Priory Investments Holdings Limited

Directors' report and consolidated financial statements

Year ended 31 December 2006

Incorporated in the Cayman Islands with registered number MC-151157

FC 26138

Contents

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2006 The comparative figures are for the period from 1 July 2005 (date of incorporation) to 31 December 2005

Principal activities

The company is a holding company and through its subsidiaries operates a network of over 40 facilities, comprising hospitals, care homes, specialist care facilities and specialist educational facilities Priory operates in two sectors

- Healthcare, where Priory's facilities serve three broad segments of the mental healthcare sector (that is, acute psychiatry, secure and step-down and neuro-rehabilitation)
- Specialist education and care

Business review

On 25 July 2006, a subsidiary company acquired the entire issued share capital of Coxlease Holdings Limited for a consideration of £14 9 million

The results for the year are set out in the consolidated profit and loss account on page 5

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

Priory's management is committed to a continued growth strategy

Dividends

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

Directors and directors' interests

The directors who held office during the year were as follows

Dr Chaitanya Patel	(resigned 9 March 2007)
Johannes Michels	
Michael Nawas	(resigned 9 November 2006)
Philip van Wijngaarden	(appointed 20 January 2006)
Richard Jewson	(appointed 23 March 2006, resigned 12 May 2006)
Per Batelson	(appointed 10 November 2006)

The shareholdings in the share capital of the company beneficially owned by directors and their family interests and trusts of which their families are beneficiaries are set out below

	Interest at end of year				Interest at beginning of year or date of appointment if later			
	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
Dr CB Patel *	**700,000**	**2,763,512**	**3,452,535**	**9,244,957**	700,000	3,800,000	4,500,000	14,400,000

* shares held indirectly

None of the directors had any options over shares in the company

Directors' report *(continued)*

Political and charitable contributions

The group does not make political contributions Donations to UK charities amounted to £23,500, of which £5,000 was in respect of Poetry and Mental Health, £2,500 to Appleby and District Sports Hall, £2,000 to Huntington's Disease Association, £2,000 to Disability Challengers and £2,000 to Young Minds The remaining £10,000 was donated to a wide range of healthcare related charities

Policy and practice on payment of creditors

The company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions The company does not follow any code or standard on payment practice The company had a trade creditor balance of £nil at 31 December 2006 *(2005 £nil)*

Going concern

Having made appropriate enquiries, the directors are not aware of any conditions or events that cast doubt on the Group's ability to continue as a going concern in the foreseeable future Consequently, the financial statements have been prepared on a going concern basis

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

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

PO Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

26 March 2007

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 group 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 group 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 group and to prevent and detect fraud and other irregularities

Independent auditors' report to the members of Priory Investments Holdings Limited

We have audited the group and parent company financial statements (the 'financial statements') of Priory Investments Holdings Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Reconciliations of Movements 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 report to you whether in our opinion the information given in 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 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 group's and the parent company's affairs as at 31 December 2006 and of the group's loss and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 applicable to overseas companies, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

26 March 2007

Consolidated profit and loss account

for the year ended 31 December 2006 (prior period. 1 July 2005 to 31 December 2005)

	Note	Before exceptional items 1 Jan to 31 Dec 2006 £000	Exceptional items (note 6) 1 Jan to 31 Dec 2006 £000	Total 1 Jan to 31 Dec 2006 £000	Before exceptional items 1 July to 31 Dec 2005 £000	Exceptional items (note 6) 1 July to 31 Dec 2005 £000	Total 1 July to 31 Dec 2005 £000
Turnover							
Continuing operations	2	199,022	-	199,022	92,247	-	92,247
Acquisitions	2	3,322	-	3,322	-	-	-
Group turnover	2	202,344	-	202,344	92,247	-	92,247
Operating costs		(153,384)	(2,755)	(156,139)	(80,685)	(584)	(81,269)
EBITDA							
Continuing operations		48,302	(2,755)	45,547	24,417	(584)	23,833
Acquisitions		658	-	658	-	-	-
Group EBITDA		48,960	(2,755)	46,205	24,417	(584)	23,833
Depreciation		(19,892)	-	(19,892)	(6,768)	-	(6,768)
Amortisation of goodwill		(12,349)	-	(12,349)	(6,087)	-	(6,087)
Group operating profit	2	16,719	(2,755)	13,964	11,562	(584)	10,978
Loss on termination of an operation	6	-	(688)	(688)	-	(67)	(67)
Profit on disposal of fixed assets	6	-	170	170	-	6	6
Profit before interest and tax		16,719	(3,273)	13,446	11,562	(645)	10,917
Net interest payable and similar charges	7	(86,494)	-	(86,494)	(55,109)	-	(55,109)
Loss on ordinary activities before Taxation	3	(69,775)	(3,273)	(73,048)	(43,547)	(645)	(44,192)
Tax on loss on ordinary activities	8	1,007	-	1,007	(4)	-	(4)
Loss for the financial period		(68,768)	(3,273)	(72,041)	(43,551)	(645)	(44,196)

The results for the year and the prior period derive from acquisitions and continuing activities

