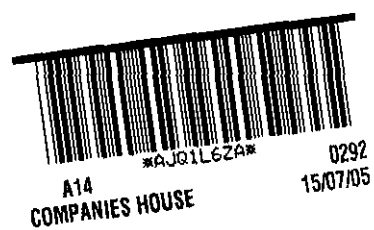


# **Priory Securitisation Limited**

Directors' report and financial statements

Year ended 31 December 2004

Registered number 3982134



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## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2004.

### Principal activity

The principal activity of the company is to act as a holding company.

### Business review

The results for the year are set out in the profit and loss account on page 4.

### Dividends

The directors do not recommend the payment of a dividend (2003: *£nil*).

### Directors and directors' interests

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

Dr CB Patel  
PJ Greensmith

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

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

### Auditors

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

By order of the board



PJ Greensmith  
Company secretary

Priory House  
Randalls Way  
Leatherhead  
Surrey  
KT22 7TP

28 June 2005

## **Statement of directors' responsibilities**

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

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

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

## Independent auditors' report to the members of Priory Securitisation Limited

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

### Respective responsibilities of directors and auditors

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

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

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

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

### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
*Chartered Accountants and Registered Auditors*  
London

28 June 2005

**Profit and loss account**  
*for the year to 31 December 2004*

	Note	2004 £000	2003 £000
<b>Operating profit</b>		-	-
<b>Profit on ordinary activities before interest and tax</b>	2	-	-
Income from shares in group undertakings		12,000	-
Net interest payable and similar charges	3	(3,170)	(1,124)
<b>Profit/(loss) on ordinary activities before taxation</b>		8,830	(1,124)
Tax on profit/(loss) on ordinary activities	4	951	337
<b>Profit/(loss) for the financial year</b>		9,781	(787)
Dividends		(7,500)	-
<b>Retained profit/(loss) for the financial year</b>		2,281	(787)

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

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

The results for the year derive from continuing activities.

**Balance sheet**  
**at 31 December 2004**

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Investments	5	218,135	218,135
<b>Current assets</b>			
Debtors	6	13,842	13,188
Cash at bank and in hand		474	10,360
		<u>14,316</u>	<u>23,548</u>
<b>Creditors: amounts falling due within one year</b>	7	<u>(137,906)</u>	<u>(139,595)</u>
<b>Net current liabilities</b>		<b>(123,590)</b>	<b>(116,047)</b>
<b>Total assets less current liabilities</b>		<b>94,545</b>	<b>102,088</b>
<b>Creditors: amounts falling due after more than one year</b>	8	<b>(35,409)</b>	<b>(45,233)</b>
<b>Net assets</b>		<b>59,136</b>	<b>56,855</b>
<b>Capital and reserves</b>			
Called up share capital	9	7,688	7,688
Share premium	10	49,954	49,954
Profit and loss account	10	1,494	(787)
<b>Shareholders' funds – equity</b>	10	<b>59,136</b>	<b>56,855</b>

These financial statements were approved by the board of directors on 28 June 2005 and were signed on its behalf by:



**PJ Greensmith**  
 Director

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

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

#### ***Basis of preparation***

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

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

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

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

#### ***Fixed assets***

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

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

#### ***Group relief***

Payment is generally made for group relief at a rate of 30% at the time of first estimating the tax provision. To the extent that amendments are subsequently made to the group relief plan, there is generally no payment or receipt in respect of the change.

## Notes (continued)

### 2 Auditors and directors' remuneration

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

The directors received no emoluments for services to the company during the year (2003: £nil).

The company had no employees during the year (2003: nil).

### 3 Net interest payable and similar charges

	2004 £000	2003 £000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	606	271
Inter-company interest payable	2,807	916
Amortisation of issue costs	352	117
	<hr/>	<hr/>
	3,765	1,304
<i>Interest receivable and similar income</i>		
On bank deposits	(377)	(110)
Reverse premium on novation of swap	(218)	(70)
	<hr/>	<hr/>
	3,170	1,124
	<hr/>	<hr/>

### 4 Taxation

	2004 £000	2003 £000
Corporation tax credit on loss for the year	(951)	(337)
	<hr/>	<hr/>

