

Priory Education Services Limited
Annual report and financial statements
for the year ended 31 December 2012

Registered number: 6244880

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Priory Education Services Limited
Annual report and financial statements
for the year ended 31 December 2012
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Priory Education Services Limited

Directors' report for the year ended 31 December 2012

The directors present their report and the audited financial statements of the company for the year ended 31 December 2012

Principal activities

The principal activity of the company is the provision of specialist education and care for children who have emotional and behavioural difficulties, autistic spectrum difficulties, Asperger's Syndrome and dyslexia

Business review

The results for the year are set out in the profit and loss account on page 6 and the position of the company as at the year end is set out in the balance sheet on page 7

As the company is focussed on the education sector, the performance of the company can be impacted by external factors. The principal factors are changes in the UK government's policy towards outsourcing of education, changes in the regulatory regime and competitive threats from other independent providers. Management uses a range of financial and non-financial indicators to manage the business. These are derived from all areas of the business and include sales growth by unit, occupancy and achieved profit margins. Gross profit margins have decreased from 23.9% in 2011 to 22.8% in 2012.

During the year, a charge of £231,000 (2011: £633,000) was recognised in respect of operating exceptional items as noted in note 2.

Further information regarding the operations and key performance indicators of the group are set out in the Directors' report of Priory Group No. 1 Limited.

The company's management is committed to a continued growth strategy.

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of Priory Group No. 1 Limited, which includes the company, is discussed in the group's annual report which does not form part of this report.

Financial risk management

The company's operations mean that it is exposed to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The directors monitor the risks in order to limit the adverse effects on the financial performance by reviewing levels of debt finance and the related finance costs, however these are integrated with the risks of the group and not managed separately. Accordingly, the financial risk management policies of Priory Group No. 1 Limited, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of Priory Group No. 1 Limited, which include those of the company, are discussed in the Group's annual report which does not form part of this report.

Priory Education Services Limited

Directors' report for the year ended 31 December 2012 (continued)

Future developments

The future developments of the company are aligned to the strategy of the Priory Group, headed by Priory Group No 1 Limited. The Group's strategy for the future development of the business is included in the Group's annual report, which does not form part of this report.

Dividends

A dividend of £16,800,000 (2011: £nil) was paid during the year.

Directors

The directors of the company who held office during the year and up to the date of signing the financial statements were as follows:

C Thompson

P Scott (Resigned 28 November 2012)

M Franzidis

H Sharpe

J Lock

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

Employees

The directors recognise that the continued position of the company in the education sector 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. Employees are consulted on issues through workshops, which are run regularly across the Group.

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.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

Priory Education Services Limited

Directors' report for the year ended 31 December 2012 (continued)

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Statement of directors' responsibilities


The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



David Hall
Company Secretary
27 March 2013

21 Exhibition House
Addison Bridge Place
London
England
W14 8XP

Priory Education Services Limited

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

We have audited the financial statements of Priory Education Services Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Priory Education Services Limited

Independent auditors' report to the members of Priory Education Services Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Richard Bunter (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Newcastle Upon Tyne

27 March 2013

Priory Education Services Limited

Profit and loss account for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover	1	91,623	94,276
Cost of sales		(70,759)	(71,715)
Gross profit		20,864	22,561
Administrative expenses (including operating exceptional costs of £231,000, 2011 £633,000)		(4,158)	(7,263)
Operating profit		16,706	15,298
Profit on disposal of fixed assets		23	150
Profit before interest and taxation		16,729	15,448
Interest payable and similar charges	5	(3,588)	(3,608)
Profit on ordinary activities before taxation	2	13,141	11,840
Tax on profit on ordinary activities	6	(5,162)	(3,651)
Profit for the financial year	17	7,979	8,189

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

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

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents

Priory Education Services Limited

Balance sheet as at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments	8	-	-
Intangible assets	9	26,584	28,427
Tangible assets	10	52,929	52,855
		79,513	81,282
Current assets			
Debtors	11	42,867	47,024
Cash at bank and in hand		108	3,419
Assets held for sale	12	494	-
		43,469	50,443
Creditors: amounts falling due within one year	13	(36,656)	(35,795)
Net current assets		6,813	14,648
Total assets less current liabilities		86,326	95,930
Creditors: amounts falling due after more than one year	14	(78,309)	(79,067)
Provisions for liabilities	15	(4)	(29)
Net assets		8,013	16,834
Capital and reserves			
Called up share capital	16	10	10
Profit and loss account	17	8,003	16,824
Total shareholders' funds	18	8,013	16,834

The financial statements on pages 6 to 24 were approved by the board of directors on 27 March 2013 and were signed on its behalf by



Jason Lock
Director

Registered number 6244880

Priory Education Services Limited

Statement of 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 on the going concern basis in accordance with applicable UK accounting standards and UK company law and under the historical cost accounting rules

The company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that it is included in the consolidated financial statements of a parent undertaking. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 'Cash flow statements' (revised 1996) 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 publicly available consolidated financial statements.