Consolidated balance sheet
at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Intangible assets – goodwill	9		228,542		240,748
Tangible assets	10		697,478		677,893
			926,020		918,641
Current assets					
Stocks	12	73		97	
Debtors	13	26,327		30,376	
Cash at bank and in hand and deposits		14,099		19,914	
			40,499		50,387
Creditors amounts falling due within one year					
Borrowings	15	(18,690)		(20,443)	
Other creditors	14	(66,793)		(66,470)	
			(85,483)		(86,913)
Net current liabilities			(44,984)		(36,526)
Total assets less current liabilities			881,036		882,115
Creditors. amounts falling due after more than one year					
Borrowings	15		(973,924)		(902,520)
Provisions for liabilities and charges	17		-		-
Net liabilities			(92,888)		(20,405)
Capital and reserves					
Called up share capital	18		23,791		23,791
Profit and loss account	19		(116,679)		(44,196)
Shareholders' funds			(92,888)		(20,405)

These financial statements were approved by the board of directors on 26 March 2007 and were signed on its behalf by

Johannes Michels
Director

Per Batelson
Director

Company balance sheet
at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Investments	11		-		-
Current assets					
Debtors	13	420,703		386,715	
Cash at bank and in hand		73		9,330	
			420,776		396,045
Creditors: amounts falling due within one year					
Borrowings	15	-		(9,113)	
Other creditors	14	(42,554)		(25,898)	
			(42,554)		(35,011)
Net current assets					
Due within one year		(18,873)		3,764	
Debtors due after more than one year		397,095		357,270	
			378,222		361,034
Total assets less current liabilities			378,222		361,034
Creditors amounts falling due after more than one year					
Borrowings	15	(372,111)		(333,479)	
Other creditors	14	-		(9,700)	
			(372,111)		(343,179)
Net assets			6,111		17,855
Capital and reserves					
Called up share capital	18		23,791		23,791
Profit and loss account	19		(17,680)		(5,936)
Shareholders' funds			6,111		17,855

These financial statements were approved by the board of directors on 26 March 2007 and were signed on its behalf by

Johannes Michels
Director

Per Batelson
Director

Consolidated cash flow statement

for the year ended 31 December 2006 (prior period 1 July 2005 to 31 December 2005

	Note	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Cash flow from operating activities	22	**51,655**	17,380
Returns on investments and servicing of finance	24	**(53,444)**	(63,497)
Taxation		**(40)**	(409)
Capital expenditure and financial investment	24	**(20,518)**	(12,182)
Acquisitions and disposals	24	**(11,332)**	(454,919)
Cash outflow before management of liquid resources and financing		**(33,679)**	(513,627)
Management of liquid resources	24	**9,260**	(7,985)
Financing	24	**27,864**	532,266
Increase in cash in the financial year		**3,445**	10,654

Reconciliation of net cash flow to movement in net debt

	Note	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Increase in cash in the year		**3,445**	10,654
Movement in debt and lease financing		**(27,864)**	(501,658)
Movement in liquid resources		**(9,260)**	7,985
Change in net debt resulting from cash flows		**(33,679)**	(483,019)
Loans and finance leases acquired with subsidiaries		**(1,061)**	(423,113)
Liquid resources acquired with subsidiaries		**-**	1,275
New finance leases		**(1,046)**	(376)
Interest capitalised		**(38,632)**	-
FRS4 finance charges		**(1,048)**	2,184
Movement in net debt in the year		**(75,466)**	(903,049)
Net debt at the beginning of the financial year		**(903,049)**	-
Net debt at the end of the financial year	23	**(978,515)**	(903,049)

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2006 (prior period· 1 July 2005 to 31 December 2005

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Loss for the financial period	(72,041)	(44,196)
Total recognised gains and losses relating to the period	(72,041)	(44,196)

Note of consolidated historical cost profits and losses

for the year ended 31 December 2006 (prior period: 1 July 2005 to 31 December 2005

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Reported loss on ordinary activities before taxation	(73,048)	(44,192)
Historical cost loss on ordinary activities before taxation	(73,048)	(44,192)
Historical cost loss for the period retained after taxation and dividends	(72,041)	(44,196)

Reconciliations of movements in shareholders' funds

for the year ended 31 December 2006 (prior period: 1 July 2005 to 31 December 2005

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Opening shareholders' funds	(20,405)	17,855	-	-
Loss for the financial period	(72,041)	(11,744)	(44,196)	(5,936)
New share capital subscribed	-	-	23,791	23,791
Purchase of own shares	(442)	-	-	-
Closing shareholders' funds	(92,888)	6,111	(20,405)	17,855

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 group'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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiary undertakings made up to 31 December 2006 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

The company takes advantage of the exemption under section 230(4) of the Companies Act 1985 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 in respect of acquisitions is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life When estimating the life of goodwill for each acquisition, the principal factors that the Group takes into account are the nature and foreseeable life of the acquired business, the stability and foreseeable life of the industry to which the goodwill relates and the effects of changes in demand for the acquired business

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging the un-amortised amount of any related goodwill

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment

Assets in course of construction represent the direct costs of purchasing, constructing and installing tangible fixed assets ahead of their productive use No depreciation is provided on an asset that is in the course of construction until it is completed and transferred to an asset heading that is appropriate

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 and long leasehold properties	-	50 years
Short leasehold properties	-	over the period of the lease
Plant, fixtures and fittings	-	3 to 16 years
Motor vehicles	-	over the shorter of the lease and 4 years

