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CHFP025

COMPANIES FORM No. 155(6)b

Declaration by the directors of a holding company in relation to assistance for the acquisition of shares

155(6)b

Please do not
write in this
margin

Pursuant to section 155(6) of the Companies Act 1985

Please complete
legibly, preferably
in black type, or
bold block letteringTo the Registrar of Companies
(Address overleaf - Note 5)

For official use

Company number

--	--	--	--

02838284

Name of company

Note
Please read the notes
on page 3 before
completing this form

* Priory Education Services Limited

* insert full name
of companyXWe σ σ insert name(s) and
address(es) of all
the directorsSee paragraph 1 of the Appendix† delete as
appropriate

~~XXXXXXXXXX~~ [all the directors]† of the above company (hereinafter called 'this company') do
solemnly and sincerely declare that:

§ delete whichever
is inappropriate

The business of this company is:

- (a) ~~that of a recognised bank, licensed institution within the meaning of the Banking Act 1985~~
(b) ~~that of a person authorised under section 3 or 4 of the Insurance Companies Act 1982 to carry on
insurance business in the United Kingdom~~
(c) something other than the above§

This company is ~~XWe~~ [a] holding company of* Farleigh Schools Limited (Company No. 03225255) (the "Financial Assistance Subsidiary") which is

proposing to give financial assistance in connection with the acquisition of shares

in ~~the company~~ Priory Healthcare Investments Limited,
the holding company of this company.]†

Presenter's name address and
reference (if any) :

Linklaters
One Silk Street
London
EC2Y 8HQ

For official Use
General Section

Post room

LD3
COMPANIES HOUSE

L5UGY9PX

155
21/10/2005

The assistance is for the purpose of ~~that acquisition~~ [reducing or discharging a liability incurred for the purpose of that acquisition].† (note 1)

Please do not write in this margin

Please complete legibly, preferably in black type, or bold block lettering

The number and class of the shares acquired or to be acquired is: 981,167 Ordinary Shares,
8,827,833 A Ordinary Shares, 1,177,833 Preference Shares and 425,000 B Ordinary Shares

The assistance is to be given to: (note 2) Priory Health No. 2 Limited, a company
incorporated and registered in the Cayman Islands, whose registered address
is at PO Box 309GT, Ugland House, South Church Street, George Town, Grand
Cayman, Cayman Islands

The assistance will take the form of:

See paragraph 2 of the Appendix

The person who [has acquired] ~~will acquire~~† the shares is:
Priory Health No. 2 Limited

† delete as appropriate

The principal terms on which the assistance will be given are:

See paragraph 3 of the Appendix

The amount (if any) by which the net assets of the company which is giving the assistance will be reduced by giving it is Nil

The amount of cash to be transferred to the person assisted is £ See paragraph 4 of the Appendix

The value of any asset to be transferred to the person assisted is £ Nil

Please do not
write in this
margin

The date on which the assistance is to be given is

See paragraph 5 of the Appendix

Please complete
legibly, preferably
in black type, or
bold block lettering

☒ We have formed the opinion, as regards this company's initial situation immediately following the date on which the assistance is proposed to be given, that there will be no ground on which it could then be found to be unable to pay its debts. (note 3)

(a) ☒ We have formed the opinion that this company will be able to pay its debts as they fall due during the year immediately following that date]* (note 3)

* delete either (a) or
(b) as appropriate

(b) ~~We have formed the opinion that this company will be able to pay its debts as they fall due during the year immediately following that date, and that it is intended to commence the winding up of the company within 12 months of that date, and that we have formed the opinion that this company will be able to pay its debts as they fall due within 12 months of the commencement of the winding up.]~~* (note 3)

And ☒ we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1835.

Declared at One Silk Street
London EC2Y 8HQ

Declarants to sign below

on Day Month Year
19 10 2005

before me SUMA MANORFIELD *Handwritten signature*

A Commissioner for Oaths or Notary Public or Justice of the Peace or a Solicitor having the powers conferred on a Commissioner for Oaths.

