

Priory Rehabilitation Services Limited

Directors' report and financial statements

Year ended 31 December 2005

Registered number 3074698



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Directors' report

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

Principal activities

The principal activities of the company are the provision of assessment services and acute, post-acute and continuing care services for children and adults with an acquired brain injury, stroke or other form of neurological disorder.

Business review

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

On 9 November 2005, the company entered into sale and leaseback agreements with Priory Finance Property LLP in relation to the sale of all of its properties. The properties were sold for a consideration of £38,990,000 and the resulting profit on sale was £6,769,000. The fixtures and fittings such as stock, furniture, catering equipment, medical equipment and other chattels which were solely related to the business of the company were retained. Other fixtures and fittings were sold to Priory Finance Property LLP and leased back under the sale and leaseback agreements.

Dividends

Dividends of £16.4 million were paid during the year (2004: £nil).

Directors and directors' interests

The directors who held office during the year were as follows:

Dr CB Patel
 PJ Greensmith

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

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

The interests of PJ Greensmith in the shares of Priory Investments Holdings Limited are set out below:

	Interest at end of year				Interest at beginning of year			
	A Ordinary shares	B Ordinary shares	Non Voting B Ordinary shares	Preference shares	A Ordinary shares	B Ordinary shares	Non Voting B Ordinary shares	Preference shares
PJ Greensmith	-	200,000	300,000	1,500,000	-	-	-	-

Directors' report *(continued)*

Employees

The directors recognise that the continued position of the company in the health care industry depends on the quality and motivation of its employees and as such the company is committed to pursue employment policies, which will continue to attract, retain and motivate its employees.

Good and effective employee communications are particularly important, and throughout the business it is the directors' policy to promote the understanding by all employees of the company's business aims and performance. This is achieved through internal publications, presentations on performance and a variety of other approaches appropriate for a particular location.

The directors believe that it is important to recruit and retain capable and caring staff regardless of their sex, marital status, race or religion. It is the company's policy to give full and fair consideration to applications for employment from people who are disabled, to continue wherever possible the employment of and to arrange appropriate training for, employees who become disabled and to provide equal opportunities for the career development, training and promotion of disabled employees.

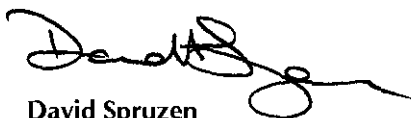
Auditors

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

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

24 May 2006

Statement of directors' responsibilities

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

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

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

Independent auditors' report to the members of Priory Rehabilitation Services Limited

We have audited the financial statements of Priory Rehabilitation Services Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movement in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 May 2006

Profit and loss account
for the year ended 31 December 2005

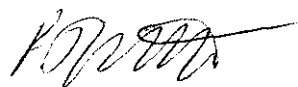
	Note	2005 £000	2004 £000
Turnover	2	14,838	13,734
Cost of sales		(12,678)	(11,493)
Gross profit		2,160	2,241
Administrative expenses		(1,036)	(900)
Operating profit		1,124	1,341
Profit on disposal of fixed assets		6,765	14
Profit on ordinary activities before interest and tax		7,889	1,355
Net interest payable and similar charges	6	(3,821)	(2,357)
Profit/(loss) on ordinary activities before taxation	2,3	4,068	(1,002)
Tax on profit/(loss) on ordinary activities	7	603	160
Retained profit/(loss) for the financial year		4,671	(842)
Dividends		(16,446)	-
Amounts transferred to reserves		(11,775)	(842)

The results for both the current and prior year derive from continuing activities.

Balance sheet
at 31 December 2005

	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	8	1,282	32,293
Investments	9	-	-
		<u>1,282</u>	<u>32,293</u>
Current assets			
Stocks	10	9	29
Debtors	11	31,424	26,655
Cash at bank and in hand		1,819	889
		<u>33,252</u>	<u>27,573</u>
Creditors: amounts falling due within one year	12	(19,620)	(18,799)
		<u>13,632</u>	<u>8,774</u>
Net current assets/(liabilities)			
		<u>14,914</u>	<u>41,067</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	13	(11,062)	(25,440)
Provisions for liabilities and charges	14	-	-
		<u>3,852</u>	<u>15,627</u>
Net assets			
		<u>3,852</u>	<u>15,627</u>
Capital and reserves			
Called up share capital	15	-	-
Revaluation reserve	16	-	16,894
Profit and loss account	16	3,852	(1,267)
		<u>3,852</u>	<u>15,627</u>
Shareholders' funds			
		<u>3,852</u>	<u>15,627</u>

These financial statements were approved by the board of directors on 24 May 2006 and were signed on its behalf by:



PJ Greensmith
 Director

Statement of total recognised gains and losses
for the year to 31 December 2005

	2005 £000	2004 £000
Profit/(loss) for the financial year	4,671	(842)
Unrealised surplus on revaluation of properties	-	6,619
Total recognised gains for the year	4,671	5,777