The tax credit of £951,000 in the year (2003: £337,000) is to be surrendered to other group companies in exchange for payment of the same amount.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2003: 30%). The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2004 £000	2003 £000
Profit/(loss) on ordinary activities before tax	8,830	(1,124)
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities at standard rate	2,649	(337)
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	(3,600)	-
	<hr/>	<hr/>
Total actual amount of current tax	(951)	(337)
	<hr/>	<hr/>

## Notes (continued)

### 5 Fixed asset investments

	Total £000
<b>Shares in group undertakings</b>	
<b>Cost</b>	
At the beginning and end of the year	218,135
<b>Provisions</b>	
At beginning and end of the year	-
<b>Net book value</b>	
At 31 December 2004	218,135
At 31 December 2003	218,135

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

	Principal activities	Class and percentage of share held
<b>Subsidiary undertakings</b>		
Priory Healthcare Limited *	Psychiatric and other specialist healthcare services	100% ordinary
Priory Education Services Limited *	Specialist schools for children with behavioural difficulties	100% ordinary
Farleigh Schools Limited	Specialist school for children with Asperger Syndrome	100% ordinary
North Hill House Limited	Specialist school for children with Asperger Syndrome	100% ordinary
Eastwood Grange Limited	Specialist school for children with behavioural difficulties	100% ordinary
Chelfham Senior School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Rosendale School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Autism (GB) Limited	Specialist school for children with Autism	100% ordinary
Solutions (Ross) Limited	Juvenile residential homes	100% ordinary
Priory Services for Young People (IOM) Limited	Non-trading	100% ordinary
Priory Rehabilitation Services Limited *	Brain injury rehabilitation services	100% ordinary
Blenheim Healthcare Limited *	Forensic psychiatric services	100% ordinary
Priory Central Services Limited *	Management services	100% ordinary
Priory Finance Company Limited *	Financing company	100% ordinary
The Nottingham Clinic Limited *	Development company	100% ordinary
Highbank Private Hospital Limited *	Development company	100% ordinary

\* interests held directly by the company.

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

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

## Notes (continued)

### 6 Debtors

	2004 £000	2003 £000
Amounts owed by group undertakings	12,891	12,850
Other debtors	-	1
Group relief recoverable	951	337
	<u>13,842</u>	<u>13,188</u>

Amounts due from group undertakings stated above are legally due on demand and are thus recoverable within one year although it is not expected that the demand would be made or that these amounts will be received within the current year.

### 7 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to group undertakings	137,666	139,157
Accruals and deferred income	240	438
	<u>137,906</u>	<u>139,595</u>

### 8 Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Bank loans and overdrafts	-	9,000
Amounts due to group undertakings	34,237	35,176
Un-amortised issue costs	(860)	(1,193)
Accruals and deferred income	2,032	2,250
	<u>35,409</u>	<u>45,233</u>

### 9 Called up share capital

	2004 £000	2003 £000
<b>Authorised</b>		
200,000,000 (2003: 200,000,000) ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
<b>Allotted, called up and fully paid</b>		
7,688,090 (2003: 7,688,090) ordinary shares of £1 each	<u>7,688</u>	<u>7,688</u>

## Notes (continued)

### 10 Reconciliation of movement in shareholders' funds

	Share Capital	Share Premium	Profit and loss account	Total 2004	Total 2003
	£000	£000	£000	£000	£000
At beginning of the year	7,688	49,954	(787)	56,855	49,955
Shares issued	-	-	-	-	7,687
Retained profit/(loss) for the financial year	-	-	2,281	2,281	(787)
<b>At end of the year</b>	<b>7,688</b>	<b>49,954</b>	<b>1,494</b>	<b>59,136</b>	<b>56,855</b>

### 11 Contingent liabilities

- (a) The company has entered into banking facilities set-off agreements in respect of which guarantees have been given. The aggregate amount outstanding under the agreements was £nil at 31 December 2004 (2003: £nil).
- (b) A fellow subsidiary undertaking has issued secured fixed and floating rate notes amounting to £201.1 million as at 31 December 2004 (31 December 2003: £206.2 million). These notes are secured on the freehold and leasehold properties of certain of its fellow subsidiaries. In addition, the company's share capital has been pledged as security for this loan.

### 12 Ultimate parent company

The company is a subsidiary undertaking of Priory Securitisation Holdings Limited, which is incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Priory Healthcare Investments Limited. No other group accounts include the results of the company.