Land is not depreciated on the basis that land has an unlimited life Where the cost of land and buildings cannot be split, the Directors have estimated that the value attributable to land is 22% of the cost of the land and buildings

Notes *(continued)*

1 Accounting policies (continued)

Investments

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

Asset impairment

Goodwill and tangible fixed assets are tested for impairment when a trigger event that might affect asset values has occurred An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from an income-generating unit, which is an individual business operational unit Goodwill is also subject to an impairment review at the end of the first full year following an acquisition

Leases

Assets acquired under finance leases are capitalised at cost and depreciated over the shorter of the term of the lease and the useful lives for tangible assets set out above The capital element of future rentals is included under creditors Interest is charged to the profit and loss account over the period of the lease in proportion to the balance of the capital payments outstanding Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease

Stocks

Stocks comprise primarily medical drugs and catering supplies and are stated at the lower of cost and estimated realisable value (based on selling price less further costs to disposal)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation

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 FRS 19 Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Liquid resources comprise short-term deposits with banks which are rolled over every three to six months

Pension costs

The Group operates defined contribution schemes and makes payments to pension schemes on behalf of certain employees on a fixed percentage contribution basis Contributions are charged against profits of the period of employee service to which they relate

Notes *(continued)*

1 Accounting policies (continued)

Financial instruments

All borrowings are stated at the fair value of proceeds received after deduction of finance costs The finance costs are amortised over the life of the underlying borrowings at a constant rate on carrying amount

Interest differentials under interest rate swaps are recognised by adjustment of the underlying interest payable on the hedged loan (see note 16 for a description of the instruments used during the financial year) over the term of the interest rate agreement and as such are accrued to the profit and loss account on a time apportionment basis Premiums and discounts in connection with such financial instruments are amortised over the term of the interest rate agreement

On early repayment of the underlying borrowings, the balance of the un-amortised premium or discount on the hedging interest rate agreement, and any premium payable or receivable on early termination of the interest rate agreement are immediately recognised in the profit and loss account

On early repayment of the borrowings, the balance of the un-amortised finance costs, and any premium and discounts arising in the early repayment of borrowings are written off to the profit and loss account in the period where the repayment is made

Further information on the accounting policy for financial instruments can be found in Note 16

Notes *(continued)*

2 Segmental information

The Group is organised into the following business segments

- The Healthcare segment focuses on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments This segment also provides neuro-rehabilitation services
- The Education segment provides residential schooling, care and assessment for children with emotional and behavioural difficulties or autistic spectrum disorders

The Group also has a central office, which carries out administrative and management activities

Turnover	**1 Jan to 31 Dec 2006 £000**	1 July to 31 Dec 2005 £000
Healthcare	**148,854**	71,612
Education		
- Continuing operations	**50,168**	20,635
- Acquisitions	**3,322**	-
	202,344	92,247

There are no sales between segments

All of the Group's turnover is in the United Kingdom

Notes *(continued)*

2 Segmental information *(continued)*

Operating profit

	EBITDA before operating exceptional items (1)		Operating profit (2)	
	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000	**1 Jan to 31 Dec 2006 £000**	1 July to 31 Dec 2005 £000
Healthcare	**43,269**	22,038	**17,124**	12,025
Education				
- Continuing operations	**14,655**	7,196	**7,811**	4,660
- Acquisitions	**658**	-	**613**	-
	58,582	29,234	**25,548**	16,685
Central costs	**(9,622)**	(4,817)	**(11,584)**	(5,707)
Total	**48,960**	24,417	**13,964**	10,978
Loss on termination of an operation			**(688)**	(67)
Profit on disposal of fixed assets (3)			**170**	6
Net interest payable and similar charges			**(86,494)**	(55,109)
Loss before taxation			**(73,048)**	(44,192)

The Education segment includes profit before tax of an entity operating in the Isle of Man of £nil *(2005 loss before tax £91,000)* The remaining profit before tax is in the United Kingdom

Notes

(1) EBITDA before operating exceptional items is operating profit after adding back operating exceptional items, amortisation of goodwill and depreciation

The Group considers that EBITDA may serve as a useful financial indicator in measuring the operating performance EBITDA is presented solely as a supplemental measure and is not a measure under UK GAAP EBITDA should not be considered in isolation or as an alternative to operating profit or any other measure of financial performance presented in accordance with UK GAAP

(2) Operating exceptional items of £2,755,000 charged to operating profit in the year to 31 December 2006 relates to the Healthcare segment (£1,804,000), the Education segment (£170,000) and to the Central segment (£781,000)

Operating exceptional items of £584,000 charged to operating profit in the period to 31 December 2005 relates to the Healthcare segment (£233,000), the Education segment (£23,000) and to the Central segment (£328,000)

(3) Profit on disposal of fixed assets of £170,000 in the year to 31 December 2006 relates to the Healthcare segment (£69,000), the Education segment (£72,000) and to the Central segment (£29,000)

Profit on disposal of fixed assets of £6,000 in the period to 31 December 2005 relates to the Central segment

Notes *(continued)*

2 Segmental information *(continued)*

Net assets	2006 £000	2005 £000
Healthcare	**511,943**	524,577
Education	**173,392**	147,290
	685,335	671,867
Central net operating liabilities	**(28,420)**	(29,971)
Net operating assets before net debt and goodwill	**656,915**	641,896
Net debt	**(978,515)**	(903,049)
Goodwill (1)	**228,542**	240,748
Net liabilities	**(93,058)**	(20,405)

