
EJ & JC Arrowsmith Limited

C/N PRIDRY (TRAOSP HOUSE) LTD

Directors' report and financial statements

for the period ended 31 December 2010

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EJ & JC Arrowsmith Limited

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EJ & JC Arrowsmith Limited

Directors' report for the period ended 31 December 2010

The directors present their report and the audited financial statements for the period ended 31 December 2010.

Principal activities and review of business

The principal activity of the company is the provision of specialist education and care for children with learning and behavioural difficulties.

The results for the period are set out in the Profit and loss account on page 5 and the position as at the period end is set out in the Balance sheet on page 6.

On 31 August 2010 the company was acquired by Priory New Education Services Limited. Priory New Education Services Limited is part of the Priory Group, headed by Priory Investments Holdings Limited.

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 remained at 2.9% in the period to 31 December 2010.

Key performance indicators

Given the straight forward 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 Investments Holdings Limited, which includes this company, is discussed in the group's annual report which does not form part of this report.

Results and dividends

The profit for the period, after taxation, amounted to £23,000 (2010 - £33,000).

The directors do not recommend payment of a dividend (2009: £NIL).

Directors

The directors who served during the period were:

EJ Arrowsmith (resigned 31 August 2010)
JC Arrowsmith (resigned 31 August 2010)
P Scott (appointed 31 August 2010)
H Sharpe (appointed 31 August 2010)
D Hall (appointed 31 August 2010)

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 Investments Holdings Limited, which include those of the company, are discussed in the Group's annual report which does not form part of this report.

EJ & JC Arrowsmith Limited

Directors' report for the period ended 31 December 2010

Future developments

The future developments of the company are aligned to the strategy of the Priory Group, headed by Priory Investments Holdings 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.

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.

Auditors

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

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Going Concern

The ultimate parent company, Priory Group Limited, has confirmed that it will continue to provide financial support to the Company for the foreseeable future and for at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

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 period. Under that law the directors have elected to prepare 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 judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

EJ & JC Arrowsmith Limited

**Directors' report
for the period ended 31 December 2010**

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.

This report was approved by the board on 31 August 2011 and signed on its behalf.



D Hall
Secretary
21 Exhibition House
Addison Bridge Place
London
W14 8XP

EJ & JC Arrowsmith Limited

Independent auditors' report to the members of EJ & JC Arrowsmith Limited

We have audited the financial statements of EJ & JC Arrowsmith Limited for the year ended 31 December 2010 which comprise the Profit and loss account, the Balance sheet 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 2 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.

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 2010 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.

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

31 August 2011

EJ & JC Arrowsmith Limited

**Profit and loss account
for the period ended 31 December 2010**

		1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
	Note		
Turnover	2	1,609	2,139
Cost of sales		(1,563)	(2,078)
		<hr/>	<hr/>
Gross profit		46	61
Administrative expenses		(13)	-
		<hr/>	<hr/>
Operating profit	3	33	61
Interest payable and similar charges	6	(1)	(14)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		32	47
Tax on profit on ordinary activities	7	(9)	(14)
		<hr/>	<hr/>
Profit for the financial period	14	23	33
		<hr/> <hr/>	<hr/> <hr/>

All results derive from continuing operations.

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the period stated above and their historical cost equivalents.

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

EJ & JC Arrowsmith Limited
Registered number: SC 287396

Balance sheet
as at 31 December 2010

		31 December 2010	31 March 2010
	Note	£000	£000
Fixed assets			
Tangible assets	8	867	866
Current assets			
Debtors	9	109	10
Cash and cash equivalents		434	3
		<u>543</u>	<u>13</u>
Creditors: amounts falling due within one year	10	<u>(708)</u>	<u>(555)</u>
Net current liabilities		<u>(165)</u>	<u>(542)</u>
Total assets less current liabilities		<u>702</u>	<u>324</u>
Creditors: amounts falling due after more than one year	11	<u>(360)</u>	<u>(6)</u>
Provisions for liabilities			
Deferred tax	12	<u>(32)</u>	<u>(31)</u>
Net assets		<u><u>310</u></u>	<u><u>287</u></u>
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	<u>310</u>	<u>287</u>
Total shareholders' funds	15	<u><u>310</u></u>	<u><u>287</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 August 2011.

