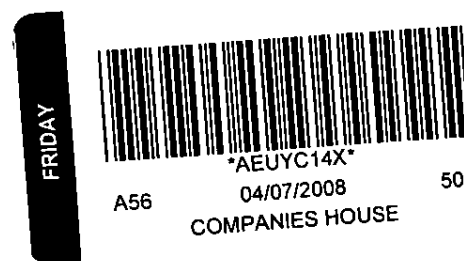


# Priory Group Limited

Directors' report and financial statements

Year ended 31 December 2007

Registered number 04433255



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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

### Principal activities

The principal activity of the company is to act as an intermediate holding company and to raise finance on behalf of fellow subsidiary undertakings

### Business review

The results for the year are set out in the Profit and loss account on page 5 and the position of the company as at the year end is set out in the Balance sheet on page 6

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

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

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

On 22 May 2007, the company sold its investment in Medical Imaging (Essex) Limited to Prory Investments Holdings Limited (a parent undertaking) for a consideration of £24,000

On 25 May 2007, the company sold its investment in Nottcor 6 Limited to Prory Investments Holdings Limited (a parent undertaking) for a consideration of £1

### Dividends

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

### Directors

The directors who held office during the year were as follows

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

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

## Directors' report *(continued)*

### Auditors

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

### Provision of information to auditors

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

By order of the board



**S Mukerji**  
Company Secretary

Priory House  
Randalls Way  
Leatherhead  
Surrey  
KT22 7TP

1 July 2008

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to

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

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

## Independent auditors' report to the members of Priory Group Limited

We have audited the financial statements of Priory Group Limited for the year ended 31 December 2007 which comprise the Profit and loss account, the Balance sheet 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

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



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Reading

1 July 2008

**Profit and loss account**  
*for the year ended 31 December 2007*

|  | Note | 2007<br>£000 | 2006<br>£000 |
|--|------|--------------|--------------|
| <b>Operating result</b>                            |      | -            | -            |
| Profit on disposal of fixed asset investments      |      | 24           | -            |
|  |      | <hr/>        | <hr/>        |
| <b>Profit before interest and tax</b>              |      | 24           | -            |
| Interest receivable and similar income             | 3    | 9,907        | 8,759        |
| Interest payable and similar charges               | 4    | (19,989)     | (17,553)     |
|  |      | <hr/>        | <hr/>        |
| <b>Loss on ordinary activities before taxation</b> |      | (10,058)     | (8,794)      |
| Tax credit on loss on ordinary activities          | 5    | 4,393        | 2,644        |
|  |      | <hr/>        | <hr/>        |
| <b>Loss for the financial year</b>                 | 11   | (5,665)      | (6,150)      |
|  |      | <hr/> <hr/>  | <hr/> <hr/>  |

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

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

The results for the year derive from continuing activities

**Balance sheet**  
 at 31 December 2007

|  | Note | 2007<br>£000   | 2006<br>£000   |
|--|------|----------------|----------------|
| <b>Fixed assets</b>  |      |                |                |
| Investments  | 6    | 103,018        | 103,018        |
| <b>Current assets</b>  |      |                |                |
| Debtors  | 7    | 157,587        | 148,686        |
| Cash at bank and in hand                                       |      | 79             | 435            |
|  |      | <u>157,666</u> | <u>149,121</u> |
| <b>Creditors</b> amounts falling due within one year           | 8    | (17)           | (1,015)        |
| <b>Net current assets</b>                                      |      |                |                |
| Due within one year  |      | 52,543         | 48,551         |
| Debtors due after more than one year                           | 7    | 105,106        | 99,555         |
|  |      | <u>157,649</u> | <u>148,106</u> |
| <b>Total assets less current liabilities</b>                   |      | <u>260,667</u> | <u>251,124</u> |
| <b>Creditors:</b> amounts falling due after more than one year | 9    | (179,703)      | (164,495)      |
| <b>Net assets</b>  |      | <u>80,964</u>  | <u>86,629</u>  |
| <b>Capital and reserves</b>                                    |      |                |                |
| Called up share capital  | 10   | 250            | 250            |
| Share premium  | 11   | 250            | 250            |
| Profit and loss account  | 11   | 80,464         | 86,129         |
| <b>Shareholders' funds – equity</b>                            | 12   | <u>80,964</u>  | <u>86,629</u>  |

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

  
 S Mukerji  
 Director



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

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

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable UK accounting standards and UK company law and under the historical cost accounting rules. The going concern basis has been used to prepare the financial statements since the company's parent company has undertaken to provide such support as is necessary to enable the company to meet its obligations as and when they fall due.