NOTES

- 1 For the meaning of "a person incurring a liability" and "reducing or discharging a liability" see section 152(3) of the Companies Act 1985.
- 2 Insert full name(s) and address(es) of the person(s) to whom assistance is to be given; if a recipient is a company the registered office address should be shown.
- 3 Contingent and prospective liabilities of the company are to be taken into account - see section 156(3) of the Companies Act 1985.
- 4 The auditors report required by section 156(4) of the Companies Act 1985 must be annexed to this form.
- 5 The address for companies registered in England and Wales or Wales is:-

The Registrar of Companies
Companies House
Crown Way
Cardiff
CF14 3UZ

or, for companies registered in Scotland:-

The Registrar of Companies
Companies House
37 Castle Terrace
Edinburgh
EH1 2EB

Appendix
Form 155(6)(b)

Priory Education Services Limited
(Company Number 2838284)
(the "Company")

1 List of Directors

The names and addresses of all the directors of the Company are as follows:

Paul John Greensmith
19 Chatsworth Road
London
W4 3HY

Torsten Mack
Flat 61, Swish Building
73 Upper Richmond Road
Putney
London SW15 2SR

Chaitanya Bhupendra Patel
Robin Hill
Warren Lane
Oxshott
Surrey
KT22 0ST

2 Form which assistance will take

2.1 In this Statutory Declaration the following expressions have, unless otherwise defined, the following meanings:

"Acquiror" means Priory Health No. 2 Limited;

"Bridge Facility Agreement" means the £665,000,000 credit agreement dated 5 July 2005 between, amongst others, the Acquiror, the Original Guarantors (as defined therein), ABN AMRO Bank N.V. London Branch (as arranger, facility agent and Counterparty), ABN AMRO Bank N.V. Amsterdam Branch (as issuing bank) and ABN AMRO Bank N.V. London Branch (as original lender), as amended or restated from time to time;

"Disposal and Lease Back Agreement" means each disposal and lease back agreement to be entered into between the Financial Assistance Subsidiary and Propco in respect of the Properties;

"Intra-Group Borrowers" means Priory Health No. 2 Limited and certain of its subsidiaries (together the **"Intra-Group Borrowers"**);

"Intra-Group Creditor" means each of the Target, the Financial Assistance Subsidiary and certain other subsidiaries of the Target (together the **"Intra-Group Creditors"**);

"Intra-Group Funding Agreement" means the intra-group funding agreement to be entered into between the Intra-Group Creditors (including the Financial Assistance Subsidiary) and the Intra-Group Borrowers (including Priory Health No. 2 Limited);

"Intra-Opco Group Debt" means all Liabilities of any Opco Obligor to an Intra-Opco Group Creditor (as defined in the Opco Subordination Agreement);

"Investor Debt" means all Liabilities of any Opco Obligor to any Investor Creditor (as defined in the Opco Subordination Agreement) on a liquidation or other insolvency of any Opco Obligor;

"Lease" means any lease to be entered into between the Propco (as landlord) and the Financial Assistance Subsidiary (as tenant) in respect of any of the Properties (or such other freehold, leasehold and/or feuhold estates held by Propco (including the properties known as Four Winds, 19 Bath Road, Frome, Somerset BA11 2JH and 8 and 8A Christchurch Street Frome) (together the **"Leases"**);

"Lease Guarantee" means the deed of guarantee to be entered into by the Lease Guarantors and Propco in respect of the Leases;

"Lease Guarantors" means the Target, the Financial Assistance Subsidiary and certain subsidiaries of the Target;

"Liability" means any present or future liability (actual or contingent), together with:

- (a) any permitted refinancing, novation, deferral or extension of that liability;
- (b) any claim for breach of representation, warranty, undertaking, or on an event of default or under any indemnity in connection with that document or agreement;
- (c) any further advance which may be made under any agreement expressed to be supplemental to any document in respect of that liability, together with all related interest, fees and costs;
- (d) any claim for damages or restitution in the event of rescission of that liability or otherwise;
- (e) any claim flowing from any recovery by a payment or discharge in respect of that liability on grounds of preference or otherwise; and
- (f) any amount (such as post-insolvency interest) which would be included in any of the above but for its discharge, non-provability, unenforceability or non-allowability in any insolvency or other proceedings;

"Opco Borrower" means each Original Borrower as defined in the Opco Credit Agreement;

"Opco Chargors" means those companies listed in Schedule 1 to the Opco Security Agreement including the Financial Assistance Subsidiary;

"Opco Credit Agreement" means the £120,000,000 capital expenditure and working capital facilities agreement to be entered into between (among others) Priory Securitisation Limited, the Opco Borrowers, the Opco Guarantors, ABN AMRO Branch N.V., London Branch (as arranger and counterparty and issuing bank), the Opco Facility Agent and the Original Lenders as defined therein;

