

Priory Securitisation Limited

Directors' report and financial statements

Year ended 31 December 2007

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 2007

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 and the position of the company as at the year end is set out in the Balance sheet on page 6

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

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

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

On 10 May 2007, the company acquired the entire issued share capital of Priory Specialist Health Limited from Priory Specialist Health Division Limited (a fellow subsidiary undertaking) for a consideration of £2

On 6 June 2007, the company sold its investment in Priory Central Services Limited to Priory Holdings Company No 3 Limited (a fellow subsidiary undertaking) for a consideration of £254,000

On 11 June 2007, the company sold its investment in Priory Healthcare Holdings Limited to Priory Investments Holdings Limited (a parent undertaking) for a consideration of £1

Dividends

The directors do not recommend the payment of a dividend (2006 *£nil*)

Directors

The directors who held office during the year were as follows

PJ Greensmith	(resigned 22 March 2007)
Dr CB Patel	(resigned 9 March 2007)
D Spruzen	(resigned 24 April 2007)
S Bradshaw	(appointed 16 April 2007)
Professor C Thompson	(appointed 16 April 2007)
S Mukerji	(appointed 2 May 2007)

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

Directors' report *(continued)*

Auditors

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

Provision of information to auditors

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

By order of the board



S Mukerji
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

1 July 2008

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 2007 which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

1 July 2008

Profit and loss account
for the year to 31 December 2007

	Note	2007 £000	2006 £000
Operating result		-	-
Loss on disposal of investments	6	(50,263)	-
Loss on ordinary activities before interest and tax		(50,263)	-
Income from shares in group undertakings	6	57,259	-
Interest receivable and similar income	3	72	90
Interest payable and similar charges	4	(26)	(26)
Profit on ordinary activities before taxation	2	7,042	64
Tax on profit on ordinary activities	5	(14)	(19)
Profit for the financial year	10	7,028	45

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

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

The results for the year derive from continuing activities

Balance sheet
at 31 December 2007

	Note	2007 £000	2006 £000
Fixed assets			
Investments	6	168,116	218,634
Current assets			
Debtors	7	36,119	11,466
Cash at bank and in hand		4	1,016
		<u>36,123</u>	<u>12,482</u>
Creditors amounts falling due within one year	8	<u>(100,732)</u>	<u>(134,637)</u>
Net current liabilities		<u>(64,609)</u>	<u>(122,155)</u>
Total assets less current liabilities		<u>103,507</u>	<u>96,479</u>
Net assets		<u>103,507</u>	<u>96,479</u>
Capital and reserves			
Called up share capital	9	7,688	7,688
Share premium	10	49,954	49,954
Profit and loss account	10	45,865	38,837
		<u>103,507</u>	<u>96,479</u>
Shareholders' funds – equity	11	<u>103,507</u>	<u>96,479</u>

These financial statements were approved by the board of directors on 1 July 2008 and were signed on its behalf by



S Mukerji
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The ultimate parent company, Priory Investments Holdings Limited, has confirmed that it will continue to provide financial support to the company for the foreseeable future and for at least 12 months from the date of approval of these financial statements. Accordingly the financial statements have been prepared on the going concern basis

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

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

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

Fixed asset investments

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

Taxation

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

Group relief

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

2 Profit on ordinary activities before taxation

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

Costs relating to the directors' services have been borne by Priory Central Services Limited, a fellow group company. No amounts have been recharged to the company in respect of the directors' services and the directors do not believe that it is practical to allocate these costs between group companies

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

Notes (continued)

3 Interest receivable and similar income

	2007 £000	2006 £000
On bank deposits	72	90

4 Net interest payable and similar charges

	2007 £000	2006 £000
On bank loans and overdrafts	26	26

5 Taxation

	2007 £000	2006 £000
Corporation tax charge on profit for the year	14	19

The tax charge of £14,000 (2006 £19,000) has been relieved by the surrender of losses by other group companies in exchange for payment of the same amount

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2006 30%)
 The actual tax charge for the year is lower than (2006 the same as) the standard rate for the reasons set out in the following reconciliation

	2007 £000	2006 £000
Profit on ordinary activities before tax	7,042	64
Tax on profit on ordinary activities at standard rate	2,113	19
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	(17,178)	-
Loss on non-qualifying assets	15,079	-
Total actual amount of current tax	14	19

Notes (continued)

6 Fixed asset investments

	Total £000
Shares in group undertakings	
Cost	
At beginning of the year	218,634
Disposals	(50,518)
	<hr/>
At end of the year	168,116
	<hr/>
Provisions	
At beginning and end of the year	-
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Net book value	
At 31 December 2007	168,116
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At 31 December 2006	218,634
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On 10 May 2007, the company acquired the entire issued share capital of Priory Specialist Health Limited from Priory Specialist Health Division Limited (a fellow subsidiary undertaking) for a consideration of £2

On 6 June 2007, the company sold its investment in Priory Central Services Limited to Priory Holdings Company No 3 Limited (a fellow subsidiary undertaking) for a consideration of £254,000 which gave rise to a loss on disposal of £310,000

On 11 June 2007, the company received a dividend of £57,259,000 from Priory Healthcare Holdings Limited (a subsidiary undertaking). After receipt of the dividend, the company sold its investment in Priory Healthcare Holdings Limited to Priory Investments Holdings Limited (a parent undertaking) for a consideration of £1 which gave rise to a loss on disposal of £49,953,000

Notes (continued)

6 Fixed asset investments (continued)

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

Subsidiary undertakings	Principal activities	Class and percentage of shares held
Prory Old Acute Services Limited *	Psychiatric and other specialist healthcare services	100% ordinary
Prory Old Schools 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
Rossendale 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
Mark College Limited	Specialist school for children with Dyslexia	100% ordinary
Coxlease School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Prory Old Grange Services Limited *	Brain injury rehabilitation services	100% ordinary
Prory Old Forensic Services Limited *	Forensic psychiatric 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

7 Debtors

	2007 £000	2006 £000
Amounts owed by group undertakings	36,119	11,466

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

Notes (continued)

8 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Amounts owed to group undertakings	100,718	134,618
Group relief payable	14	19
	<u>100,732</u>	<u>134,637</u>

Amounts due to group undertakings are unsecured, non-interest bearing and repayable on demand

9 Called up share capital

	2007 £000	2006 £000
Authorised		
200,000,000 (2006 200,000,000) ordinary shares of £1 each	200,000	200,000
	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid		
7,688,090 (2006 7,688,090) ordinary shares of £1 each	7,688	7,688
	<u>7,688</u>	<u>7,688</u>

10 Reserves

	Share premium £000	Profit and loss account £000	Total £000
At beginning of the year	49,954	38,837	88,791
Retained profit for the year	-	7,028	7,028
	<u>49,954</u>	<u>45,865</u>	<u>95,819</u>

11 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Profit for the financial year	7,028	45
	<u>7,028</u>	<u>45</u>
Net addition to shareholders' funds	7,028	45
Opening shareholders' funds	96,479	96,434
	<u>96,479</u>	<u>96,434</u>
Closing shareholders' funds	103,507	96,479
	<u>103,507</u>	<u>96,479</u>

Notes *(continued)*

12 Contingent liabilities

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 2007 (2006 £nil).

Bank loans of a fellow group undertaking are secured by fixed and floating charges over all the assets of the company.

13 Ultimate parent company

The company's immediate parent company, which is incorporated in England, is Priory Securitisation Holdings Limited.

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