Priory Education Services Limited
Annual report and financial statements
for the year ended 31 December 2014

Registered number: 6244880

Priory Education Services Limited

Annual report and financial statements

for the year ended 31 December 2014

Contents

Priory Education Services Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report on Priory Education Services Limited for the year ended 31 December 2014.

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 disorders, Asperger's Syndrome and dyslexia.

Business review
The results for the year are set out in the profit and loss account on page 7 and the position of the company as at the year end is set out in the balance sheet on page 8.

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 14.6% in 2013 to 9.7% in 2014.

During the year, a charge of £532,000 (2013: £3,620,000) 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 financial statements which do 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 financial statements which do 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 financial statements which do not form part of this report.

Strategic report for the year ended 31 December 2014 (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 financial statements, which do not form part of this report.

By order of the board

David Hall
Company Secretary
30 March 2015

Priory Education Services Limited

Directors' report for the year ended 31 December 2014

The directors present their report and the audited financial statements of the company for the year ended 31 December 2014.

This report should be read in conjunction with the strategic report, which contains disclosures regarding future developments.

Dividends
The directors do not propose the payment of a dividend (2013: £nil).

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:

M Franzidis (resigned 7 January 2015)
H Sharpe (resigned 31 January 2015)
J Lock
T Riall

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.

Directors' report for the year ended 31 December 2014 (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 Strategic report, 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), including Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101). 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 United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; and
- Prepare the financial statements on a 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
30 March 2015

80 Hammersmith Road
London
England
W14 8UD

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

Report on the financial statements

Our opinion
In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its loss 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The financial statements, which are prepared by Priory Education Services Limited, comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended;
- the statement of changes in shareholders' funds for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

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), including FRS 101 "Reduced Disclosure Framework".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the statement of directors' responsibilities set out on page 4, 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 ISAs (UK & 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.

R Bunter

Richard Bunter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
30 March 2015

Priory Education Services Limited

Profit and loss account for the year ended 31 December 2014

	Note	**2014**	2013
		£'000	£'000
Turnover	1	**83,184**	83,517
Cost of sales		**(75,140)**	(71,321)
Gross profit		**8,044**	12,196
Administrative expenses (including operating exceptional costs of £532,000; 2013: £3,620,000)	2	**(4,242)**	(7,161)
Operating profit		**3,802**	5,035
Profit on disposal of fixed assets	2	**140**	110
Profit before interest and taxation		**3,942**	5,145
Interest payable and similar charges	5	**(3,264)**	(3,329)
Profit on ordinary activities before taxation	2	**678**	1,816
Tax on profit on ordinary activities	6	**(830)**	(1,571)
(Loss)/profit for the financial year		**(152)**	245

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

There is no other comprehensive income for the period.

Priory Education Services Limited

Balance sheet as at 31 December 2014

	Note	2014 £'000	2013 £'000	2012 £'000
Fixed assets				
Investments	7	**12,689**	-	-
Intangible assets	8	**36,886**	36,886	36,886
Property, plant and equipment	9	**63,575**	55,533	52,929
		113,150	92,419	89,815
Current assets				
Debtors	10	**9,192**	30,784	42,060
Cash at bank and in hand		**143**	942	108
Assets held for sale	11	**7**	5	494
		9,342	31,731	42,662
Creditors: amounts falling due within one year	12	**(26,677)**	(28,639)	(36,656)
Net current (liabilities)/assets		**(17,335)**	3,092	6,006
Total assets less current liabilities		**95,815**	95,511	95,821
Creditors: amounts falling due after more than one year	13	**(77,419)**	(77,902)	(78,309)
Provisions for liabilities	14	**(6,913)**	(5,974)	(6,122)
Net assets		**11,483**	11,635	11,390
Capital and reserves				
Called up share capital	15	**10**	10	10
Profit and loss account		**11,473**	11,625	11,380
Total shareholders' funds		**11,483**	11,635	11,390

The financial statements on pages 7 to 26 were approved by the board of directors on 30 March 2015 and were signed on its behalf by:

Jason Lock
Director

Registered number: 6244880

Statement of changes in shareholders' funds for the year ended 31 December 2014

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2013	10	11,380	11,390
Profit for the financial year	-	245	245
At 31 December 2013	**10**	**11,625**	**11,635**
Loss for the financial year	-	**(152)**	**(152)**
At 31 December 2014	**10**	**11,473**	**11,483**

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 company is a private limited company, incorporated and domiciled in the United Kingdom.

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below, and, unless otherwise stated, these policies have been consistently applied to all the periods presented.

The ultimate parent company, Priory Group No. 1 Limited, has confirmed that it will continue to provide financial support to the company for the foreseeable future and for at least 12 months from the date of approval of these financial statements. Accordingly the financial statements have been prepared on the going concern basis.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework (FRS 101) and, the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 January 2013. The Company has notified its shareholders in writing about, and they do no object to, the use of the disclosure exemptions used by the Company in these financial statements. The impact of the amendments to the Company's previously adopted accounting policies in accordance with UK GAAP (excluding FRS 101) is explained in Note 19.

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- Statement of cash flows;
- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation;
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies (the company has no other related party transactions); and
- Roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16) and intangible assets (IAS 38).

Statement of accounting policies (continued)

Basis of preparation (continued)
The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The company has taken the exemption from full retrospective accounting for business combinations in accordance with IFRS1.

The company is exempt by virtue of section 400 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.

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. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently where circumstances suggest an impairment may have occurred. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. 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 the course of construction represent the direct costs of purchasing, constructing and installing property, plant and equipment ahead of their productive use. No depreciation is provided on an asset that is in the course of construction until it is completed and the asset is ready for its intended use.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	over 50 years
Short leasehold land and buildings	-	over lease term
Fixtures and fittings	-	over 3 to 16 years
Motor vehicles	-	over shorter of the lease term and 4 years

The expected residual values and useful lives of the assets to the business are reassessed, and adjusted if appropriate at each balance sheet date. Land is not depreciated on the basis that land has an unlimited life. Where the cost of land and buildings cannot be split, the directors have estimated that the value attributable to land is 22% of the cost of the land and buildings, based on experience.

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

Statement of accounting policies (continued)

Asset impairment
Goodwill and property, plant and equipment 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 annual impairment review.

Trade and other debtors
Trade and other debtors are initially stated at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses, and are assessed for indicators of impairment at each balance sheet date. Trade and other debtors are considered to be impaired when there is objective evidence that the estimated future cash flows associated with the asset have been affected. In addition, certain trade and other debtors that are not considered to be individually impaired, may be assessed for impairment on a collective basis. Objective evidence for impairment for a portfolio of receivables could include the company's past experience of collecting payment, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions.

Cash
Cash comprises all bank balances and is stated in the balance sheet at fair value. The company does not hold any cash equivalents.

Trade and other creditors
Trade and other creditors are initially stated at fair value and subsequently measured at amortised cost using the effective interest rate method.

Leases
Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Leased assets classified as property, plant and equipment are depreciated over the shorter of their useful economic life or the period of the lease.

Lease payments made in respect of finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments made in respect of operating leases are recognised on a straight line basis over the term of the lease.

Retirement benefit costs
The company participates in 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 to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Statement of accounting policies (continued)

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit can differ from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years, or that are never taxable or deductible. The company's liability for current tax is calculated using rates that have been effective during the accounting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax balances are not discounted.

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 the change.

Turnover and revenue recognition
Turnover represents consideration received for the provision of services to customers. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes. Turnover is recognised as the services are provided. Turnover received in advance is included in deferred income until the service is provided. Turnover in respect of services provided but not yet invoiced by the period end is included within accrued income.

Exceptional items
Items that are both material and non-recurring and whose significance is sufficient to warrant separate disclosure and identification are referred to as exceptional items. Items that may give rise to classification as exceptional include, but are not limited to, significant and material restructuring and reorganisation programme and acquisition costs.

Priory Education Services Limited

Notes to the financial statements for the year ended 31 December 2014

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):

	2014	2013
	£'000	£'000
Depreciation and other amounts written off property, plant and equipment:		
Owned	**3,441**	2,941
Leased	**1,510**	1,634
Rentals under operating leases:		
Hire of plant and machinery	**83**	114
Other operating leases	**12,466**	12,599
Future minimum rent	**591**	638
Operating exceptional items:		
Re-organisation and rationalisation costs	**332**	2,086
Impairment of fixed assets	**-**	1,534
Professional fees	**200**	-
Profit on disposal of fixed assets	**(140)**	(110)

The re-organisation and rationalisation costs of £332,000 (2013: £2,086,000) incurred in the year primarily relate to employee redundancy payments and site closure costs incurred as the company re-organised and streamlined its operations. Professional fees of £200,000 (2013: £nil) relate to the acquisition of Castlecare Group Limited (see note 7).

The remuneration of the auditors of £18,000 (2013: £18,000) was borne by another group undertaking.

Notes to the financial statements for the year ended 31 December 2014 (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:

	2014	2013
	Number	Number
By activity:		
Teachers and social workers	**1,518**	1,457
Administrative staff	**368**	370
	1,886	1,827

The aggregate payroll costs of these persons were as follows:

	2014	2013
	£'000	£'000
Wages and salaries	**42,169**	38,892
Social security costs	**2,968**	2,832
Other pension costs (note 18)	**1,399**	1,311
	46,536	43,035

Notes to the financial statements for the year ended 31 December 2014 (continued)

5 Interest payable and similar charges

	2014	2013
	£'000	£'000
Interest payable to group undertakings	1,716	1,773
Finance charges payable in respect of finance leases	81	75
Finance charges payable in respect of finance leases with group undertakings	1,467	1,481
	3,264	3,329

6 Tax on profit on ordinary activities

	2014	2013
	£'000	£'000
UK corporation tax:		
Current tax charge arising in the year	445	2,621
Adjustments in respect of prior years	37	(268)
Total current tax	482	2,353
Deferred tax:		
Origination and reversal of timing differences	379	(892)
Adjustments in respect of prior years	(31)	6
Effect of tax rate change on opening balance	-	104
Total deferred tax	348	(782)
Total tax charge	830	1,571

The current tax charge of £482,000 (2013: £2,353,000) 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.

Notes to the financial statements for the year ended 31 December 2014 (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 21.5% (2013: 23.25%). The actual tax charge for the year is higher (2013: higher) than the standard rate for the reasons set out in the following reconciliation:

	2014	2013
	£'000	£'000
Profit on ordinary activities before taxation	**678**	1,816
Tax on profit on ordinary activities at standard rate	**146**	422
Factors affecting charge for the year:		
Transfer pricing adjustments	**670**	993
Depreciation of non-qualifying assets	**310**	460
Expenses not deductible for tax purposes	**36**	429
Impact of rate changes	**-**	104
Movement in tax base of fixed assets	**(294)**	(688)
Other timing differences	**(44)**	113
Adjustments in respect of prior years	**6**	(262)
Total tax charge for the year	**830**	1,571

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 21.5% (2013: 23.25%).

In his budget speech on 20 March 2013, the Chancellor announced that the main rate of corporation tax would change from 21% to 20% from 1 April 2015. This change was substantively enacted in July 2013, as such the company's deferred tax balances have been restated to reflect their expected unwind at 20% rather than the main rate of 21%.

Notes to the financial statements for the year ended 31 December 2014 (continued)

7 Investments

	Shares in group undertakings £'000
Cost	
At 1 January 2013 and 31 December 2013	-
Additions	12,689
At 31 December 2014	**12,689**
Provisions for impairment	
At 1 January 2013, 31 December 2013 and 31 December 2014	**-**
Net book value	
At 31 December 2014	**12,689**
At 31 December 2012 and at 31 December 2013	-

The company acquired 100% of the share capital of Castlecare Group Limited on 28 November 2014 for a consideration of £12,689,000. The group operates residential care homes for looked-after children with complex and special needs.

The subsidiary undertakings in which the company's 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
Castlecare Group Limited*	Non-trading	United Kingdom	100% ordinary
Castlecare Holdings Limited	Non-trading	United Kingdom	100% ordinary
Castle Homes Care Limited	Children's care home	United Kingdom	100% ordinary
Castle Homes Limited	Children's care home	United Kingdom	100% ordinary
Quantum Care (UK) Limited	Children's care home	United Kingdom	100% ordinary
Castlecare Cymru Limited	Children's care home	United Kingdom	100% ordinary
Castlecare Education Limited	Specialist education services	United Kingdom	100% ordinary
Rothcare Estates Limited	Property company	United Kingdom	100% ordinary

*Interest held directly.

The directors consider that the carrying value of the investments is supported by their underlying net assets.

Notes to the financial statements for the year ended 31 December 2014 (continued)

8 Intangible assets

	Goodwill
	£'000
Cost and net book amount	
At 1 January 2014 and 31 December 2014	**36,886**

The company tests goodwill annually for impairment, or more frequently if there is an indication that goodwill might be impaired. The recoverable amount is determined from either value in use or fair value less costs to sell calculations.

No reasonably likely changes in underlying assumptions would result in a material impairment charge.

9 Property, plant and equipment

	Land and buildings	Assets in the course of construction	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2014	42,687	3,302	27,876	3,239	77,104
Additions	2,827	1,855	7,665	705	13,052
Disposals	-	(37)	-	(1,410)	(1,447)
Transfers between categories	1,880	(3,284)	1,404	-	-
Transfer to assets held for sale	-	-	(2)	-	(2)
At 31 December 2014	**47,394**	**1,836**	**36,943**	**2,534**	**88,707**
Accumulated depreciation					
At 1 January 2014	8,217	-	11,023	2,331	21,571
Charge for the year	1,445	-	2,959	547	4,951
Disposals	-	-	-	(1,390)	(1,390)
At 31 December 2014	**9,662**	-	**13,982**	**1,488**	**25,132**
Net book amount					
At 31 December 2014	**37,732**	**1,836**	**22,961**	**1,046**	**63,575**
At 31 December 2013	34,470	3,302	16,853	908	55,533

Notes to the financial statements for the year ended 31 December 2014 (continued)

9 Property, plant and equipment (continued)

The net book value of assets held under finance leases included within property, plant and equipment was as follows:

	2014	2013
	£'000	£'000
Land and buildings	**18,329**	19,350
Fixtures and fittings	**4**	9
Motor vehicles	**981**	895
	19,314	20,254

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

	2014	2013
	£'000	£'000
Land and buildings	**1,021**	1,021
Fixtures and fittings	**5**	5
Motor vehicles	**484**	608
	1,510	1,634

Freehold and leasehold land and buildings

	2014	2013
	£'000	£'000
Freehold	**19,403**	15,120
Short leasehold	**18,329**	19,350
	37,732	34,470

Notes to the financial statements for the year ended 31 December 2014 (continued)

10 Debtors

	2014	2013	2012
	£'000	£'000	£'000
Trade debtors	**256**	620	532
Amounts owed by group undertakings	**8,641**	29,807	41,288
Other debtors	**30**	82	85
Prepayments and accrued income	**265**	275	155
	9,192	30,784	42,060

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

11 Assets held for sale

	Land and buildings	**Fixtures and fittings**	**Total**
	£'000	**£'000**	**£'000**
Cost			
As at 1 January 2014	386	2,096	2,482
Transfer from fixed assets	-	2	2
At 31 December 2014	**386**	**2,098**	**2,484**
Accumulated depreciation			
As at 1 January 2014 and 31 December 2014	**382**	**2,095**	**2,477**
Net book amount			
As at 31 December 2014	**4**	**3**	**7**
At 31 December 2013	4	1	5

Notes to the financial statements for the year ended 31 December 2014 (continued)

12 Creditors: amounts falling due within one year

	2014	2013	2012
	£'000	£'000	£'000
Obligations under finance lease contracts (note 13)	**507**	476	499
Obligation under finance lease contracts with group undertakings	**1,904**	1,857	1,812
Group relief payable	**482**	2,353	5,417
Other creditors	**1,490**	1,437	2,511
Other taxation and social security	**1,026**	978	962
Accruals and deferred income	**21,268**	21,538	25,455
	26,677	28,639	36,656

13 Creditors: amounts falling due after more than one year

	2014	2013	2012
	£'000	£'000	£'000
Amounts owed to group undertakings	**54,325**	54,325	54,325
Obligations under finance leases	**797**	842	873
Obligation under finance lease contracts with group	**22,297**	22,735	23,111
	77,419	77,902	78,309

Amounts owed to group undertakings are unsecured, bear interest at 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.