"Opco Facility Agent" means ABN AMRO Bank N.V., London Branch in its capacity as facility agent under the Opco Credit Agreement;

"Opco Finance Party" means a Lender, an Administrative Party or a Hedging Bank (as each term is defined in the Opco Credit Agreement);

"Opco Group" means Priory Securitisation Limited and its subsidiaries and Fanplate Limited and its subsidiaries;

"Opco Guarantors" means each Original Guarantor as defined in the Opco Credit Agreement;

"Opco Obligor" means an "Obligor" as defined in the Opco Subordination Agreement and includes the Financial Assistance Subsidiary;

"Opco Secured Liabilities" means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of an Obligor (as defined in the Opco Credit Agreement) to any Opco Finance Party under each Finance Document (as defined in the Opco Credit Agreement) to which an Obligor (as defined in the Opco Credit Agreement) is a party;

"Opco Security Agreement" means the security agreement to be entered into between each Opco Chargor and the Opco Facility Agent;

"Opco Security Assets" means all assets of each Opco Chargor the subject of any security created by the Opco Security Agreement;

"Opco Senior Debt" means all Liabilities payable or owing by any member of the Opco Group to an Opco Finance Party under or in connection with the Finance Documents (as defined in the Opco Credit Agreement);

"Opco Subordinated Creditor" means an Intra-Opco Group Creditor or an Investor Creditor (each as defined in the Opco Subordination Agreement);

"Opco Subordinated Debt" means the Intra-Opco Group Debt and the Investor Debt;

"Opco Subordination Agreement" means the subordination agreement to be entered into between, among others, Priory Securitisation Limited, the Opco Obligors, the Opco Subordinated Creditors and the Opco Facility Agent;

"Propco" means Priory Finance Property LLP (Partnership No. OC315650);

"Propco Credit Agreement" means the £575,000,000 credit agreement to be entered into between, among others Propco, ABN AMRO Bank N.V., London Branch (as arranger and original counterparty), the Propco Facility Agent, ABN AMRO Bank N.V., London Branch (as original lender) and the Security Agent;

"Propco Facility Agent" means ABN AMRO Bank N.V., London Branch in its capacity as facility agent under the Credit Agreement Propco;

"Propco Intercompany Loan Agreement" means the agreement to be entered into between Propco (as borrower) and the Financial Assistance Subsidiary and certain other subsidiaries of the Target;

"Propco Lease" means any lease (including the Leases) between Propco and a Propco Tenant (together the **"Propco Leases"**);

"Propco Senior Debt" means all Liabilities payable or owing by Propco to a Finance Party (as defined in the Propco Credit Agreement) under or in connection with the Finance Documents (as defined in the Propco Credit Agreement);

"Propco Subordinated Creditor" means each Original Subordinated Creditor (as defined in the Propco Subordination Agreement) and any person who becomes a Propco Subordinated Creditor in accordance with the terms of the Propco Subordination Agreement;

"Propco Subordinated Debt" means all Liabilities payable or owing by Propco to a Subordinated Creditor;

"Propco Subordination Agreement" means the subordination agreement to be entered into between Propco, the Propco Subordinated Creditors (including the Financial Assistance Subsidiary) and the Propco Facility Agent;

"Propco Tenant" means a subsidiary of the Target (including the Financial Assistance Subsidiary) which is a party to a Propco Lease (together the **"Propco Tenants"**);

"Property" means each of the following properties owned or leased by the Financial Assistance Subsidiary and known as (together the **"Properties"**):

Newbury House, land at Newbury Farm and land on the west side of Newbury House, Charity Lane, Mells, Frome

North Hill House, North Parade, Frome BA11 2AB

19 Ashleigh Grove, Trowbridge, BA14 0BL

20 Ashleigh Grove, Trowbridge, BA14 0BL

Stoneleigh House, Fromefield, Frome, BA11 2HB

105 Bath Road, Swindon SN1 4AX

The Rookery, Wells Road, Radstock BA3 3RS

Four Winds, 19 Bath Road, Frome

"Purchase Price" means the purchase price specified in a Disposal and Lease Back Agreement in respect of a Property;

"Security Agent" means ABN AMRO Trustees Limited as agent and trustee for the Finance Parties (as defined in the Propco Credit Agreement);

"Security Interest" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect;

"Target" means Priory Healthcare Investments Limited (registered number 04433250); and

"Target Group" means the Target and its subsidiaries.