D Hall

D Hall
Director

The notes on pages 7 to 15 form part of these financial statements.

EJ & JC Arrowsmith Limited

Notes to the financial statements for the period ended 31 December 2010

1. Accounting policies

1.1 Basis of preparation of financial statements

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies applied consistently are set out below.

The company is a wholly owned subsidiary of Priory Investments Holdings Limited and is included in the consolidated financial statements of that company, which are publicly available. Consequently:

- the company is exempt under the terms of Financial Reporting Standard 8 "Related party transactions" from disclosing related party transactions with entities that form part of the Priory Investments Holdings Limited group; and
- the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) "Cash flow statements".

1.2 Turnover

Turnover comprises revenue recognised by the company in respect of services provided to customers, exclusive of Value Added Tax and trade discounts. Turnover is recognised as the services are provided. Turnover invoiced in advance is included in deferred income until service is provided. Turnover in respect of services provided but not yet invoiced by the period end is included within accrued income.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	-	50 years
Motor vehicles	-	over the shorter of the lease and 4 years
Fixtures & fittings	-	3 - 16 years

1.4 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.5 Operating leases

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term.

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

1. Accounting policies (continued)

1.6 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

1.7 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the period.

1.8 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.

2. Turnover

The Company's turnover, profit on ordinary activities before taxation and net assets arise primarily from the Company's principal activity of the provision of specialist education and care for children with learning and behavioural activities.

All turnover arose within the United Kingdom.

3. Operating profit

The operating profit is stated after charging:

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
Depreciation of tangible fixed assets:		
- owned by the company	13	34
- held under finance leases	4	10
Operating lease rentals:		
- other operating leases	13	-
	<hr/> <hr/>	<hr/> <hr/>

The remuneration of the auditors was borne by another Group undertaking.

EJ & JC Arrowsmith Limited

Notes to the financial statements
for the period ended 31 December 2010

4. Staff costs

Staff costs, including directors' remuneration, were as follows:

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
Wages and salaries	929	1,368
Social security costs	112	187
Other pension costs	9	-
	<u>1,050</u>	<u>1,555</u>

The average monthly number of employees, including the directors, during the period was as follows:

	1 April 2010 to 31 December 2010 No.	Year ended 31 March 2010 No.
Teachers and social workers	52	51
Administrative staff	12	11
	<u>64</u>	<u>62</u>

5. Directors' remuneration

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
Emoluments	<u>43</u>	<u>128</u>

6. Interest payable

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
On bank loans and overdrafts	<u>1</u>	<u>14</u>

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

7. Taxation

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
Analysis of tax charge in the period/year		
Current tax (see note below)		
UK corporation tax charge on profit for the period/year	9	5
Deferred tax (see note 12)		
Origination and reversal of timing differences	-	9
Tax on profit on ordinary activities	<u>9</u>	<u>14</u>

Factors affecting tax charge for the period/year

The tax assessed for the period/year is the same as (2010 - lower than) the standard rate of corporation tax in the UK of 28% (2010 - 21%). The differences are explained below:

	1 April 2010 to 31 December 2010 £000	Year ended 31 March 2010 £000
Profit on ordinary activities before tax	<u>32</u>	<u>47</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2010 - 21%)	9	10
Effects of:		
Disallowable expenses	-	4
Capital allowances for period/year in excess of depreciation	-	(9)
Current tax charge for the period/year (see note above)	<u>9</u>	<u>5</u>

The current tax charge of £9,000 will be relieved by the surrender of tax losses by other group undertakings in exchange for payment of the same amount.

Factors that may affect future tax charges

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. A further reduction to 25% from 1 April 2012 was substantively enacted on 5 July 2011. Future finance bills are expected to introduce additional reductions to 23%. It is currently expected that each future Finance Bill enacted will reduce the corporation tax rate by 1% until a final rate of 23% is reached by 2014/5. These rate reductions will be reflected in the deferred tax calculations when the Finance Bills are substantively enacted at the balance sheet date.

