Priory Finance Company Limited

Directors' report and financial statements

Year ended 31 December 2005

Incorporated in the Cayman Islands with registered number 100676

Contents

Directors' report

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

Principal activities

The principal activity of the company is 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. The securitised loan notes issued by the company were repaid in full on 15 September 2005.

Dividends

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

Directors and directors' interests

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

PJ Greensmith
Dr CB Patel
Ms CA Valenti

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**	-	-	-	-

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.

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

PJ Greensmith
Director

c/o Maples and Calder
Ugland House, South Church Street
PO Box 309
George Town, Grand Cayman
Cayman Islands

24 May 2006

Statement of directors' responsibilities

The directors of Priory Finance Company Limited ('the directors') are responsible for these financial statements for the year ended 31 December 2005 which are intended to give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed;
- prepared the financial statements on the going concern basis as they believe 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. 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 Finance Company Limited

We have audited the financial statements of Priory Finance Company Limited for the year ended 31 December 2005 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 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 loss for the year ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 applicable to overseas companies.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 May 2006

Profit and loss account
for the year ended 31 December 2005

	Note	**2005**	2004
		£000	£000
Operating profit		-	-
Profit on ordinary activities before interest and tax	2	-	-
Other interest receivable and similar income	3	**23,991**	17,294
Net interest payable and similar charges	4	**(24,087)**	(17,323)
Loss on ordinary activities before taxation		**(96)**	(29)
Tax on loss on ordinary activities	5	-	383
(Loss)/profit for the financial year		**(96)**	354

The company has no recognised gains or losses other than the loss 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 2005

	Note		2005 £'000		2004 £'000
Fixed assets					
Investments	6		-		-
Current assets					
Debtors	7	383		220,024	
Cash at bank and in hand		37			
		420		220,024	
Creditors: amounts falling due within one year	8	(36)		(12,220)	
Net current assets					
Due within one year		384		480	
Debtors due after more than one year		-		207,324	
			384		207,804
Total assets less current liabilities			384		207,804
Creditors: amounts falling due after more than one year	9		-		(207,324)
Net assets			384		480
Capital and reserves					
Called up share capital	11		1		1
Profit and loss account	12		383		479
Shareholders' funds – equity			384		480

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

PJ Greensmith
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 accounting standards and under the historical cost accounting rules.

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.

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 *(2004: £nil)*.

The company had no employees during the year *(2004: nil)*.

3 Other interest receivable and similar income

	2005	2004
	£000	£000
Inter-company interest receivable	**11,128**	16,046
Reverse premium on novation of swap	**12,863**	1,248
	23,991	17,294

Notes *(continued)*

4 Net interest payable and similar charges

	2005	2004
	£000	£000
Interest payable and similar charges		
On securitised loan notes	**11,224**	16,075
Reverse premium on novation of swap	**12,863**	1,248
	24,087	17,323

5 Taxation

	2005	2004
	£000	£000
Corporation tax on loss for the year	**-**	(383)

The tax credit of £383,000 in the prior year was 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	2004
	£000	£000
Loss on ordinary activities before tax	**(96)**	(29)
Tax on loss on ordinary activities at standard rate	**(29)**	(9)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	**(3,891)**	(374)
Tax losses not recognised	**3,920**	(374)
Total actual amount of current tax	**-**	(383)

Notes *(continued)*

6 Fixed asset investments

Interest in Partnership	£
Cost	
Additions	470
At end of the year	470
Provisions	
At beginning and end of the year	-
Net book value	
At 31 December 2005	**470**

As at 31 December 2005, the company had a 47% interest in the partnership capital of Priory Finance Property LLP. The principal activity of the partnership is to raise finance and to lease properties to fellow group undertakings.

7 Debtors

	2005	2004
	£'000	£'000
Amounts owed by group undertakings	**383**	206,734
Group relief recoverable	-	383
Prepayments and accrued income	-	12,907
	383	220,024

Debtors include amounts owed by group undertakings of £nil *(2004: £195,706,000)* and prepayments and accrued income of £nil *(2004: £11,618,000)* due after more than one year.