2.2 The financial assistance will take the form of:

2.2.1 the execution, delivery and performance by the Financial Assistance Subsidiary of its obligations under the following documents (as the same may be amended, varied, supplemented or substituted from time to time) (together, the **"Assistance Documents"**):

- (i) the Opco Credit Agreement pursuant to which the Financial Assistance Subsidiary shall, jointly and severally with the other Opco Guarantors,

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guarantee the obligations of the Opco Borrowers under the Opco Credit Agreement;

- (ii) the Opco Security Agreement pursuant to which the Financial Assistance Subsidiary covenants that it will discharge all the Opco Secured Liabilities and grant fixed and floating charges and arrangements over its assets and undertakings in favour of the Opco Facility Agent;
- (iii) the Opco Subordination Agreement pursuant to which the Financial Assistance Subsidiary will agree to enter into certain subordination arrangements and give certain undertakings with respect to the Opco Senior Debt;
- (iv) each Disposal and Lease Back Agreement pursuant to which the Financial Assistance Subsidiary will dispose to Propco, by way of sale/or the grant of a 999 year lease of each of the Properties in respect of which it is a registered proprietor/owner and agree to grant a Lease;
- (v) a Propco Intercompany Loan Agreement setting out the terms on which Propco agrees to pay the Loan Amount (as defined therein) to the Financial Assistance Subsidiary, being part of the purchase price paid by Propco to the Financial Assistance Subsidiary under any Disposal and Lease Back Agreement;
- (vi) each Lease pursuant to which Propco will grant leases of the Properties (or such other freehold, leasehold and/or feuhold estates held by Propco) (including the properties known as Four Winds, 19 Bath Road, Frome, Somerset BA11 2JH and 8 and 8A Christchurch Street Frome) to the Financial Assistance Subsidiary;
- (vii) the Lease Guarantee pursuant to which the Financial Assistance Subsidiary will guarantee to Propco the punctual performance by each Propco Tenant of all that Propco Tenants obligations under the Propco Leases to which that Propco Tenant is a party and undertakes and indemnifies to pay Propco on demand whenever the Propco Tenant does not pay an amount when due under a Propco Lease;
- (viii) the Propco Subordination Agreement pursuant to which the Financial Assistance Subsidiary will agree to enter into certain subordination arrangements and give certain undertakings with respect to the Propco Senior Debt; and
- (ix) the Intra-Group Funding Agreement pursuant to which the Financial Assistance Subsidiary may make loans available to the Intra-Group Borrowers for the purpose, inter alios, of paying, repaying or prepaying amounts owing under the Bridge Facility Agreement and;

2.2.2 by the performance of any other acts or the execution of any other documents ancillary or otherwise relating to the Assistance Documents.

3 Principal terms of the assistance given

All capitalised terms in this paragraph 3 shall, unless contrary indication appears, have the same meanings given to them in paragraph 2.1.

The principal terms on which the financial assistance will be given are:

3.1 By executing the Opco Credit Agreement, the Financial Assistance Subsidiary (as an Opco Guarantor) (among other things):

3.1.1 jointly and severally and irrevocably and unconditionally:

- (i) guarantees to each Opco Finance Party punctual performance by each Opco Borrower of all its payment obligations under the Finance Documents (as defined in the Opco Credit Agreement);
- (ii) undertakes with each Opco Finance Party that, whenever an Opco Borrower does not pay any amount when due under any Finance Document (as defined in the Opco Credit Agreement), it must immediately on demand by the Opco Facility Agent pay that amount as if it were the principal obligor; and
- (iii) indemnifies each Opco Finance Party immediately on demand against any loss or liability suffered by that Opco Finance Party if any payment obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the loss or liability under this indemnity will be equal to the amount the Opco Finance Party would otherwise have been entitled to recover;

3.1.2 makes certain representations and warranties to the Opco Finance Parties; and

3.1.3 undertakes to comply with certain general undertakings, including an undertaking not to create or permit to subsist any security over any of its assets and not to dispose of any of its assets (in each case, subject to certain exceptions).