Note of historical cost profits and losses
for the year to 31 December 2005

	2005 £000	2004 £000
Reported profit/(loss) on ordinary activities before taxation	4,068	(1,002)
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the re-valued amount	210	154
Historical cost profit/(loss) on ordinary activities before taxation	4,278	(848)
Historical cost loss for the year retained after taxation and dividends	(11,565)	(688)

Reconciliation of movements in shareholders' funds
for the year to 31 December 2005

	2005 £000	2004 £000
Profit/(loss) for the financial year	4,671	(842)
Dividends	(16,446)	-
	(11,775)	(842)
Revaluation surplus	-	6,619
Net (reduction in)/addition to shareholders' funds	(11,775)	5,777
Opening shareholders' funds	15,627	9,850
Closing shareholders' funds	3,852	15,627

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 accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

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 FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, 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 or valuation 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 valuation of land and buildings cannot be split, the Directors have estimated that the value attributable to land is 22% of the valuation of the land and buildings.

Revaluation of properties

The company has adopted a policy of revaluation of its properties, as permitted by Financial Reporting Standard 15 - Tangible Fixed Assets. The assets are valued by independent Chartered Surveyors each year at the balance sheet date, on a rolling basis designed to ensure that all properties are specifically valued at least every five years. Any surplus or deficit on book value is transferred to the revaluation reserve, except that a deficit, which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charge (or credited) to the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Notes (continued)

1 Accounting policies (continued)

Investments

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

Stocks

Stocks are stated at the lower of cost and net realisable value.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

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.

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 change.

Turnover and revenue recognition

Turnover represents the amounts (excluding value added tax) derived from the provision of services. Revenue is recognised as the services are provided.

2 Analysis of turnover and (loss)/profit on ordinary activities before taxation

The company's turnover, (loss)/profit before taxation and net assets arise primarily from its principal activity of the provision of rehabilitation and ongoing care facilities for people with head injuries in the United Kingdom.

3 Profit/(loss) on ordinary activities before taxation

	2005 £000	2004 £000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration (inclusive of VAT):		
Audit	20	20
Depreciation and other amounts written off tangible fixed assets:		
Owned	650	841
Leased	55	59
Rentals under operating leases:		
Hire of plant and machinery	50	55
Other operating leases	501	8
Profit on disposal of fixed assets	6,765	14

Notes (continued)

4 Remuneration of directors

The directors received no emoluments for services to the company during the year (2004: *£nil*).

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Nursing and other clinical staff	360	382
Administrative staff	121	109
	<u>481</u>	<u>491</u>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	6,794	6,516
Social security costs	615	574
Other pension costs	41	44
	<u>7,450</u>	<u>7,134</u>

6 Net interest payable and similar charges

	2005 £000	2004 £000
<i>Interest payable and similar charges</i>		
On bank loans and overdrafts	320	130
Inter-company interest payable	1,985	2,165
Amortisation of issue costs	327	134
Swap novation costs	1,512	-
Debt termination costs	573	-
Finance charges payable in respect of finance leases	8	11
	<u>4,725</u>	<u>2,440</u>
<i>Interest receivable and similar income</i>		
Inter-company interest receivable	(49)	-
Reverse premium on novation of swap	(855)	(83)
	<u>3,821</u>	<u>2,357</u>

Notes (continued)

7 Taxation

	2005 £000	2004 £000
UK corporation tax on income	(608)	(123)
Adjustment in respect of prior years	5	(37)
	<hr/>	<hr/>
	(603)	(160)
Deferred tax (see note 14)	-	-
	<hr/>	<hr/>
	(603)	(160)
	<hr/>	<hr/>

The tax credit of £608,000 (2004: £123,000) is to be surrendered to other group companies in exchange for payment of the same amount.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2004: 30%). The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2005 £000	2004 £000
(Loss)/profit on ordinary activities before tax	4,068	(1,002)
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities at standard rate	1,220	(301)
<i>Factors affecting charge for the year</i>		
Capital allowances for year in excess of depreciation	166	74
Other timing differences	(16)	(18)
Depreciation of non-qualifying assets	47	119
Profit/loss on non-qualifying assets	(2,031)	-
Expenses not deductible for tax purposes	6	3
Adjustment to tax charge in respect of prior years	5	(37)
	<hr/>	<hr/>
Total actual amount of current tax	(603)	(160)
	<hr/>	<hr/>

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost or valuation					
At beginning of the year	30,663	424	1,931	262	33,280
Additions	81	1,109	729	33	1,952
Disposals	-	-	(102)	(41)	(143)
Disposal to group undertaking	(30,744)	(1,488)	(540)	-	(32,772)
Transfers	-	(45)	45	-	-
At end of the year	-	-	2,063	254	2,317
Depreciation					
At beginning of the year	-	-	874	113	987
Charge for the year	400	-	250	55	705
On disposals	-	-	(91)	(15)	(106)
On disposal to group undertaking	(400)	-	(151)	-	(551)
At end of the year	-	-	882	153	1,035
Net book value					
At 31 December 2005	-	-	1,181	101	1,282
At 31 December 2004	30,663	424	1,057	149	32,293

Included in the total net book value of motor vehicles is £101,000 (2004: £148,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £55,000 (2004: £59,000).