The Education segment includes net liabilities, excluding balances between segments, of an entity in the Isle of Man of £8,000 at 31 December 2006 *(net assets at 31 December 2005 £220,000)* The remaining net assets are in the United Kingdom

Note

(1) Goodwill relates to the following segments

	2006 £000	2005 £000
Healthcare	**189,237**	199,432
Education	**39,305**	41,316
	228,542	240,748

3 Loss on ordinary activities before taxation

In the year ended 31 December 2006, total operating expenses included £11,584,000 *(2005 £5,707,000)* of administrative expenses, which represented central costs not directly attributable to operational segments

The balance of operating expenses incurred in the year and the prior period represents cost of sales

Notes *(continued)*

3 Loss on ordinary activities before taxation *(continued)*

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration (inclusive of VAT)		
Group - audit	**143**	133
- fees paid to the auditors and its associates in respect of other services (see note below)	**-**	1,052
Company - audit	**5**	5
Depreciation and other amounts written off tangible fixed assets		
Owned	**19,196**	6,470
Leased	**696**	298
Amortisation of goodwill	**12,349**	6,087
Rentals under operating leases		
Hire of plant and machinery	**352**	168
Other operating leases	**710**	345

In the prior period, fees payable to PricewaterhouseCoopers in respect of other services of £1,052,000 were charged to the profit and loss account for work in connection with the refinancing of the Group effected on 9 November 2005

In the prior period, fees payable to PricewaterhouseCoopers in respect of other services included £399,000 for due diligence work performed at the time of the acquisition by the Group of Priory Healthcare Investments Limited on 5 July 2005 This fee has been included within the costs of the acquisition in the balance sheet In addition, fees payable to PricewaterhouseCoopers of £59,000 in connection with their work performed at the time of the refinancing of the Group have been included in the balance sheet as part of the issue costs of the bank loan

4 Remuneration of directors

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Aggregate emoluments	**530**	556
Company contributions to money purchase pension schemes	**25**	12

The emoluments of the highest paid director were £530,000 *(2005 £556,000)* and company pension contributions of £25,000 *(2005 £12,000)* were made to a money purchase scheme on his behalf

Retirement benefits are accruing to one *(2005 one)* director of the company under money purchase schemes

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by segment, was as follows

	Number of employees	
	1 Jan to 31 Dec 2006	1 July to 31 Dec 2005
Healthcare	**3,942**	3,824
Education	**1,480**	1,247
Central	**108**	98
	5,530	5,169

The aggregate payroll costs of these persons were as follows

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Wages and salaries	**93,410**	42,727
Social security costs	**8,881**	4,138
Other pension costs	**2,195**	820
	104,486	47,685

The Company has no employees during the year

6 Exceptional items

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Exceptional charges against operating profit		
- re-organisation and rationalisation	**2,755**	584
Loss on termination of an operation	**688**	67
Profit on disposal of fixed assets	**(170)**	(6)
	3,273	645

Notes (continued)

7 Net interest payable and similar charges

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Interest payable and similar charges		
On bank loans and overdrafts	**42,999**	17,101
On all other loans	**40,683**	22,207
Amortisation of issue costs	**1,048**	10,183
Refinancing costs	**-**	4,789
Finance charges payable in respect of finance leases	**109**	46
Preference shares – redemption premium	**2,053**	954
	86,892	55,280
Interest receivable and similar income		
On bank deposits	**(398)**	(171)
	86,494	55,109

8 Taxation

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Current taxation		
Corporation tax on income for the year	**-**	-
Adjustment to tax charge in respect of prior years	**(996)**	
Overseas taxation	**1**	4
Total current tax	**(995)**	4
Deferred tax (see note 17)	**(12)**	-
	(1,007)	4

No provision has been made for a deferred tax asset of £18 4 million *(2005 £17 9 million)* in respect of tax losses due to there being insufficient current year group taxable profits available to utilise those losses The recoverability of the tax losses in future years is dependent on the future profitability of the company

Notes *(continued)*

8 Taxation *(continued)*

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

	1 Jan to 31 Dec 2006 £000	1 July to 31 Dec 2005 £000
Loss on ordinary activities before tax	**(73,048)**	(44,192)
Tax on loss on ordinary activities at standard rate	**(21,914)**	(13,258)
Factors affecting charge for the period		
Capital allowances for year in excess of depreciation	**1,109**	1,102
Other timing differences	**(59)**	5,455
Depreciation of non-qualifying assets	**4,518**	662
Profits/losses on non-qualifying assets	**(27)**	
Expenses not deductible for tax purposes (including goodwill amortisation)	**3,968**	(2,152)
Tax losses not recognised	**12,405**	8,202
Overseas tax charged at lower rate than UK standard rate	**1**	(7)
Adjustment to tax charge in respect of prior years	**(996)**	-
Total actual amount of current tax	**(995)**	4

Notes *(continued)*

9 Intangible assets – goodwill

Group	£000
Costs	
At beginning of the year	246,835
Additions	143
At end of the year	246,978
Amortisation	
At beginning of the year	6,087
Charge for the year	12,349
At end of the year	18,436
Net book value	
At 31 December 2006	**228,542**
At 31 December 2005	240,748