3.2 By executing the Opco Security Agreement, the Financial Assistance Subsidiary (among other things):

3.2.1 covenants to pay or discharge the Opco Secured Liabilities in the manner provided for in the Finance Documents (as defined in the Opco Credit Agreement) provided that neither such covenant to pay nor the security constituted by the Opco Security Agreement shall extend to or include any liability or sum which would but for this proviso, cause such covenant or security to be unlawful or prohibited by any applicable law;

3.2.2 charges:

- (i) by way of a first legal mortgage, all estates or interest in any freehold or leasehold property now owned by it (including any real property specified in Schedule 2 of the Opco Security Agreement set out opposite its name);
- (ii) (to the extent that they are not the subject of a mortgage under subparagraph (i) above) by way of first fixed charge all estates or interests in any freehold or leasehold property;
- (iii) by way of a first legal mortgage all shares in any member of the Opco Group (as defined in the Opco Security Agreement) (other than itself) owned by it or held by any nominee on its behalf (including shares specified in Schedule 3 of the Opco Security Agreement set out opposite its name);

- (iv) to the extent that they are not the subject of a mortgage under subparagraph (iii) above by way of a first fixed charge its interest in all shares, stocks, debentures, bonds or other securities and investments owned by it or held by any nominee on its behalf;
 - (v) by way of a first fixed charge all plant and machinery owned by it and its interest in any plant or machinery in its possession;
 - (vi) by way of a first fixed charge, all of its rights in respect of any know-how, patent, trade mark, service mark, design, business name, topographical or similar right (including the patents and trademarks specified in Schedule 4 of the Opco Security Agreement set out opposite its name), any copyright or other intellectual property monopoly right and any interest (including by way of licence) in any of the above, in each case whether registered or not and including all applications for the same; and
 - (vii) by way of first fixed charge any beneficial interest, claim or entitlement it has in any pension fund its goodwill, the benefit of any authorisation (statutory or otherwise) held in connection with its use of any Opco Security Asset, the right to recover and receive compensation which may be payable to it in respect of any authorisation (statutory or otherwise) held in connection with its use of any Security Asset (as defined in the Opco Security Agreement) and its uncalled capital;
- 3.2.3** assigns absolutely, subject to a proviso for re-assignment on redemption (and subject, in the case of buildings insurance only, to the interest of Propco under a Lease) all of its rights in respect of any contract or policy of insurance taken out by it or on its behalf or in which it has an interest;
- 3.2.4** charges by way of a first floating charge all its assets not at any time otherwise effectively mortgaged, charged or assigned by way of fixed mortgage, charge or assignment;
- 3.2.5** indemnifies each Opco Finance Party, receiver, attorney, manager, agent or other person appointed by the Facility Agent against certain costs, claims, expenses and liabilities;
- 3.2.6** makes certain representations to the Opco Finance Parties;
- 3.2.7** undertakes to comply with certain undertakings; and
- 3.2.8** must, at its own expense, take whatever action the Opco Facility Agent or a Receiver (as defined in the Opco Security Agreement) may require for:
- (i) creating, perfecting or protecting any security intended to be created by the Opco Security Agreement; or
 - (ii) facilitating the realisation of any Opco Security Asset, or the exercise of any right, power of discretion exercisable, by the Opco Facility Agent or any Receiver (as defined in the Opco Security Agreement) or any of its delegates or sub-delegates in respect of any Opco Security Asset,
- including:
- (i) the execution of any transfer, conveyance, assignment or assurance of any property, whether to the Opco Facility Agent or to its nominee; or

- (ii) the giving of any notice, order or direction and the making of any registration,

which, in any such case, the Opco Facility Agent may think expedient.

3.3 By executing the Opco Subordination Agreement, and until such time as all amounts owing under the Finance Documents (as defined in the Opco Credit Agreement) have been repaid or prepaid in full:

3.3.1 no Opco Subordinated Creditor will, among other things, (subject to certain exceptions):