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

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

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

#### ***Fixed asset investments***

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

#### ***Taxation***

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

#### ***Group relief***

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

### 2 Loss on ordinary activities before taxation

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

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

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

**Notes** (continued)

**3 Interest receivable and similar income**

|                                   | 2007<br>£000      | 2006<br>£000      |
|-----------------------------------|-------------------|-------------------|
| Inter-company interest receivable | 9,907             | 8,759             |
|                                   | <u>          </u> | <u>          </u> |

**4 Interest payable and similar charges**

|                                | 2007<br>£000      | 2006<br>£000      |
|--------------------------------|-------------------|-------------------|
| Inter-company interest payable | 19,989            | 17,553            |
|                                | <u>          </u> | <u>          </u> |

**5 Taxation**

|   | 2007<br>£000      | 2006<br>£000      |
|---|-------------------|-------------------|
| Corporation tax credit on loss for the year | (4,393)           | (2,638)           |
| Adjustment relating to prior year           | -                 | (6)               |
|   | <u>          </u> | <u>          </u> |
|   | <u>(4,393)</u>    | <u>(2,644)</u>    |

The tax credit of £4,393,000 (2006 £2,638,000) is to be surrendered to other group companies in exchange for payment of the same amount

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

|   | 2007<br>£000      | 2006<br>£000      |
|---|-------------------|-------------------|
| Loss on ordinary activities before tax              | (10,058)          | (8,794)           |
|   | <u>          </u> | <u>          </u> |
| Tax on loss on ordinary activities at standard rate | (3,017)           | (2,638)           |
| <i>Factors affecting charge for the year</i>        |                   |                   |
| Other timing differences                            | (1,370)           | -                 |
| Expenses not deductible for tax purposes            | 1                 | -                 |
| Profit/loss on non-qualifying assets                | (7)               | -                 |
| Adjustment to tax charge in respect of prior years  | -                 | (6)               |
|   | <u>          </u> | <u>          </u> |
| Total actual amount of current tax                  | <u>(4,393)</u>    | <u>(2,644)</u>    |

## Notes (continued)

### 5 Taxation (continued)

No provision has been made for a deferred tax asset of £6.4 million (2006 £6.8 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.

### 6 Fixed asset investments

|  | Total<br>£000  |
|--|----------------|
| <i>Shares in group undertakings</i>      |                |
| <i>Cost</i>                              |                |
| At beginning and end of the year         | 103,018        |
| <hr/>                                    |                |
| <i>Provisions</i>                        |                |
| At beginning and end of the year         | -              |
| <hr/>                                    |                |
| <i>Net book value</i>                    |                |
| At 31 December 2007 and 31 December 2006 | <b>103,018</b> |
|  | <hr/> <hr/>    |

**Notes** *(continued)*

**6 Fixed asset investments** *(continued)*

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

|  | <b>Principal activities</b>                                   | <b>Class and percentage of share held</b> |
|--|---|---|
| <b>Subsidiary undertakings</b>           |   |   |
| Priory Securitisation Holdings Limited * | Intermediate holding company                                  | 100% ordinary                             |
| Priory Securitisation Limited            | Intermediate holding company                                  | 100% ordinary                             |
| Priory Old Acute Services Limited        | Psychiatric and other specialist healthcare Services          | 100% ordinary                             |
| Priory Old Schools Services Limited      | Specialist schools for children with behavioural difficulties | 100% ordinary                             |
| Farleigh Schools Limited                 | Specialist school for children with Asperger Syndrome         | 100% ordinary                             |
| North Hill House Limited                 | Specialist school for children with Asperger Syndrome         | 100% ordinary                             |
| Eastwood Grange Limited                  | Specialist school for children with behavioural difficulties  | 100% ordinary                             |
| Chelfham Senior School Limited           | Specialist school for children with behavioural difficulties  | 100% ordinary                             |
| Rosendale School Limited                 | Specialist school for children with behavioural difficulties  | 100% ordinary                             |
| Autism (GB) Limited                      | Specialist school for children with Autism                    | 100% ordinary                             |
| Solutions (Ross) Limited                 | Juvenile residential homes                                    | 100% ordinary                             |
| Mark College Limited                     | Specialist school for children with dyslexia                  | 100% ordinary                             |
| Coxlease School Limited                  | Specialist school for children with behavioural difficulties  | 100% ordinary                             |
| Priory Old Grange Services Limited       | Brain injury rehabilitation services                          | 100% ordinary                             |
| Priory Old Forensic Services Limited     | Forensic psychiatric services                                 | 100% ordinary                             |
| The Nottingham Clinic Limited            | Development company   | 100% ordinary                             |
| Highbank Private Hospital Limited        | Development company   | 100% ordinary                             |