As the company is a wholly owned subsidiary of Priory Group No. 1 Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related party disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group.

Goodwill

Goodwill relating to acquisitions of businesses, which represents the excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired, is capitalised in the balance sheet in the year of acquisition and amortised over a period not exceeding 20 years, being the period expected to benefit.

Tangible assets and depreciation

Tangible assets are stated at cost, net of accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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	-	50 years
Short leasehold properties	-	over the period of the lease
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.

The expected useful lives of the assets to the business are re-assessed periodically in light of experience.

Priory Education Services Limited

Statement of accounting policies (continued)

Investments

Investments in subsidiaries are stated at cost less provision for any impairment in value

Asset impairment

Goodwill and tangible assets are tested for impairment by management when a trigger event that might affect asset values has occurred. An impairment loss is recognised in the profit and loss account to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future earnings from an income-generating unit, which is an individual business operational unit. Goodwill is also subject to an impairment review at the end of the first full year following an acquisition.

Leases

Assets acquired under finance leases are capitalised at cost and depreciated over the shorter of the term of the lease and the useful lives for tangible assets set out above. The capital element of future rentals is included under creditors. Interest is charged to the profit and loss account over the period of the lease in proportion to the balance of the capital payments outstanding. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

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.

The company participates in the Teachers' Pension Scheme ("the scheme") which is a government funded final salary scheme. The company is unable to identify its share of the underlying assets and liabilities of the scheme in which it participates on a consistent and reliable basis. It has therefore taken advantage of the exemption under Financial Reporting Standard 17 paragraph 9 to treat the scheme as a defined contribution scheme.

Deferred taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured in a non-discounted basis.

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Statement of accounting policies (continued)

Group relief

Payment is generally made for group relief at the current tax rate 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 to customers. Revenue is recognised as the services are provided. Revenue invoiced in advance is included in deferred income until service is provided. Revenue in respect of services provided but not yet invoiced by the period end is included within accrued income.

Assets held for sale

Tangible fixed assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale and expect the sale to complete within one year from the date of classification or the reporting date. Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012

1 Turnover

The company's turnover, profit on ordinary activities before taxation and net assets arise primarily from its principal activity of the provision of specialist education and care for children who have emotional and behavioural difficulties, autistic spectrum difficulties, Asperger's Syndrome and dyslexia

All turnover and profit on ordinary activities before taxation arose within the United Kingdom and from one class of business

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2012	2011
	£'000	£'000
Depreciation and other amounts written off tangible assets		
Owned	2,631	2,444
Leased	1,681	1,549
Amortisation of goodwill	1,843	1,843
Rentals under operating leases		
Hire of plant and machinery	114	72
Other operating leases	11,322	11,057
Operating exceptional items		
Re-organisation and rationalisation costs	231	633
Profit on disposal of fixed assets	(23)	(150)
Auditors' remuneration (inclusive of Value Added Tax)	18	18

The re-organisation and rationalisation costs of £231,000 (2011 £633,000) incurred in the year primarily relate to employee redundancy payments made as the company re-organised and streamlined its operations

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Remuneration of directors

The 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.

4 Staff numbers and costs

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

	2012	2011
	Number	Number
By activity		
Teachers and social workers	1,587	1,631
Administrative staff	346	355
	1,933	1,986

The aggregate payroll costs of these persons were as follows:

	2012	2011
	£'000	£'000
Wages and salaries	38,284	39,864
Social security costs	2,858	3,021
Other pension costs (note 21)	1,295	1,372
	42,437	44,257

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

5 Interest payable and similar charges

	2012	2011
	£'000	£'000
On bank overdrafts	-	18
Interest payable to group undertakings	2,031	2,031
Finance charges payable in respect of finance leases	61	56
Finance charges payable in respect of finance leases with group undertakings	1,493	1,499
Provisions unwinding of discount	3	4
	3,588	3,608

6 Tax on profit on ordinary activities

	2012	2011
	£'000	£'000
UK corporation tax		
Current tax charge arising in the year	5,705	4,476
Adjustments in respect of prior periods	(288)	(272)
Total current tax	5,417	4,204
Deferred tax		
Origination and reversal of timing differences	(274)	(212)
Deferred tax adjustment in respect of prior periods	(27)	(368)
Effect of tax rate change on opening balance	46	27
Total deferred tax	(255)	(553)
Total tax charge	5,162	3,651

