

Priory Securitisation Limited

Directors' report and financial statements

Year ended 31 December 2005

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 2005.

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 5.

Dividends

The directors do not recommend the payment of a dividend (2004: *£nil*).

Directors and directors' interests

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

Dr CB Patel
 PJ Greensmith

David Spruzen was appointed as a director of the company on 15 May 2006.

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 in the shares of Priory Investments Holdings Limited (the ultimate parent company) are disclosed in the financial statements of that company.

The interests of PJ Greensmith in the shares of Priory Investments Holdings Limited are set out below:

	Interest at end of year				Interest at beginning of year			
	A Ordinary shares	B Ordinary shares	Non Voting B Ordinary shares	Preference shares	A Ordinary shares	B Ordinary shares	Non Voting B Ordinary shares	Preference shares
PJ Greensmith	-	200,000	300,000	1,500,000	-	-	-	-

Auditors

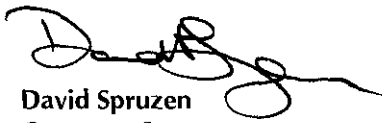
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Directors' report *(continued)*

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board


David Spruzen
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

24 May 2006

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 of Priory Securitisation Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 May 2006

Profit and loss account
for the year to 31 December 2005

	Note	2005 £000	2004 £000
Operating profit		-	-
Profit on ordinary activities before interest and tax	2	-	-
Income from shares in group undertakings		225,441	12,000
Net interest payable and similar charges	3	(6,518)	(3,170)
Profit/(loss) on ordinary activities before taxation		218,923	8,830
Tax on profit/(loss) on ordinary activities	4	1,955	951
Profit/(loss) for the financial year		220,878	9,781
Dividends		(183,580)	(7,500)
Retained profit/(loss) for the financial year		37,298	2,281

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 2005

	Note	2005 £000	2004 £000
Fixed assets			
Investments	5	218,634	218,135
Current assets			
Debtors	6	13,421	13,842
Cash at bank and in hand		1,113	474
		<u>14,534</u>	<u>14,316</u>
Creditors: amounts falling due within one year	7	<u>(136,734)</u>	<u>(137,906)</u>
Net current liabilities		(122,200)	(123,590)
Total assets less current liabilities		96,434	94,545
Creditors: amounts falling due after more than one year	8	-	(35,409)
Net assets		96,434	59,136
Capital and reserves			
Called up share capital	9	7,688	7,688
Share premium	10	49,954	49,954
Profit and loss account	10	38,792	1,494
Shareholders' funds – equity	10	96,434	59,136

These financial statements were approved by the board of directors on 24 May 2006 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 Investments Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets

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

Taxation

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

Group relief

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

2 Auditors and directors' remuneration

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

The directors received no emoluments for services to the company during the year (2004: *£nil*).

The company had no employees during the year (2004: *nil*).

Notes (continued)

3 Net interest payable and similar charges

	2005 £000	2004 £000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	618	606
Inter-company interest payable	1,947	2,807
Amortisation of issue costs	860	352
Swap novation costs	3,979	-
Debt termination costs	1,507	-
	<hr/>	<hr/>
	8,911	3,765
<i>Interest receivable and similar income</i>		
On bank deposits	(143)	(377)
Reverse premium on novation of swap	(2,250)	(218)
	<hr/>	<hr/>
	6,518	3,170
	<hr/>	<hr/>

4 Taxation

	2005 £000	2004 £000
Corporation tax credit on loss for the year	(1,955)	(951)
	<hr/>	<hr/>

The tax credit of £1,955,000 in the year (2004: £951,000) 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% (2004: 30%). The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2005 £000	2004 £000
Profit/(loss) on ordinary activities before tax	218,923	8,830
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities at standard rate	65,677	2,649
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	(67,632)	(3,600)
	<hr/>	<hr/>
Total actual amount of current tax	(1,955)	(951)
	<hr/>	<hr/>

Notes (continued)

5 Fixed asset investments

	Total
	£000
Shares in group undertakings	
Cost	
At the beginning of the year	218,135
Additions	500
Disposals	(1)
	<hr/>
At the end of the year	218,634
	<hr/>
Provisions	
At beginning and end of the year	-
	<hr/>
Net book value	
At 31 December 2005	218,634
	<hr/>
At 31 December 2004	218,135
	<hr/>

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
Subsidiary undertakings		
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
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 Services for Young People (IOM) Limited registered in the Isle of Man

Notes (continued)

6 Debtors

	2005 £000	2004 £000
Amounts owed by group undertakings	11,466	12,891
Group relief recoverable	1,955	951
	<u>13,421</u>	<u>13,842</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

	2005 £000	2004 £000
Amounts owed to group undertakings	136,734	137,666
Accruals and deferred income	-	240
	<u>136,734</u>	<u>137,906</u>

8 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Bank loans and overdrafts	-	-
Amounts due to group undertakings	-	34,237
Un-amortised issue costs	-	(860)
Accruals and deferred income	-	2,032
	<u>-</u>	<u>35,409</u>

9 Called up share capital

	2005 £000	2004 £000
Authorised		
200,000,000 (2004: 200,000,000) ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid		
7,688,090 (2004: 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 2005	Total 2004
	£000	£000	£000	£000	£000
At beginning of the year	7,688	49,954	1,494	59,136	56,855
Retained profit/(loss) for the financial year	-	-	37,298	37,298	2,281
At end of the year	7,688	49,954	38,792	96,434	59,136

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 2005 (2004: £nil).
- (b) As at 31 December 2004, a fellow group undertaking had issued secured fixed and floating rate notes amounting to £201.1 million. These notes were secured on the freehold and leasehold properties of certain of its fellow group undertakings. In addition, the company's share capital had been pledged as security for this loan. These fixed and floating rate notes were repaid in full on 15 September 2005.

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 Investments Holdings Limited. No other group accounts include the results of the company.