

Priory Group Limited

Directors' report and financial statements

Year ended 31 December 2006

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 2006

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

Dividends

The directors do not recommend the payment of a dividend (2005 *£nil*)

Directors and directors' interests

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	(appointed 27 July 2006, resigned 24 April 2007)

On 16 April 2007, S Bradshaw and Professor C Thompson were appointed as directors of the company. On 2 May 2007, S Mukerji was appointed as a director of the company

In accordance with the articles of association, no directors retire by rotation. None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company

The interests of Dr CB Patel in the shares of Priority Investments Holdings Limited (the ultimate parent company) are disclosed in the financial statements of that company

The interests of PJ Greensmith and D Spruzen in the shares of Priority Investments Holdings Limited 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
PJ Greensmith	-	200,000	300,000	1,553,153	-	200,000	300,000	1,500,000
D Spruzen *	-	100,000	100,000	53,153	-	100,000	100,000	53,153

* B Ordinary shares and Non Voting B Ordinary shares held indirectly

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

Directors' report *(continued)*

Provision of information to auditors

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

By order of the board

Professor C Thompson
Director



Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

17 May 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 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 2006 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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 2006 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
London

17 May 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £000	2005 £000
Operating profit			-
Income from shares in group undertakings		-	94,964
Net interest payable and similar charges	3	(8,794)	(13,066)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation		(8,794)	81,898
Tax on (loss)/profit on ordinary activities	4	2,644	(187)
		<hr/>	<hr/>
(Loss)/profit for the financial year	10	(6,150)	81,711
		<hr/> <hr/>	<hr/> <hr/>

The company has no recognised gains or losses other than the (loss)/profit for the year

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

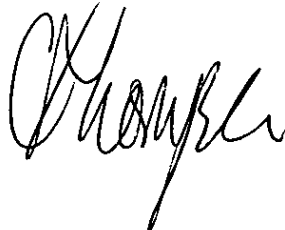
The results for the year derive from continuing activities

Balance sheet
at 31 December 2006

	Note	£000	2006 £000	£000	2005 £000
Fixed assets					
Investments	5		103,018		103,018
Current assets					
Debtors	6	148,686		140,703	
Cash at bank and in hand		435		1,249	
		<u>149,121</u>		<u>141,952</u>	
Creditors amounts falling due within one year	7	(1,015)		(58,735)	
Net current assets					
Due within one year		48,551		43,927	
Debtors due after more than one year	6	99,555		39,290	
			<u>148,106</u>		<u>83,217</u>
Total assets less current liabilities			251,124		186,235
Creditors amounts falling due after more than one year	8		(164,495)		(93,456)
Net assets			86,629		92,779
Capital and reserves					
Called up share capital	9		250		250
Share premium	10		250		250
Profit and loss account	10		86,129		92,279
Shareholders' funds – equity	10		86,629		92,779

These financial statements were approved by the board of directors on 17 May 2007 and were signed on its behalf by

Professor C Thompson
 Director



Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules. The going concern basis has been used to prepare the financial statements notwithstanding the deficiency of net assets at 31 December 2004, 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 Priority Investments Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets

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

Taxation

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

Group relief

Payment is generally made for group relief at a rate of 30% at the time of first estimating the tax provision. To the extent that amendments are subsequently made to the group relief plan, there is generally no payment or receipt in respect of the change.

2 Auditors and directors' remuneration

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

The directors received no emoluments for services to the company during the year (2005 £nil).

The company had no employees during the year (2005 nil).

Notes (continued)

3 Net interest payable and similar charges

	2006 £000	2005 £000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	-	6
Inter-company interest payable	17,553	17,446
Swap novation costs	-	570
	17,553	18,022
<i>Interest receivable and similar income</i>		
Inter-company interest receivable	(8,759)	(4,956)
	8,794	13,066

4 Taxation

	2006 £000	2005 £000
Corporation tax credit on result for the year	(2,638)	-
Adjustment relating to prior year	(6)	187
	(2,644)	187

The tax credit of £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% (2005 30%)
 The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation

	2006 £000	2005 £000
(Loss)/profit on ordinary activities before tax	(8,794)	81,898
	(8,794)	81,898
Tax on (loss)/profit on ordinary activities at standard rate	(2,638)	24,569
<i>Factors affecting charge for the year</i>		
Income from shares in group undertakings	-	(28,489)
Tax losses not recognised	-	3,920
Adjustment to tax charge in respect of prior years	(6)	187
	(2,644)	187
Total actual amount of current tax		

Notes (continued)

4 Taxation (continued)

No provision has been made for a deferred tax asset of £6.8 million (2005 £6.9 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.