- (i) demand or receive payment of, or any distribution in respect or on account of, any of the Opco Subordinated Debt in cash or in kind from an Opco Obligor or any other source;
- (ii) apply any money or assets in discharge of any Opco Subordinated Debt;
- (iii) discharge any of the Opco Subordinated Debt by set-off;
- (iv) allow to exist or receive any Security Interest (as defined in the Opco Subordination Agreement) for any of the Opco Subordinated Debt;
- (v) allow to exist or receive any guarantee or other assurance against loss in respect of any of the Opco Subordinated Debt;
- (vi) allow to exist or receive any guarantee or other assurance against loss in respect of Opco Subordinated Debt;
- (vii) allow any of the Opco Subordinated Debt to be evidenced by a negotiable instrument;
- (viii) take or omit to take any action which might impair the subordination achieved or intended to be achieved by the Opco Subordination Agreement;
- (ix) demand payment of any Opco Subordinated Debt;
- (x) accelerate any of the Opco Subordinated Debt or otherwise declare any of the Opco Subordinated Debt prematurely payable;
- (xi) enforce the Opco Subordinated Debt by attachment, set-off, execution or otherwise; or
- (xii) initiate or support or take any steps with a view to: any insolvency, liquidation, reorganisation, administration or dissolution proceedings; any voluntary arrangement or assignment for the benefit of creditors, or any similar proceedings involving any Opco Obligor, whether by petition, convening a meeting, voting for a resolution or otherwise; or otherwise exercise any remedy for the recovery of the Opco Subordinated Debt;

3.3.2 each Opco Subordinated Creditor agrees that if:

- (i) it receives a payment or distribution in respect of any of the Opco Subordinated Debt from an Opco Obligor or any other source other than as allowed under the Opco Credit Agreement; or

- (ii) it receives the proceeds of any enforcement of any Security Interest (as defined in the Opco Subordination Agreement) or any guarantee or other assurance against financial loss for any Opco Subordinated Debt,

that Opco Subordinated Creditor must hold the amount received by it (up to a maximum of an amount equal to the Opco Senior Debt on trust for the Opco Finance Parties, and immediately pay that amount (up to that maximum) to the Opco Facility Agent for application against the Opco Senior Debt;

- 3.3.3 each Opco Subordinated Creditor agrees that if, for any reason, any of the Opco Subordinated Debt is discharged in any manner other than as expressly permitted under the Opco Subordination Agreement, it must immediately pay an amount equal to the amount discharged to the Opco Facility Agent for application against the Opco Senior Debt;
 - 3.3.4 each Opco Subordinated Creditor agrees that it shall hold all payments and distributions in cash or in kind received or receivable by it in respect of the Opco Subordinated Debt from the Insolvent Obligor (as defined in the Opco Subordination Agreement) or from any other source on trust for the Opco Finance Parties and pay and transfer such payments and distributions to the Opco Facility Agent for application against the Opco Senior Debt; and
 - 3.3.5 each Opco Subordinated Creditor makes certain representations and warranties to the Opco Finance Parties.
- 3.4 By executing the Disposal and Lease Back Agreement, the Financial Assistance Subsidiary will, among other things:
- for will enter into a 999 year lease of*
- 3.4.1 sell each Property to Propco for the relevant Purchase Price;
 - 3.4.2 immediately following completion of the transfer of a Property to Propco, accept a Lease of each Property;
 - 3.4.3 make certain representations to Propco; and
 - 3.4.4 undertake to comply with certain general undertakings.
- 3.5 By executing the Propco Intercompany Loan Agreement, Propco will, among other things:
- 3.5.1 agree that it shall repay each Loan Amount (as defined in the Propco Intercompany Loan Agreement) to the relevant Vendor on 15 December 2013, together with all interest accrued thereon and all other amounts then due by Propco under the Propco Intercompany Loan Agreement, but subject at all times to the terms of the Propco Subordination Agreement; and
 - 3.5.2 agree that it shall pay interest at the rate specified in the Propco Intercompany Loan Agreement on each Loan Amount on the last day of each interest period specified in the Propco Intercompany Loan Agreement (an "Interest Period"), provided that any interest accrued but not paid on the last day of an Interest Period shall be automatically capitalised at the end of such Interest Period and shall be added to the outstanding principal of the relevant Loan Amount.
- 3.6 By executing each Lease, the Financial Assistance Subsidiary will, among other things:
- 3.6.1 pay the rent specified in the Lease during the term of the Lease to Propco, in each case without any abatement, deduction, counterclaim, withholding or set-off

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whatsoever, whether legal or equitable, (except for tax authorized by statute to be deducted in accordance with the Lease);