8 Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Other loans	-	5,367
Amounts owed to group undertakings	**1**	4,853
Other creditors	-	35
Accruals and deferred income	**35**	1,965
	36	12,220

Notes *(continued)*

9 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Other loans	-	195,706
Accruals and deferred income	-	11,618
	-	207,324
Debt can be analysed as falling due:		
In one year or less	-	5,367
In more than one year but not more than two years	-	5,576
In more than two years but not more than five years	-	18,066
In more than five years	-	172,064
	-	201,073
Amounts repayable by instalments some of which fall due in more than five years:		
Securitised loan notes		
Class A notes – Fixed/Floating Rate Notes due 2023 (5.853% up to 2011, LIBOR plus 2.24% thereafter)	-	92,064
Class B notes – Floating Rate Notes due 2027 (LIBOR plus 2.75% up to 2011, LIBOR plus 5.50% thereafter)	-	67,500
Class C notes – Floating Rate Notes due 2033 (LIBOR plus 6.25% up to 2011, LIBOR plus 9.375% thereafter)	-	12,500
	-	172,064

Included within other loans due within one year and due after more than one year are £nil *(2004: £201,073,000)* securitised loan notes which are secured on certain freehold and leasehold properties of fellow subsidiary undertakings. The securitised loan notes were repaid in full on 15 September 2005.

10 Financial instruments

Financing is obtained from capital market issues in sterling at fixed and floating rates of interest. The main purpose of these financial instruments is to raise finance for fellow subsidiary undertakings. The main financial covenants are in respect of interest and cash flow cover.

As at 31 December 2005, the company had fixed rate borrowings of £nil million *(2004: £121.1 million)* and variable interest rate borrowings of £nil *(2004: £80 million)*. In the prior year, an interest rate swap was in place to hedge £80 million of variable interest rate borrowings at an average fixed rate of 10.889% up to 2011 and at a rate of 11.658% thereafter.

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

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

Notes *(continued)*

10 Financial instruments *(continued)*

Interest rate risk

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

Foreign currency risk

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

Liquidity risk

In the prior year, the company had various facilities to mitigate any liquidity risk it may face. As at 31 December 2004, the company had an un-drawn committed £30 million liquidity facility and an un-drawn £5 million revolving credit facility available.

Short-term debtors and creditors

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

(a) Interest rate risk profile of financial liabilities

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

	2005	2004
	£000	£000
Sterling		
Fixed rate financial liabilities	-	201,073

As at 31 December 2004, the effect of the company's interest rate swap is to classify £80 million of sterling borrowings in the above table as fixed rate.

		Fixed rate financial liabilities
	Weighted average interest Rate	**Weighted average period for which rate is fixed**
	%	**Years**
At 31 December 2004		
Sterling		
Financial liabilities	**9.0**	**26.7**

Notes *(continued)*

10 Financial instruments *(continued)*

(b) Interest rate risk profile of financial assets

	2005 £000	2004 £000
Sterling		
Fixed rate financial assets		
- amounts due from group undertakings falling due within one year	-	5,367
- amounts due from group undertakings falling due after more than one year	-	195,706
	-	201,073

The fixed rate financial assets of £201,073,000 at 31 December 2004 bear a weighted average interest rate of 7.87% up until 2011 and thereafter bear a weighted average interest rate of 9.34%.

(c) Maturity

The maturity of the company's borrowings is set out in note 8.

Borrowing facilities

The company had un-drawn committed borrowing facilities at 31 December 2004, in respect of which all conditions precedent had been met, as follows:

	2005 £000	2004 £000
Expiring in more than two years	-	35,000

(d) Fair value of financial assets and financial liabilities

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

Financial assets

	2005		2004	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Fixed rate financial assets				
- amounts due from group undertakings falling due within one year	-	-	5,367	5,367
- amounts due from group undertakings falling due after more than one year	-	-	195,706	195,706
	-	-	201,073	201,073

Notes *(continued)*

10 Financial instruments *(continued)*

(d) Fair value of financial assets and financial liabilities *(continued)*

Financial liabilities

	2005 Book value £000	2005 Fair value £000	2004 Book value £000	2004 Fair value £000
Borrowings due within one year	-	-	5,367	5,509
Borrowings due after one year	-	-	195,706	198,773
	-	-	201,073	204,282

Borrowings

The fair value of the securitised loans in the prior year is based on quoted market prices.

11 Called up share capital

	2005 £	2004 £
Authorised		
10,000 *(2004: 10,000)* ordinary shares of £1 each	**10,000**	10,000
Allotted, called up and fully paid		
1,000 *(2004: 1000)* ordinary shares of £1 each	**1,000**	1,000

12 Reconciliation of movement in shareholders' funds

	Share capital £000	Profit and loss account £000	2005 Total £000	2004 Total £000
At beginning of the year	1	479	480	126
Retained profit/(loss) for the year	-	(96)	(96)	354
At end of the year	**1**	**383**	**384**	480

Notes *(continued)*

13 Ultimate parent company

The company is a subsidiary undertaking of Priory Health No. 2 Limited, which is incorporated in the Cayman Islands.

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.