The goodwill is being amortised over a period of 20 years

Notes *(continued)*

10 Tangible fixed assets

Group	Land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost					
At beginning of the year	657,517	2,634	22,885	1,625	684,661
Businesses acquired	17,063	-	165	131	17,359
Additions	4,547	10,600	6,775	1,248	23,170
Disposals	(669)	(284)	(474)	(794)	(2,221)
Transfers	5,930	(6,943)	1,013	-	
At end of the year	684,388	6,007	30,364	2,210	722,969
Depreciation					
At beginning of the year	4,221	-	2,240	307	6,768
Charge for the year	14,029	-	5,129	734	19,892
On disposals	(25)	-	(465)	(679)	(1,169)
At end of the year	18,225	-	6,904	362	25,491
Net book value					
At 31 December 2006	**666,163**	**6,007**	**23,460**	**1,848**	**697,478**
At 31 December 2005	653,296	2,634	20,645	1,318	677,893

Included in the total net book value of motor vehicles is £1,754,000 *(2005 £1,270,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £696,000 *(2005 £298,000)*

Freehold and long leasehold land and buildings	**2006 £000**	2005 £000
Freehold	**625,599**	612,087
Long leasehold	**40,564**	41,209
	666,163	653,296

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over

Included in land and buildings is freehold land of £112 1 million at 31 December 2006 *(31 December 2005 £104 8 million)* which is not depreciated

Notes *(continued)*

11 Fixed asset investments

Company	**Shares in subsidiary undertakings**
	£
Cost	
At beginning and end of the year	100
Provisions	
At beginning and end of the year	-
Net book value	
At 31 December 2006 and 31 December 2005	**100**

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

Subsidiary undertakings	**Principal activities**	**Class and percentage of shares held**
Priory Health No 1 Limited *	Intermediate holding company	100% ordinary
Priory Health No 2 Limited	Intermediate holding company	100% ordinary
Priory Healthcare Investments Limited	Intermediate holding company	100% ordinary
Priory Healthcare Limited	Psychiatric and other specialist healthcare services	100% ordinary
Priory Rehabilitation Services Limited	Brain injury rehabilitation services	100% ordinary
Blenheim Healthcare Limited	Forensic psychiatric services	100% ordinary
Priory Education Services Limited	Specialist schools for children with behavioural difficulties	100% ordinary
Farleigh Schools Limited	Specialist schools 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
Priory Central Services Limited	Management services	100% ordinary
Priory Finance Company Limited	Financing 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 Health No 1 Limited, Priory Health No 2 Limited and Priory Finance Company Limited are registered in Cayman Islands
- Priory Services for Young People (IOM) Limited (non-trading) is registered in the Isle of Man

Notes *(continued)*

12 Stocks

Group	2006 £000	2005 £000
Consumable supplies	73	97

13 Debtors

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Due within one year				
Trade debtors	24,899	-	24,836	-
Amounts due from group undertakings	-	23,608	-	29,445
Other debtors	624	-	3,924	-
Prepayments and accrued income	804	-	1,616	-
	26,327	23,608	30,376	29,445
Due after more than one year				
Amounts due from group undertakings	-	397,095	-	357,270
	26,327	420,703	30,376	386,715

14 Other creditors

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Amounts due within one year				
Trade creditors	3,520	-	5,258	-
Amounts due to group undertakings	-	5,920	-	-
Corporation tax payable	1,172	-	1,996	-
Group relief payable	-	13,132	-	5,920
Other taxes and social security	3,090	-	2,888	-
Other creditors	2,792	-	1,191	-
Accruals and deferred income	56,219	23,502	55,137	19,978
	66,793	42,554	66,470	25,898
Amounts due after more than one year				
Amounts due to group undertakings	-	-	-	9,700

Notes *(continued)*

15 Borrowings

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Borrowings due within one year				
Bank loans and overdrafts	18,056	-	10,813	-
Other loans	-	-	9,113	9,113
Obligations under finance leases	634	-	517	-
	18,690	-	20,443	9,113
Borrowings due after more than one year				
Bank loans and overdrafts	608,572	-	577,104	-
Other loans	356,211	356,211	317,579	317,579
Preference shares	15,900	15,900	15,900	15,900
Un-amortised issue costs	(7,953)	-	(9,001)	-
Obligations under finance leases	1,194	-	938	-
	973,924	372,111	902,520	333,479

Analysis of debt

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Debt can be analysed as falling due				
Within one year or less, or on demand	18,690	-	20,443	9,113
More than one year but not more than two years	25,644	-	5,937	-
More than two years but not more than five years	32,667	-	26,576	-
More than five years	923,566	372,111	879,008	333,479
	1,000,567	372,111	931,964	342,592
Un-amortised issue costs	(7,953)	-	(9,001)	-
	992,614	372,111	922,963	342,592