The current tax charge of £5,417,000 (2011 £4,204,000) on profits for the year has been relieved by the surrender of losses by other group companies in exchange for payment of the same amount

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

6 Tax on profit on ordinary activities (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 24.49% (2011 26.49%). The actual tax charge for the year is higher (2011 higher) than the standard rate for the reasons set out in the following reconciliation

	2012	2011
	£'000	£'000
Profit on ordinary activities before taxation	13,141	11,840
Tax on profit on ordinary activities at standard rate	3,218	3,136
Factors affecting charge for the year		
Depreciation in excess of capital allowances	292	224
Transfer pricing adjustments	1,155	-
Depreciation of non-qualifying assets	471	601
Expenses not deductible for tax purposes (including goodwill amortisation)	569	515
Adjustment in respect of prior periods	(288)	(272)
Total current tax charge for the year	5,417	4,204

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012. A further reduction in this corporation tax rate effective on 1 April 2013 from 24% to 23% was substantively enacted for the purposes of FRS 16 on 3 July 2012. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 24.49% and deferred taxation has been calculated based on a rate of 23%.

Further reduction to the main rate is proposed to reduce the rate by 2% to 21% by 1 April 2014. This further change has not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

The overall effect of the further change from 23% to 21%, if these applied to the deferred tax balance at the balance sheet date, would be immaterial.

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 Dividends

	2012	2011
	£'000	£'000
Equity – ordinary		
£1,680 (2011 £nil) per share	16,800	-

The dividend paid during the year was settled via the intercompany current account

8 Investments

	Shares in group undertakings £
Cost	
At 1 January 2012 and 31 December 2012	1
Provisions	
At 1 January 2012 and 31 December 2012	-
Net book value	
At 31 December 2012	1
At 31 December 2011	1

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

Subsidiary undertaking	Principal activities	Country of incorporation	Class and percentage of shares held
Priory (Thetford 1) Limited	Non-trading	United Kingdom	100% ordinary

The directors consider that the carrying value of the investment is supported by its underlying net assets

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

9 Intangible assets

	Goodwill £'000
Cost	
At 1 January 2012 and 31 December 2012	36,886
Accumulated amortisation	
At 1 January 2012	8,459
Charge for the year	1,843
At 31 December 2012	10,302
Net book amount	
At 31 December 2012	26,584
At 31 December 2011	28,427

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

10 Tangible assets

	Land and buildings £'000	Assets in the course of construction £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2012	39,610	-	24,477	2,770	66,857
Additions	1,575	45	3,181	97	4,898
Disposals	-	-	-	(46)	(46)
Transfer to assets held for sale	(2)	-	(792)	-	(794)
At 31 December 2012	41,183	45	26,866	2,821	70,915
Accumulated depreciation					
At 1 January 2012	5,491	-	7,453	1,058	14,002
Charge for the year	1,350	-	2,248	714	4,312
Disposals	-	-	-	(28)	(28)
Transfer to assets held for sale	-	-	(300)	-	(300)
At 31 December 2012	6,841	-	9,401	1,744	17,986
Net book amount					
At 31 December 2012	34,342	45	17,465	1,077	52,929
At 31 December 2011	34,119	-	17,024	1,712	52,855

The net book value of assets held under finance leases included within tangible assets was as follows

	2012 £'000	2011 £'000
Land and buildings	20,373	21,394
Fixtures and fittings	14	19
Motor vehicles	966	1,622
	21,353	23,035

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

10 Tangible assets (continued)

Depreciation for the year in respect of assets held under finance leases was as follows

	2012	2011
	£'000	£'000
Land and buildings	1,021	1,021
Fixtures and fittings	5	5
Motor vehicles	655	523
	1,681	1,549

Freehold and leasehold land and buildings

	2012	2011
	£'000	£'000
Freehold	13,969	12,725
Short leasehold	20,373	21,394
	34,342	34,119

Included in land and buildings is freehold land of £1 2 million as at 31 December 2012 (2011 £1 2 million)

11 Debtors

	2012	2011
	£'000	£'000
Trade debtors	532	255
Amounts owed by group undertakings	41,288	45,689
Other debtors	85	85
Prepayments and accrued income	155	443
Deferred tax	807	552
	42,867	47,024

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

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Notes to the financial statements for the year ended 31 December 2012 (continued)

11 Debtors (continued)

An analysis of deferred tax assets included within debtors, is as follows

	£'000
Deferred tax	
At 1 January 2012	552
Credit for the year	255
At 31 December 2012	807

