

# **Priory Securitisation Holdings Limited**

*Directors' report and financial statements*

Year ended 31 December 2005

Registered number 04793915



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## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2005

### Principal activities

The principal activity of the company is to act as an intermediate 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

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

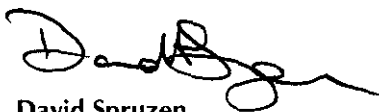
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

## 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 year. In preparing those financial statements, the directors are required to:

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

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

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

We have audited the financial statements of Priory Securitisation Holdings 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 ended 31 December 2005*

	Note	2005 £000	2004 £000
Operating profit		-	-
<b>Profit on ordinary activities before interest and tax</b>	2	-	-
Income from shares in group undertakings		183,580	7,500
Net interest payable and similar charges	3	(13,812)	(6,278)
<b>Profit on ordinary activities before taxation</b>		169,768	1,222
Tax on profit on ordinary activities	4	4,169	1,884
<b>Profit for the financial year</b>		173,937	3,106
Dividends		(94,964)	-
<b>Retained profit for the financial year</b>		78,973	3,106

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

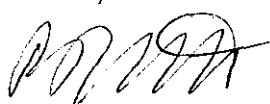
The historical cost retained loss and the reported retained profit are the same.

The results for the year derive from continuing activities.

**Balance sheet**  
**at 31 December 2005**

	Note	2005 £000	2004 £000
<b>Fixed assets</b>			
Investments	5	174,687	174,687
<b>Current assets</b>			
Debtors	6	7,300	2,843
<b>Creditors: amounts falling due within one year</b>	7	(8,659)	(7,576)
<b>Net current liabilities</b>		(1,359)	(4,733)
<b>Total assets less current liabilities</b>		173,328	169,954
<b>Creditors: amounts falling due after more than one year</b>	8	-	(75,599)
<b>Net assets</b>		173,328	94,355
<b>Capital and reserves</b>			
Called up share capital	9	7,688	7,688
Share premium	10	84,999	84,999
Profit and loss account	10	80,641	1,668
<b>Shareholders' funds – equity</b>	10	173,328	94,355

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 UK accounting standards and under the historical cost accounting rules.

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

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

As the company is a wholly owned subsidiary of Priory 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 in 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	909	-
Inter-company interest payable	4,159	5,993
Amortisation of issue costs	1,835	751
Swap novation costs	8,495	-
Debt termination costs	3,218	-
	<u>18,616</u>	<u>6,744</u>
<i>Interest receivable and similar income</i>		
Reverse premium on novation of swap	(4,804)	(466)
	<u>13,812</u>	<u>6,278</u>

### 4 Taxation

	2005 £000	2004 £000
Corporation tax credit on profit for the year	(4,169)	(1,884)

The tax credit of £4,169,000 (2004: £1,884,000) 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 on ordinary activities before tax	169,768	1,222
Tax on profit on ordinary activities at standard rate	50,930	367
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	(55,074)	(2,251)
Expenses not deductible for tax purposes	(25)	-
Total actual amount of current tax	<u>(4,169)</u>	<u>(1,884)</u>

## Notes (continued)

### 5 Fixed asset investments

	<b>Total</b>
<i>Shares in group undertakings</i>	<b>£000</b>
<b>Cost</b>	
At beginning and end of the year	174,687
<b>Provisions</b>	
At beginning and end of the year	-
<b>Net book value</b>	
At 31 December 2005	<b>174,687</b>
At 31 December 2004	174,687

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

	<b>Principal activities</b>	<b>Class and percentage of share held</b>
<b>Subsidiary undertakings</b>		
Priory Securitisation Limited *	Intermediate holding company	100% ordinary
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)

### 5 Fixed asset investments (continued)

<b>Interest in Partnership</b>	<b>£</b>
<b>Cost</b>	
Additions	370
	<hr/>
At end of the year	370
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<b>Provisions</b>	
At beginning and end of the year	-
	<hr/>
<b>Net book value</b>	
At 31 December 2005	370
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As at 31 December 2005, the company had a 36.998% interest in the partnership capital of Priory Finance Property LLP. The principal activity of the partnership is to raise finance and to lease properties to fellow group undertakings.

### 6 Debtors

	2005 £000	2004 £000
Amounts due from group undertakings	3,131	959
Group relief recoverable	4,169	1,884
	<hr/>	<hr/>
	7,300	2,843
	<hr/>	<hr/>

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

	2005 £000	2004 £000
Amounts due to group undertakings	8,659	7,111
Accruals and deferred income	-	465
	<hr/>	<hr/>
	8,659	7,576
	<hr/>	<hr/>

## Notes (continued)

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

	2005 £000	2004 £000
Amounts due to group undertakings	-	73,095
Un-amortised issue costs	-	(1,835)
Accruals and deferred income	-	4,339
	-	75,599

### 9 Called up share capital

	2005 £000	2004 £000
<b>Authorised</b>		
8,000,000 (2004: 8,000,000) ordinary shares of £1 each	8,000	8,000
<b>Allotted, called up and fully paid</b>		
7,688,088 (2004: 7,688,088) ordinary shares of £1 each	7,688	7,688

### 10 Reconciliation of movement in shareholders' funds

	Share Capital £000	Share Premium £000	Profit and loss account £000	Total 2005 £000	Total 2004 £000
At beginning of the year	7,688	84,999	1,668	94,355	91,249
Profit for the financial year	-	-	78,973	78,973	3,106
At end of the year	7,688	84,999	80,641	173,328	94,355

### 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.

**Notes** *(continued)*

**12 Ultimate parent company**

The company is a subsidiary undertaking of Priory Group 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.