- 3.6.2 agree that it is the purpose and intent of Propco and the Financial Assistance Subsidiary that the Rents (as defined in the Lease) shall be absolutely net to Propco, so that the Lease shall yield free and clear to Propco the Rents as specified in the Lease in each year during the Term (as defined in the Lease) and that Propco shall not be required to make any payments out of its receipt of the Rents in relation to the relevant Property (other than (a) value added tax chargeable in respect of the Principal Rent (as defined in the Lease), and (b) any tax (other than value added tax) payable by Propco on the Principal Rent (as defined in the Lease), or occasioned by any disposition of, or dealing with, the reversion to the Lease) and (c) payment of rent and other sums to any superior landlord, and to this intent the Financial Assistance Subsidiary covenants that all costs, operating expenses, impositions, premiums, fees, interest, charges, expenses, reimbursements, and obligations of every kind and nature whatsoever relating to the "Demised Premises" as defined in the Lease (other than as aforesaid) which may arise or become due during or out of the Term shall be paid or discharged by the Financial Assistance Subsidiary as additional rent and that Propco shall be indemnified and saved harmless by the Financial Assistance Subsidiary on an after tax basis from and against such costs, operating expenses, impositions, premiums, fees, interest, charges, expenses, reimbursements, and obligations of every kind and nature;
- 3.6.3 pay, or indemnify Propco against, all existing and future rates, taxes, duties, charges, assessments, impositions, service charges supplied to or consumed in the relevant Property (including the hire of meters) and outgoings whatsoever which at any time may be charged, levied, rated, assessed or imposed upon or be payable in respect of the relevant Property or upon the owner or occupier thereof;
- 3.6.4 at its sole expense and at all times:
- (i) keep and maintain the building on the relevant Property and the infrastructure outside such building, together with all landscaped areas, service road car parking areas and access ways forming part of the relevant Property in good and substantial repair; and
 - (ii) replace any of Propco's fixtures and fittings and Propco's mechanical and electrical services and plant which may be or become beyond repair with new, reconditioned or replacement items which are similar in type and quality and in good working order;
- 3.6.5 not assign, underlet, charge, share or part with possession or occupation of the whole or any parts of the relevant Property nor agree to do so nor to hold its interest in the relevant Property or any part thereof as nominee or upon trust for any third party nor agree to do so except as permitted by the terms of the Lease;
- 3.6.6 at its expense, keep and maintain the insurance specified in the Lease;
- 3.6.7 indemnify and keep indemnified Propco and any superior landlord against certain costs, claims, expenses and liabilities;
- 3.6.8 make certain representations to Propco; and

- 3.6.9 undertake to comply with certain general undertakings.
- 3.7 By executing the Lease Guarantee, the Financial Assistance Subsidiary as Lease Guarantor will, among other things:
- 3.7.1 jointly and severally irrevocably and unconditionally:
- (i) guarantees to Propco the punctual performance by each Propco Tenant of all that Propco Tenant's obligations under the Propco Leases to which that Propco Tenant is a party;
 - (ii) undertakes with Propco, whenever a Propco Tenant does not pay any amount when due under or in connection with a Propco Lease to which that Propco Tenant is a party, that it must within 5 days of demand by Propco pay that amount as if it were the principal obligor in respect of that amount; and
 - (iii) indemnifies Propco immediately on demand against any loss or liability suffered by Propco if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the loss or liability under this indemnity will be equal to the amount Propco would otherwise have been entitled to recover;
- 3.7.2 make certain representations to Propco;
- 3.7.3 undertake to comply with certain general undertakings, including that it shall not incur any Financial Indebtedness (as defined in the Lease Guarantee) unless it is permitted under the Opco Credit Agreement; and
- 3.7.4 if requested to do so by Propco upon reasonable notice in relation to a transfer by Propco of a property the subject of a Propco Lease, the Financial Assistance Subsidiary must issue a guarantee to the transferee, in substantially similar terms to the guarantee and other obligations set out in Clause 2 of the Lease Guarantee for the purposes of enabling Propco to effect the transfer to that transferee.
- 3.8 By executing the Propco Subordination Agreement, the Financial Assistance Subsidiary will, among other things:
- 3.8.1 not demand or receive payment of, or any distribution in respect or on account of, any of the Propco Subordinated Debt in cash or in kind from Propco or any other source (excepted as permitted under the Propco Subordination Agreement);
 - 3.8.2 not allow any Propco Subordinated Debt to be discharged (excepted as permitted under the Propco Subordination Agreement);
 - 3.8.3 not allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of any of the Propco Subordinated Debt (excepted as permitted under the Propco Subordination Agreement);
 - 3.8.4 not allow any of the Propco Subordinated Debt to be evidenced by a negotiable instrument;
 - 3.8.5 not allow any Propco Subordinated Debt to be subordinated to any person other than in accordance with the Propco Subordination Agreement;