Deferred tax arises on the following timing differences

	2012	2011
	£'000	£'000
Accelerated tax depreciation	770	488
Short term timing differences	37	64
	807	552

Priory Education Services Limited

12 Assets held for sale

	Land and buildings £'000	Fixtures and fittings £'000	Total £'000
Cost			
As at 1 January 2012	-	-	-
Transfer from tangible assets	2	792	794
At 31 December 2012	2	792	794
Accumulated depreciation			
As at 1 January 2012	-	-	-
Transfer from tangible assets	-	(300)	(300)
At 31 December 2012	-	(300)	(300)
Net Book amount			
As at 31 December 2012	2	492	494
At 31 December 2011	-	-	-

13 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Obligations under finance lease contracts (note 14)	499	490
Obligation under finance lease contracts with group undertakings (note 14)	1,812	1,768
Group relief payable	5,417	4,204
Taxation and social security	962	994
Other creditors	2,511	1,618
Accruals and deferred income	25,455	26,721
	36,656	35,795

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

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

14 Creditors: amounts falling due after more than one year

	2012	2011
	£'000	£'000
Amounts owed to group undertakings	54,325	54,325
Obligations under finance leases	873	1,313
Obligation under finance lease contracts with group undertakings	23,111	23,429
	78,309	79,067

Amounts owed to group undertakings are unsecured, bear interest at December 2012 LIBOR plus 2.25% per annum and are payable 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.

Obligations under finance leases are payable as follows:

	2012	2011
	£'000	£'000
Within one year	499	490
In more than one year, but not more than five years	873	1,313
	1,372	1,803

Obligations under finance leases with group undertakings are payable as follows:

	2012	2011
	£'000	£'000
Within one year	1,812	1,768
In more than one year, but not more than five years	7,713	7,525
After five years	15,398	15,904
	24,923	25,197

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

15 Provisions for liabilities

Onerous lease	£'000
At 1 January 2012	29
Utilised during the year	(25)
At 31 December 2012	4

A provision has been made for the onerous payments in relation to one lease and is based on the expected onerous element of future payments over the remaining life of the lease. The provision has been discounted and is expected to be utilised over the remaining life of the lease.

16 Called up share capital

	2012 £'000	2011 £'000
Authorised		
10,000 (2011: 10,000) ordinary shares of £1 each	10	10
Allotted and fully paid		
10,000 (2011: 10,000) ordinary shares of £1 each	10	10

17 Profit and loss account

	£'000
At 1 January 2012	16,824
Profit for the financial year	7,979
Dividends	(16,800)
At 31 December 2012	8,003

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

18 Reconciliation of movements in shareholders' funds

	2012	2011
	£'000	£'000
Profit for the financial year	7,979	8,189
Dividends	(16,800)	-
Net (reduction)/addition to shareholders' funds	(8,821)	8,189
Opening shareholders' funds	16,834	8,645
Closing shareholders' funds	8,013	16,834

19 Contingent liabilities

At 31 December 2012, borrowings of a fellow group undertaking were secured by fixed and floating charges over all the assets of the company

20 Commitments

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

	2012	2011
	£'000	£'000
Contracted	390	1,759

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

	Land and buildings	2012 Other	Land and buildings	2011 Other
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	68	10	137	6
In the second to fifth years inclusive	136	104	186	67
In over five years	12,292	-	10,972	-
	12,496	114	11,295	73

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

21 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 £497,000 (2011 £575,000).

The company participates in the Teachers' Pension Scheme ("the scheme") which is a government funded final salary scheme. The pension charge for the year was £798,000 (2011 £797,000). The company is unable to identify its share of the underlying assets and liabilities of the scheme in which it participates on a consistent and reliable basis. It has therefore taken advantage of the exemption under Financial Reporting Standard 17 paragraph 9 to treat the scheme as a defined contribution scheme.

As at 31 December 2012, there were outstanding contributions of £144,000 (2011 £159,000).

22 Ultimate parent company and controlling party

The company's immediate parent company, which is incorporated in the Cayman Islands, is Priory Holdings Company No 3 Limited.

The ultimate parent undertaking and controlling party is Priory Group No 1 Limited, a company incorporated in England. Priory Group No 1 Limited is beneficially owned by funds managed by Advent International Corporation which is considered by the directors to be the ultimate controlling party of the company.

Priory Group No 1 Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2012. Priory Group No 3 PLC is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2012. The consolidated financial statements of Priory Group No 1 Limited and Priory Group No 3 PLC can be obtained from the Company Secretary at 21 Exhibition House, Addison Bridge Place, London, W14 8XP.