Notes *(continued)*

15 *Borrowings (continued)*

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Analysis of debt ***(continued)***				
Amounts wholly repayable in more than five years				
12% Fixed Rate Unsecured Loan Notes 2015	**356,211**	**356,211**	317,579	317,579
Bank loan – LIBOR plus 2 25%	**25,123**	**-**	-	-
Preference shares	**15,900**	**15,900**	15,900	15,900
Amounts repayable by instalments some of which fall due in more than five years				
Bank loan – LIBOR plus 2 25% 2006 to 2012	**526,332**	**-**	539,351	-
Bank loan – LIBOR plus 2 25% 2007 to 2012	**-**	**-**	6,178	-
	923,566	**372,111**	879,008	333,479

The maturity of obligations under finance leases is as follows

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Within one year	**634**	**-**	517	-
Between one and two years	**499**	**-**	437	-
Between two and five years	**695**	**-**	501	-
	1,828	**-**	1,455	-

Included within bank loans and other loans due within one year and due after more than one year are the following secured loans

- £626 6 million bank loans *(2005 £587 9 million)* secured on certain freehold and leasehold properties of subsidiary undertakings

The Preference shares do not entitle the holders to participate in any dividends and will be redeemed on or before 4 July 2015 The Preference shares entitle the holders to a Redemption Premium (details of which are set out in the Company's Articles of Association)

The Preference shares entitle the holders to a return of capital equal of £1 per share and to the amount of the Redemption Premium due at the date of the winding up or reduction or return of capital

Notes *(continued)*

16 Financial instruments

Financing is obtained from a mixture of bank and other loans in sterling at fixed and floating rates of interest The main purpose of these financial instruments is to raise finance for the Group's operations The main financial covenants are in respect of interest and cash flow cover

As at 31 December 2006, the Group had fixed rate borrowings of £373 9 million and variable interest rate borrowings of £626 6 million An interest rate swap is in place to hedge £570 9 million of variable interest rate borrowings at an average fixed rate of 6 89% up to 2012 A further interest rate swap is in place to hedge £6 5 million of variable interest rate borrowings at an average fixed rate of 6 985% up to 2012

As at 31 December 2005, the Group had fixed rate borrowings of £344 0 million and variable interest rate borrowings of £587 9 million An interest rate swap is in place to hedge £575 million of variable interest rate borrowings at an average fixed rate of 6 89% up to 2012 A further interest rate swap is in place to hedge £6 5 million of variable interest rate borrowings at an average fixed rate of 6 985% up to 2012

Treasury policy is that deposits will only be made, and derivatives and other financial instruments entered into, with bank counter-parties which have been approved by the board

The Group does not enter into financial instruments for trading purposes The Group will borrow from and enter into financial instruments with, well-established financial institutions with high credit ratings

Interest rate risk

The Group uses financial instruments as part of an overall interest rate risk management strategy It does not enter financial instruments for trading purposes Interest rate risk associated with net debt has been managed during the year by using a combination of fixed and floating rate borrowings and financial derivatives such as interest rate swaps

Foreign currency risk

The Group's functional and reporting currency is sterling All assets and liabilities are in sterling and therefore the company does not have any exposure to currency risks

Liquidity risk

The Group maintains various facilities to mitigate any liquidity risk it may face

As at 31 December 2006, the Group had committed Capital Expenditure and Working Capital Facilities of £120 million of which £89 3 million was un-drawn In addition, the Group had a committed Standby Facility of £29 million of which £3 9 million was un-drawn

As at 31 December 2005, the Group had committed Capital Expenditure and Working Capital Facilities of £120 million of which £113 5 million was un-drawn In addition, the Group had an un-drawn committed Standby Facility of £25 million

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures

Notes *(continued)*

16 Financial instruments *(continued)*

(a) Interest rate risk profile of financial liabilities

The following interest rate risk profile of the Group's financial liabilities are after taking into account interest rate swaps entered into by the Group

	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000
Sterling			
Financial liabilities	**984,667**	**49,249**	**935,418**
Preference shares	**15,900**	**-**	**15,900**
At 31 December 2006	**1,000,567**	**49,249**	**951,318**
Sterling			
Financial liabilities	916,064	6,383	909,681
Preference shares	15,900	-	15,900
At 31 December 2005	931,964	6,383	925,581

As at 31 December 2006, the effect of the Group's interest rate swap is to classify £577 4 million *(2005 £581 5 million)* of sterling borrowings in the above table as fixed rate

		Fixed Rate Financial Liabilities
	Weighted average interest Rate %	Weighted average period for which rate is fixed Years
At 31 December 2006		
Sterling		
Financial liabilities	**8 8**	**6.9**
Preference shares	**12 0**	**8.5**
At 31 December 2005		
Sterling		
Financial liabilities	8 7	7 8
Preference shares	12 0	9 5

The floating rate financial liabilities bear interest at rates based on sterling LIBOR which is fixed in advance of for periods of between one month and three months

Notes *(continued)*

16 Financial instruments *(continued)*

(b) Interest rate risk profile of financial assets

	2006 £000	2005 £000
Sterling		
Cash at bank and in hand	**14,099**	10,654
Liquid deposits	-	9,260
	14,099	19,914

Liquid deposits are placed with banks on a three to six month rolling basis and earn interest at variable rate based on LIBOR Surplus cash placed in overnight deposit accounts attracts interest at variable rates based on the most advantageous rates on offer at the time of the deposit

(c) Maturity

The maturity of the Group's borrowings is set out in note 15 The financial liabilities other than borrowings comprise the preference shares, which shall be redeemed by the company on 4 July 2015