Analysis of land and buildings at cost or valuation

	2005 £000	2004 £000
At cost	-	-
At valuation	-	30,663
	-	30,663

The Company's land and buildings were re-valued at 31 December 2004, on the basis of existing use value by independent qualified valuers. The valuations were undertaken in accordance with the Practice Statements set out in the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards – 5th Edition, as amended, by Colliers Conrad Ritblat Erdman, a firm of independent Chartered Surveyors.

Notes (continued)

8 Tangible fixed assets (continued)

In the prior year, the valuations were incorporated into the financial statements and the resulting revaluation surplus of £6.6 million was taken to the revaluation reserve.

The historical net book value of land and buildings is given below:

	2005 £000	2004 £000
Historical cost of land and buildings	-	14,562
Aggregate depreciation thereon	-	(568)
Historical cost net book value	-	13,994

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.

9 Fixed asset investments

	Total £000
Shares in group undertakings	
Cost	
At beginning and end of the year	1,229
Provision	
At beginning and end of the year	1,229
Net book value	
At 31 December 2005	-
At 31 December 2004	-

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

	Country of incorporation	Principal Activity	Class and Percentage of shares Held
Subsidiary undertaking			
Robinson Kay House (Bury) Limited	England	Dormant	100% ordinary

Notes (continued)

10 Stocks

	2005 £000	2004 £000
Consumable supplies	9	29

11 Debtors

	2005 £000	2004 £000
Trade debtors	2,414	2,241
Amounts owed by group undertakings	28,348	24,146
Other debtors	11	11
Group relief recoverable	608	123
Prepayments and accrued income	43	134
	<u>31,424</u>	<u>26,655</u>

12 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Obligations under finance leases (see note 13)	53	54
Trade creditors	413	266
Amounts owed to group undertakings	18,598	17,876
Other taxes and social security	205	162
Other creditors	84	26
Accruals and deferred income	267	415
	<u>19,620</u>	<u>18,799</u>

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Bank loans and overdrafts	-	2,145
Obligations under finance leases	61	109
Amounts due to group undertakings	11,001	22,790
Un-amortised issue costs	-	(327)
Accruals and deferred income	-	723
	<u>11,062</u>	<u>25,440</u>

Obligations under finance leases are payable as follows:

	2005 £000	2004 £000
Within one year or less	53	54
Within one to two years	41	54
Within two to five years	20	55
	<u>114</u>	<u>163</u>

14 Provisions for liabilities and charges

	£000
Deferred tax	
At beginning and end of the year	-

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. At 31 December 2005, the total amount un-provided for was £nil (31 December 2004: £4.9 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)

15 Called up share capital

	2005 £	2004 £
Authorised		
100 (2004: 100) Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
Allotted, called up and fully paid		
100 (2004: 100) Ordinary shares of £1 each	100	100
	<hr/>	<hr/>

16 Reserves

	Revaluation reserve £000	Profit and loss account £000
At beginning of the year	16,894	(1,267)
Retained loss for the year	-	(11,775)
Transfers	(16,894)	16,894
	<hr/>	<hr/>
At end of the year	-	3,852
	<hr/>	<hr/>

17 Contingent liabilities

- (a) The company has entered into banking facilities set-off agreements in respect of which guarantees have been given. The aggregate amount outstanding under the agreements was £nil at 31 December 2005 (2004: £nil).
- (b) As at 31 December 2004, a fellow group undertaking had issued secured fixed and floating rate notes amounting to £201.1 million. These notes were secured on the freehold and leasehold properties of certain of its fellow group undertakings. In addition, the company's share capital had been pledged as security for this loan. These fixed and floating rate notes were repaid in full on 15 September 2005.

Notes (continued)

18 Commitments

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

	2005 £000	2004 £000
Contracted	34	1,042

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

	2005		2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	14	-	14
In the second to fifth years inclusive	-	29	-	29
Over five years	3,450	-	-	-
	<u>3,450</u>	<u>43</u>	<u>-</u>	<u>43</u>

19 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £41,000 (2004: £44,000).

As at 31 December 2005, there were outstanding contributions of £7,000 (31 December 2004: £3,000).

20 Ultimate parent company

The company is a subsidiary undertaking of Priory Securitisation 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.