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

8. Tangible fixed assets

	Freehold property £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost				
At 1 April 2010	608	64	293	965
Additions	7	-	11	18
At 31 December 2010	<u>615</u>	<u>64</u>	<u>304</u>	<u>983</u>
Depreciation				
At 1 April 2010	-	26	73	99
Charge for the period	-	4	13	17
At 31 December 2010	<u>-</u>	<u>30</u>	<u>86</u>	<u>116</u>
Net book value				
At 31 December 2010	<u>615</u>	<u>34</u>	<u>218</u>	<u>867</u>
At 31 March 2010	<u>608</u>	<u>38</u>	<u>220</u>	<u>866</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	31 December 2010 £000	31 March 2010 £000
Motor vehicles	<u>10</u>	<u>17</u>

9. Debtors

	31 December 2010 £000	31 March 2010 £000
Trade debtors	58	3
Other debtors	13	2
Prepayments and accrued income	37	5
Tax recoverable	1	-
	<u>109</u>	<u>10</u>

EJ & JC Arrowsmith Limited

Notes to the financial statements
for the period ended 31 December 2010

10. Creditors:
Amounts falling due within one year

	31 December 2010 £000	31 March 2010 £000
Bank loans and overdrafts	-	19
Net obligations under finance leases and hire purchase contracts	1	8
Trade creditors	13	118
Amounts owed to group undertakings	611	-
Group relief payable	14	5
Social security and other taxes	37	33
Other creditors	-	372
Accruals and deferred income	32	-
	<u>708</u>	<u>555</u>

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

11. Creditors:
Amounts falling due after more than one year

	31 December 2010 £000	31 March 2010 £000
Net obligations under finance leases and hire purchase contracts	9	6
Amounts owed to group undertakings	351	-
	<u>360</u>	<u>6</u>

Creditors include amounts not wholly repayable within 5 years as follows:

	31 December 2010 £000	31 March 2010 £000
Repayable by instalments	<u>7</u>	<u>-</u>

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

**11. Creditors:
Amounts falling due after more than one year (continued)**

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	31 December 2010 £000	31 March 2010 £000
Between one and five years	1	6
After five years	7	-
	<u>8</u>	<u>6</u>

Amounts due to group undertakings are unsecured, bear interest at LIBOR plus 2.25% per annum and are repayable 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.

12. Deferred taxation

	31 December 2010 £000	31 March 2010 £000
At beginning of period/year	31	22
Charge for period/year	-	9
Other movement	1	-
	<u>32</u>	<u>31</u>

The provision for deferred taxation is made up as follows:

	31 December 2010 £000	31 March 2010 £000
Accelerated capital allowances	<u>32</u>	<u>31</u>

13. Share capital

	31 December 2010 £	31 March 2010 £
Authorised		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

14. Reserves

	Profit and loss account £000
At 1 April 2010	287
Profit for the period	23
	<hr/>
At 31 December 2010	310
	<hr/>

15. Reconciliation of movement in shareholders' funds

	31 December 2010 £000	31 March 2010 £000
Opening shareholders' funds	287	254
Profit for the period/year	23	33
	<hr/>	<hr/>
Closing shareholders' funds	310	287
	<hr/>	<hr/>

16. Pension commitments

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 £9,000 (2009: £NIL).

As at 31 December 2010, there were outstanding contributions of £4,000 (2009: £NIL)

17. Operating lease commitments

At 31 December 2010 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other
	31 December 2010 £000	31 March 2010 £000	31 December 2010 £000
Expiry date:			31 March 2010 £000
Within 1 year	-	-	3
Between 2 and 5 years	30	-	3
	<hr/>	<hr/>	<hr/>

EJ & JC Arrowsmith Limited

**Notes to the financial statements
for the period ended 31 December 2010**

18. Ultimate parent undertaking and controlling party

The company's immediate parent company, which is incorporated in the United Kingdom, is Priory New Education Services Limited.

At 31 December 2010, the company's ultimate parent company was Priory Investments Holdings Limited (incorporated in the Cayman Islands), which is the parent undertaking of the smallest and largest group to consolidate these financial statements. A copy of the consolidated financial statements can be obtained from the Company Secretary at 21 Exhibition House, Addison Bridge Place, London, W14 8XP. At that date, the directors considered that there was no ultimate controlling party of the company.

On 4 March 2011, Priory Investments Holdings Limited was acquired by Priory Group No. 3 plc, a subsidiary of Priory Group Limited. As a result of the transaction, the company's ultimate parent company from 4 March 2011 onwards is Priory Group Limited (incorporated in England). Priory Group 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.