Cash at bank and in hand is available on demand

Borrowing facilities

The Group had un-drawn committed borrowing facilities at 31 December 2006, in respect of which all conditions precedent had been met, as follows

	2006 £000	2005 £000
Expiring in more than one year but not more than two years	**89,340**	-
Expiring in more than two years	**3,877**	138,465
	93,217	138,465

Notes *(continued)*

16 Financial instruments *(continued)*

(d) Fair value of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arms' length transaction between informed and willing parties, other than a forced or liquidation sale The estimated fair value of the Group's financial instruments is set out below

Financial assets

	2006		2005	
	Book value	**Fair value**	Book value	Fair value
	£000	**£000**	£000	£000
Cash at bank	**14,099**	**14,099**	10,654	10,654
Liquid deposits	-	-	9,260	9,260
	14,099	**14,099**	19,914	19,914

Financial liabilities

	2006		2005	
	Book value	**Fair value**	Book value	Fair value
	£000	**£000**	£000	£000
Borrowings due within one year	**18,690**	**18,690**	20,443	20,443
Borrowings due after one year	**965,977**	**965,977**	895,621	895,621
Preference shares	**15,900**	**15,900**	15,900	15,900
	1,000,567	**1,000,567**	931,964	931,964

Cash at bank and liquid deposits

The carrying value approximates to fair value because of the short maturity of the liquid deposits

Borrowings

The fair value of borrowings due within one year approximates to carrying value because of the short maturity of the instruments The fair value of borrowings due after more than one year has been calculated by discounting expected cash flows at prevailing interest rates

Preference shares

The fair value of the preference shares is based on the nominal value of the shares plus any redemption premium due at each year-end date, as specified in the Articles of Association

Notes *(continued)*

16 Financial instruments *(continued)*

(e) Gains and losses on financial instruments used for hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised

The table below shows the extent to which the Group has unrecognised gains and losses in respect of financial instruments used as hedges at the beginning and end of each year

	Unrecognised Gains £000	Unrecognised losses £000	Net unrecognised gains/(losses) £000
Gains and losses on hedges at 1 January 2006	-	(7,126)	(7,126)
Arising in previous years included in 2006 income	580	-	580
Gains and losses not included in 2006 income			
Arising before 1 January 2006	-	-	-
Arising in 2006	16,923	-	16,923
Gains and losses on hedges at 31 December 2006	16,923	-	16,923
Of which			
Gains and losses expected to be included in 2007 income	5,406	-	5,406
Gains and losses expected to be included in 2008 income or later	11,517	-	11,517

17 Provisions for liabilities and charges

Group	£000
Deferred tax	
At beginning of the year	-
Business acquired	12
Credit for the year	(12)
At end of the year	-

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or adjusting it to its fair value on acquisition or on the sale of properties where potentially taxable gains have been rolled over into replacement assets Such tax would become payable only if the property were sold without it being possible to claim rollover relief At 31 December 2006, the total amount un-provided for was £131 million *(2005 £142 million)* At present it is not envisaged that any such tax will become payable in the foreseeable future

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date

Notes *(continued)*

18 Called up share capital

	Number of shares	2006 £000	Number of shares	2005 £000
Authorised				
'A' ordinary shares of £1 each	**16,000,000**	**16,000**	16,000,000	16,000
'B' ordinary shares of £1 each	**5,000,000**	**5,000**	5,000,000	5,000
Non Voting 'B' ordinary shares of £1 each	**5,000,000**	**5,000**	5,000,000	5,000
Preference shares of £1 each	**15,900,000**	**15,900**	15,900,000	15,900
Deferred shares of £1 each	**5,000,000**	**5,000**	5,000,000	5,000
	46,900,000	**46,900**	46,900,000	46,900
Allotted, called up and fully paid				
'A' ordinary shares of £1 each	**14,991,166**	**14,991**	14,991,166	14,991
'B' ordinary shares of £1 each	**4,000,000**	**4,000**	4,000,000	4,000
Non Voting 'B' ordinary shares of £1 each	**4,800,000**	**4,800**	4,800,000	4,800
Deferred shares of £1 each	**-**	**-**	-	-
	23,791,166	**23,791**	23,791,166	23,791

The 'A' ordinary shares and the 'B' ordinary shares have equal voting rights and rank equally for any dividend declared by the company

The Non Voting 'B' ordinary shares do not have any voting rights but rank equally with the 'A' ordinary shares and the 'B' ordinary shares for any dividend declared by the company

Notes *(continued)*

19 Reserves

	Profit and loss account £000	Group Total £000
At beginning of the year	(44,196)	(44,196)
Retained loss for the year	(72,041)	(72,041)
Purchase of own shares	(442)	(442)
At end of the year	(116,679)	(116,679)

	Profit and loss account £000	Company Total £000
At beginning of the year	(5,936)	(5,936)
Retained loss for the year	(11,744)	(11,744)
At end of the year	(17,680)	(17,680)

The company's loss for the financial year was £11,744,000 *(2005 loss of £5,936,000)*

Notes *(continued)*

20 Contingent liabilities

There are contingent liabilities in respect of legal or potential claims arising in the ordinary course of business, the outcome of which cannot at present be foreseen Appropriate provision has been made in these accounts for all liabilities that are, in the opinion of the Directors, likely to materialise