- 3.8.6 not take or omit to take any action which might impair the priority or subordination achieved or intended to be achieved by the Propco Subordination Agreement;
 - 3.8.7 if it receives a payment or distribution in respect of any of the Propco Subordinated Debt from Propco or any other source other than as permitted under the Propco Subordination Agreement, or it receives the proceeds of any enforcement of any Security Interest or any guarantee or other assurance against financial loss for any Propco Subordinated Debt, hold the amount received by it (up to a maximum of an amount equal to the Propco Senior Debt) on trust for the Finance Parties (as defined in the Propco Credit Agreement), and immediately pay that amount (up to that maximum) to the Propco Facility Agent for application against the Propco Senior Debt that it must hold the amount received by it (up to a maximum of an amount equal to the Propco Senior Debt on trust for the Finance Parties (as defined in the Propco Credit Agreement), and immediately pay that amount (up to that maximum) to the Propco Facility Agent for application against the Propco Senior Debt (as defined in the Propco Subordination Deed);
 - 3.8.8 initiate or support or take any steps with a view to any insolvency, liquidation, reorganisation, administration or dissolution proceedings, voluntary arrangement or assignment for the benefit of creditors or any similar proceedings involving Propco, whether by petition, convening a meeting, voting for a resolution or otherwise, or bring or support any legal proceedings against Propco (or any of its subsidiaries) or otherwise exercise any remedy for the recovery of the Propco Subordinated Debt;
 - 3.8.9 agree that if, for any reason, any of the Propco Subordinated Debt is discharged in any manner other than as expressly permitted under the Propco Credit Agreement, it must immediately pay an amount equal to the amount discharged to the Propco Facility Agent for application against the Propco Senior Debt; and
 - 3.8.10 make representations and warranties to the extent required in Clause 8 of the Propco Subordination Agreement.
- 3.9** By executing the Intra-Group Funding Agreement, the Financial Assistance Subsidiary (amongst other things):
- 3.9.1 may at any time make loans available to the Acquiror and members of the Target Group for general corporate purposes, including directly or indirectly funding the payment, repayment or prepayment of amounts owing under the Bridge Facility Agreement; and
 - 3.9.2 agree that the loans shall be repayable on such dates as may be agreed from time to time between it and the relevant borrower. Any interest accrued but not paid on the specified interest payment date shall be capitalised to the principal amount of the loan.

4 The amount of cash to be transferred to the person assisted

Such sums as are payable under the Intra-Group Funding Agreement.

5 Date on which the assistance is to be given

The financial assistance is to be given on any date prior to 8 weeks from the date of this Statutory Declaration.

The Directors
Priory Education Services Limited
Priory House
Randalls Way
Leatherhead
Surrey, KT22 7TP

14 October 2005

Dear Sirs

Auditors' report to the directors of Priory Education Services Limited pursuant to Section 156(4) of the Companies Act 1985

We have examined the attached statutory declaration of the directors of Priory Education Services Limited (the "Company") dated 14 October 2005 in connection with the proposal that the Company's subsidiary undertaking, Farleigh Schools Limited, should give financial assistance for the purchase of the following shares of the Company's holding company, Priory Healthcare Investments Limited:

981,167	Ordinary shares;
8,827,833	A Ordinary shares;
1,177,833	Preference shares; and
425,000	B Ordinary shares

This report, including the opinion, has been prepared for and only for the Company and the Company's directors in accordance with Section 156 of the Companies Act 1985 and for no other purpose. We do not, in giving the opinion set out below, 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.

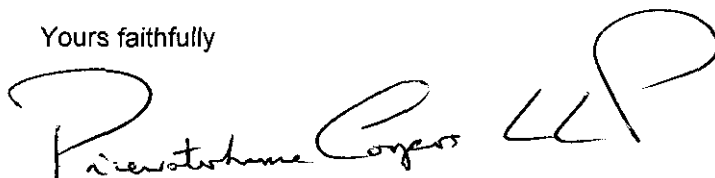
Basis of opinion

We have enquired into the state of the Company's affairs in order to review the bases for the statutory declaration.

Opinion

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in Section 156(2) of the Companies Act 1985 is unreasonable in all the circumstances.

Yours faithfully



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors