note for £250,000 (2006: £250,000) with compound interest of 7% giving a total due of £290,000.

Fred Sinclair-Brown, a director, has provided an unsecured fixed rate loan note for £460,000 (2006: £460,000) with compound interest of 10% giving a total due of £522,000.

Kevin Beeston, a director, has provided an unsecured fixed rate loan note for £230,000 (2006: £nil) with compound interest of 10% giving a total due of £245,000.

Cinven, the majority shareholder, has provided two unsubordinated loan notes on which unsecured PIK notes have been issued.

Full details of debt are set out in note 15.

24 Acquisitions

On 13 March 2007 the group acquired the trade and property of Suttons Manor for £7,500,000. The fair value of the property and other fixed assets acquired was £7,500,000 and consequently no goodwill arises in the Group accounts.

25 Post balance sheet events

On 12 February 2008 the Group acquired the entire issued share capital of Covenant Healthcare Rehabilitation Services Limited and property from Abbey Hospitals (Property) Ltd for £14.5 million plus fees.

26 Ultimate parent company

At 31 December 2007 the Group's immediate and ultimate parent undertakings were the partnerships comprising the Third Cinven Fund (the "Cinven Funds"), being funds managed and advised by Cinven Limited, a company incorporated under the laws of England and Wales.

Accordingly, the directors consider the Company's ultimate controlling party to be Cinven Limited, the manager and advisor to the Cinven Funds.

The treatment showcases featured in this report are summaries based on real events. Names have been changed to protect the identities of the individuals involved. The photographs accompanying the treatment showcases are of PiC patients and staff and are for illustrative purposes only. They do not directly refer to the treatment showcases. Our thanks to all those who took part in the photography.

Glossary

Behaviour Therapy – a method of psychotherapy based on learning principles. It uses such techniques as counter conditioning, reinforcement and shaping to modify behaviour.

Integrated Care Pathway – a fully integrated care pathway facilitates proper transition for the patient through appropriate levels of security and treatment to a complete discharge from hospital. All critical decisions within the pathway are supported by appropriate risk assessments and engage the patient and appropriate clinicians as well as key stakeholders.

Cognitive Behavioural Therapy – a psychotherapy approach that emphasises the influence of a person's beliefs, thoughts and self-statements on behaviour. Combines behaviour therapy methods with techniques designed to change the way the individual thinks about self and events.

Dialectical Behaviour Therapy – a psychotherapy treatment for individuals with borderline personality disorder, although it is used for patients with other diagnoses as well. The treatment itself is based largely in behaviorist theory with some cognitive therapy elements as well. Unlike cognitive therapy it incorporates mindfulness practice (awareness of one's thoughts, actions or motivations) as a central component of the therapy.

High Secure – high secure treatment is provided exclusively by the public sector in the three NHS hospitals at Ashworth, Rampton and Broadmoor in England and Carstairs in Scotland.

Medium Secure – hospitals classed as medium secure meet certain standards as set out in the Department of Health Best Practice Guidance "Specification for adult medium secure services 2007", such as controlled entry and exit and high levels of observation. Patients are usually detained under the Mental Health Act ('sectioned').

Low Secure – there are no definite rules, but low secure services are similar to those of Psychiatric Intensive Care Units, requiring controlled entrance and exit and secure detention.

Step down – step down and rehabilitation units are non-secure with stays typically measured in years.

Printed on Elemental Chlorine Free (ECF) fibre

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