Guarantees

The company and certain subsidiaries have 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 2006 *(2005 £nil)*

21 Commitments

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

	Group 2006 £000	**Company 2006 £000**	Group 2005 £000	Company 2005 £000
Contracted	**8,932**	**-**	5,640	-

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

	2006 Land and Buildings £000	**2006 Other £000**	2005 Land and Buildings £000	2005 Other £000
Group				
Operating leases which expire				
Within one year	**162**	**61**	93	42
In the second to fifth years inclusive	**69**	**381**	67	294
Over five years	**517**	**-**	515	-
	748	**442**	675	336

Notes *(continued)*

22 Reconciliation of operating profit to operating cash flows

	2006	2005
	£000	£000
Operating profit	**13,964**	10,978
Depreciation and amortisation	**32,241**	12,855
Stocks	**24**	30
Debtors	**432**	(1,705)
Creditors	**4,994**	(4,778)
Net cash inflow from operating activities	**51,655**	17,380

Net cash inflow from operating activities of £51 7 million *(2005 £17 4 million)* is after cash outflows of £2 8 million *(2005 £0 6 million)* in relation to operating exceptional items (see note 6 for details)

23 Analysis of net debt

	At beginning of the year	Cash flow	Acquisitions excluding cash	Other non cash changes	At end of the year
	£000	£000	£000	£000	£000
Cash in hand, at bank	10,654	3,445	-	-	14,099
Liquid resources	9,260	(9,260)	-	-	-
Debt due within one year	(10,813)	(6,182)	(1,061)	-	(18,056)
Debt due after one year	(910,695)	(22,355)	-	(39,680)	(972,730)
Finance leases	(1,455)	673	-	(1,046)	(1,828)
Net group debt	**(903,049)**	**(33,679)**	**(1,061)**	**(40,726)**	**(978,515)**

Notes *(continued)*

24 Analysis of cash flows

	Notes		2006		2005
		£000	£000	£000	£000
Returns on investment and servicing of finance					
Interest received		398		171	
Interest paid		(47,657)		(46,733)	
Interest element of finance lease rental payments		(109)		(46)	
Financing costs		(6,076)		(16,889)	
			(53,444)		(63,497)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(21,567)		(12,214)	
Sale of tangible fixed assets		1,049		32	
			(20,518)		(12,182)
Acquisitions and disposals					
Purchase of subsidiary undertakings	25	(11,003)		(455,997)	
Net cash acquired with subsidiary	25	113		1,078	
Shares purchased by Trustee company		(442)		-	
			(11,332)		(454,919)
Management of liquid resources					
Decrease/(increase) in deposits			9,260		(7,985)
Financing					
Issue of ordinary share capital		-		23,791	
Issue of preference shares		-		15,900	
New borrowings		49,262		1,239,496	
Repayment of borrowings		(20,725)		(746,691)	
Capital element of finance lease payments		(673)		(230)	
			27,864		532,266

Notes *(continued)*

25 Purchase of businesses

(a) Purchase of Coxlease Holdings Limited

On 25 July 2006, a subsidiary company acquired the entire issued share capital of Coxlease Holdings Limited for a consideration of £14 9 million in cash The acquisition has been accounted for using the acquisition method of accounting The amount of goodwill arising as a result of the acquisition was £nil

In its last financial year to 31 August 2005, Coxlease Holdings Limited and its subsidiary company made a profit after tax of £606,000 For the period since that date to the date of acquisition, the management accounts of Coxlease Holdings Limited and its subsidiary company show

	£000
Turnover	6,720
Profit on ordinary activities before interest and taxation	721
Profit before taxation	653
Taxation	(211)
Profit for the period	442
Total recognised profit for the period	442

Notes *(continued)*

25 Purchase of businesses *(continued)*

The following table explains the adjustments made to the book value of the major categories of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisitions

	Book value £000	Revaluation £000	Other fair value adjustments £000	Fair value to the Group £000
Tangible fixed assets	3,039	14,320	-	17,359
Debtors	233	-	(36)	197
Cash	113	-	-	113
Creditors	(1,622)	-	(35)	(1,657)
Borrowings	(1,061)	-	-	(1,061)
Deferred tax	(12)	-	-	(12)
	690	14,320	(71)	14,939
Goodwill				-
				14,939
Satisfied by				
Cash paid in the financial period				14,674
Cash to be paid in 2007				265
				14,939

Adjustments have been made principally to increase the value of tangible fixed assets to fair value following an external valuation by Colliers CRE, an independent firm The fair values of the separable net assets acquired are provisional and are subject to amendment

Coxlease Holdings Limited and its subsidiary companies contributed £587,000 to the group's net cash inflow from operating activities, paid £5,000 in respect of returns on investments and servicing of finance, paid £nil in respect of taxation, paid £181,000 in respect of capital expenditure and utilised £1,061,000 in respect of net financing repayments

(b) Other acquisitions

During the year an amount of £143,000 was paid in connection with additional deferred consideration and costs associated with the acquisition of Autism (GB) Limited by a subsidiary company in the prior year Of this amount, £nil had been accrued in the prior year

During the year an amount of £3,814,000 was repaid to a subsidiary company in connection with the acquisition of Priory Healthcare Investments Limited This amount had been recorded within other debtors in the prior year