\* interests held directly by the company

All subsidiary and associated undertakings are registered in England and Wales

**Notes** (continued)

**7 Debtors**

|   | 2007<br>£000 | 2006<br>£000 |
|---|--------------|--------------|
| <i>Due within one year</i>                              |              |              |
| Amounts due from group undertakings                     | 48,088       | 46,198       |
| Other debtors   | -            | 295          |
| Group relief recoverable                                | 4,393        | 2,638        |
|   | 52,481       | 49,131       |
| <br><i>Due after more than one year</i>                 |              |              |
| 12% Sub-ordinated loans owed by subsidiary undertakings | 49,772       | 44,221       |
| Amounts due from group undertakings                     | 55,334       | 55,334       |
|   | 105,106      | 99,555       |
|   | 157,587      | 148,686      |

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

Amounts due from group undertakings due after more than one year bear interest at LIBOR plus 2.25% per annum and are repayable on demand. It is not expected that the demand would be made or that these amounts will be received within the current year and accordingly these amounts have been shown as amounts due after more than one year.

**8 Creditors: amounts falling due within one year**

|                                   | 2007<br>£000 | 2006<br>£000 |
|-----------------------------------|--------------|--------------|
| Amounts due to group undertakings | 17           | 648          |
| Other creditors                   | -            | 367          |
|                                   | 17           | 1,015        |
|                                   | 17           | 1,015        |

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

**Notes** *(continued)*

**9 Creditors: amounts falling due after more than one year**

|   | <b>2007</b>           | <b>2006</b>    |
|---|-----------------------|----------------|
|   | <b>£000</b>           | <b>£000</b>    |
| Discounted unsecured loan stock 2012 issued at 25.567% owed to immediate parent undertaking | -                     | 107,063        |
| Amounts due to group undertakings   | <b>179,703</b>        | 57,432         |
|   | <u><b>179,703</b></u> | <u>164,495</u> |

On 21 December 2007, the company redeemed the remaining discounted unsecured loan stock 2012 held by Priory Healthcare Finance Co Limited (the immediate parent undertaking). The total redemption amount paid was £122,271,000 and a subsequent loan was made to Priory Healthcare Finance Co Limited for the same amount.

Amounts due to group undertakings are unsecured, bear interest at LIBOR plus 2.25% per annum and are repayable on demand. It is not expected that the demand would be made or that these amounts will be paid within one year and accordingly these amounts have been shown as amounts falling due after more than one year.

**10 Called up share capital**

|   | <b>2007</b>    | <b>2006</b> |
|---|----------------|-------------|
|   | <b>£000</b>    | <b>£000</b> |
| <b>Authorised</b><br>232,000,000 (2006: 232,000,000) ordinary shares of 50 pence each                 | <b>116,000</b> | 116,000     |
| <b>Allotted, called up and fully paid</b><br>500,000 (2006: 500,000) ordinary shares of 50 pence each | <b>250</b>     | 250         |

**11 Reserves**

|                            | <b>Share premium</b> | <b>Profit and loss account</b> | <b>Total</b>         |
|----------------------------|----------------------|--------------------------------|----------------------|
|                            | <b>£000</b>          | <b>£000</b>                    | <b>£000</b>          |
| At beginning of the year   | 250                  | 86,129                         | 86,379               |
| Retained loss for the year | -                    | (5,665)                        | (5,665)              |
| <b>At end of the year</b>  | <u><b>250</b></u>    | <u><b>80,464</b></u>           | <u><b>80,714</b></u> |

**Notes** (continued)

**12 Reconciliation of movements in shareholders' funds**

|   | <b>2007</b><br><b>£000</b> | 2006<br>£000   |
|---|----------------------------|----------------|
| Loss for the financial year                 | (5,665)                    | (6,150)        |
| <b>Net reduction in shareholders' funds</b> | <b>(5,665)</b>             | <b>(6,150)</b> |
| Opening shareholders' funds                 | <b>86,629</b>              | 92,779         |
| <b>Closing shareholders' funds</b>          | <b>80,964</b>              | 86,629         |

**13 Ultimate parent company**

The company's immediate parent company, which is incorporated in England, is Priory Healthcare Finance Co Limited

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