Notes to the financial statements for the year ended 31 December 2014 (continued)

13 Creditors: amounts falling due after more than one year (continued)

Obligations under finance leases are payable as follows:

	2014	2013	2012
	£'000	£'000	£'000
Within one year	507	476	499
In more than one year, but not more than five years	797	842	873
	1,304	1,318	1,372

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

	2014	2013	2012
	£'000	£'000	£'000
Within one year	1,904	1,857	1,812
In more than one year, but not more than five years	8,103	7,906	7,713
After five years	14,194	14,829	15,398
	24,201	24,592	24,923

Notes to the financial statements for the year ended 31 December 2014 (continued)

14 Provisions for liabilities

	Deferred tax	Future minimum rent	Total
	£'000	£'000	£'000
At 1 January 2013	3,822	2,300	6,122
(Credited)/charged to the profit and loss account	(786)	638	(148)
At 1 January 2014	3,036	2,938	5,974
Charged to the profit and loss account	348	591	939
At 31 December 2014	**3,384**	**3,529**	**6,913**

Provisions have been recorded for future minimum rent payable as a result of the policy to straight line rent payments in the profit and loss account where leases have built in minimum rent escalator clauses. The provisions will be utilised over the life of the leases.

Deferred tax arises on the following timing differences:

	2014	2013	2012
	£'000	£'000	£'000
Depreciation in excess of capital allowances	**(751)**	(813)	(770)
Short term timing differences	**(37)**	(617)	(562)
Property, plant and equipment	**4,172**	4,466	5,154
	3,384	3,036	3,822

15 Called up share capital

	2014	2013	2012
	£'000	£'000	£'000
Authorised			
10,000 (2013: 10,000) ordinary shares of £1 each	**10**	10	10
Allotted and fully paid			
10,000 (2013: 10,000) ordinary shares of £1 each	**10**	10	10

Notes to the financial statements for the year ended 31 December 2014 (continued)

16 Contingent liabilities

At 31 December 2014, borrowings of a fellow group undertaking were secured by fixed and floating charges over all the assets of the company.

17 Commitments

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

	2014	2013
	£'000	£'000
Contracted	**592**	308

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

		2014		2013
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Within one year	**13,156**	**47**	12,829	114
In the second to fifth years inclusive	**55,312**	**83**	53,844	-
In over five years	**243,777**	**-**	256,675	-
	312,245	**130**	323,348	114

18 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 £439,000 (2013: £461,000).

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 £960,000 (2013: £850,000). 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 International Accounting standard 19 to treat the scheme as a defined contribution scheme.

As at 31 December 2014, there were outstanding contributions of £203,000 (2013: £182,000).

Notes to the financial statements for the year ended 31 December 2014 (continued)

19 Impact of the first time adoption of FRS 101

The impact of the adoption of FRS 101 is as follows:

- Non-amortisation of goodwill, which was previously amortised. As a result of this change, net assets have increased by £10,302,000 at 1 January 2013, £12,144,000 at 31 December 2013 and £13,986,000 at 31 December 2014. The profit/loss for the financial year increased/decreased by £1,842,000 for each of the years ended 31 December 2013 and 31 December 2014.

- Recognition of future minimum rental payments arising from recognising lease payments on a straight line basis over the term of the lease. As a result of this change, net assets have reduced by £2,300,000 at 1 January 2013, £2,938,000 at 31 December 2013 and £3,529,000 at 31 December 2014. The profit for the financial year decreased by £638,000 for the year ended 31 December 2013 and the loss increased by £591,000 for the year ended 31 December 2014.

- Recognition of deferred tax assets in relation to the future minimum rent. An asset of £529,000 has been recognised at 1 January 2013, £588,000 at 31 December 2013 and £nil at 31 December 2014. The profit for the financial year ended 31 December 2013 increased £59,000 and the loss for the financial year ended 31 December 2014 increased by £588,000.

- Recognition of deferred tax liabilities in relation to the difference between the carrying value and the tax written down value of land and buildings. A liability of £5,154,000 has been recognised at 1 January 2013, £4,466,000 at 31 December 2013 and £4,172,000 at 31 December 2014. The profit for the financial year ended 31 December 2013 increased £688,000 and the loss for the financial year ended 31 December 2014 decreased by £294,000.

20 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 2014. Priory Group No. 3 PLC is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2014. The consolidated financial statements of Priory Group No. 1 Limited and Priory Group No. 3 PLC can be obtained from the Company Secretary at 80 Hammersmith Road, London, W14 8UD.