5 Fixed asset investments

	Total £000
Shares in group undertakings	
Cost	
At beginning and end of the year	103,018
	<hr/>
Provisions	
At beginning and end of the year	-
	<hr/>
Net book value	
At 31 December 2006 and 31 December 2005	103,018
	<hr/> <hr/>

Notes (continued)

5 Fixed asset investments (continued)

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

	Principal activities	Class and percentage of share held
Subsidiary undertakings		
Priority Securitisation Holdings Limited *	Intermediate holding company	100% ordinary
Priority Securitisation Limited	Intermediate holding company	100% ordinary
Priority Healthcare Limited	Psychiatric and other specialist healthcare Services	100% ordinary
Priority Education Services Limited	Specialist schools for children with behavioural difficulties	100% ordinary
Farleigh Schools Limited	Specialist school for children with Asperger Syndrome	100% ordinary
North Hill House Limited	Specialist school for children with Asperger Syndrome	100% ordinary
Eastwood Grange Limited	Specialist school for children with behavioural difficulties	100% ordinary
Chelfham Senior School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Rosendale School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Autism (GB) Limited	Specialist school for children with Autism	100% ordinary
Solutions (Ross) Limited	Juvenile residential homes	100% ordinary
Mark College Limited	Specialist school for children with dyslexia	100% ordinary
Coxlease School Limited	Specialist school for children with behavioural difficulties	100% ordinary
Priority Services for Young People (IOM) Limited	Non-trading	100% ordinary
Priority Rehabilitation Services Limited	Brain injury rehabilitation services	100% ordinary
Blenheim Healthcare Limited	Forensic psychiatric services	100% ordinary
Priority Central Services Limited	Management 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 with the exception of Priority Services for Young People (IOM) Limited, which is registered in the Isle of Man

Notes (continued)

6 Debtors

	2006 £000	2005 £000
<i>Due within one year</i>		
Amounts due from group undertakings	46,198	101,413
Other debtors	295	-
Group relief recoverable	2,638	-
	49,131	101,413
 <i>Due after more than one year</i>		
12% Sub-ordinated loans owed by subsidiary undertakings	44,221	39,290
Amounts due from group undertakings	55,334	-
	99,555	39,290
	148,686	140,703

7 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Amounts due to group undertakings	648	58,735
Other creditors	367	-
	1,015	58,735
	1,015	58,735

8 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Discounted unsecured loan stock 2012 issued at 25.567% owed to Immediate parent undertaking	107,063	93,456
Amounts due to group undertakings	57,432	-
	164,495	93,456
	164,495	93,456

Notes (continued)

9 Called up share capital

	2006 £000	2005 £000
Authorised		
232,000,000 (2005 232,000,000) ordinary shares of 50 pence each	116,000	116,000
Allotted, called up and fully paid		
500,000 (2005 500,000) ordinary shares of 50 pence each	250	250

10 Reconciliation of movement in shareholders' funds

	Share capital £000	Share premium £000	Profit and loss account £000	2006 Total £000	2005 Total £000
At beginning of the year	250	250	92,279	92,779	(18,932)
Capital contribution	-	-	-	-	30,000
Retained (loss)/profit for the year	-	-	(6,150)	(6,150)	81,711
At end of the year	250	250	86,129	86,629	92,779

11 Ultimate parent company

The company is a subsidiary undertaking of Priory Healthcare Finance Co Limited, which is incorporated in England

The largest group in which the results of the company are consolidated is that headed by Priory Investments Holdings Limited. No other group accounts include the results of the company