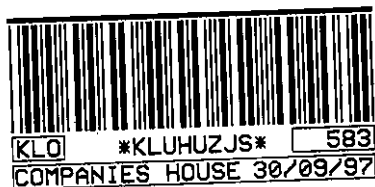


**PRIORY CHILDCARE SERVICES  
LIMITED**

**Report and Financial Statements**

**30 November 1996**



**Deloitte & Touche  
Hill House  
1 Little New Street  
London EC4A 3TR**

# **PRIORY CHILDCARE SERVICES LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 1996**

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**REPORT AND FINANCIAL STATEMENTS 1996**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

I P Reynolds	(appointed 21 June 1996)
E A Millard	(appointed 21 June 1996)
T F Lee	(resigned 21 June 1996)
J D Lambert	(resigned 21 June 1996)
D Noon	(resigned 21 June 1996)
C Carrol	(resigned 21 June 1996)

**SECRETARY**

Mrs J Lambert

**REGISTERED OFFICE**

Broadwater Park  
Denham  
Uxbridge  
Middlesex UB9 5HP

**BANKERS**

The Royal Bank of Scotland plc  
London City Office  
62-63 Threadneedle Street  
London EC2R 8LA

**SOLICITORS**

Eversheds  
1 Royal Standard Place  
Nottingham NG1 6FZ

**AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Hill House  
1 Little New Street  
London EC4A 3TR

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 November 1996.

## PRINCIPAL ACTIVITY

The principal activity of the company is the provision of residential care for adolescents who have learning difficulties combined with some degree of behavioural disturbances or have been severely abused and neglected.

## REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

Both the level of business and the year end financial position were satisfactory. The directors continue to seek new opportunities for expansion and development of the business.

## RESULTS AND DIVIDENDS

The profit for the year attributable to shareholders amounts to £167,061 (1995 - £61,687). The directors do not recommend the payment of a dividend (1995 - £nil).

## DIRECTORS AND THEIR INTERESTS

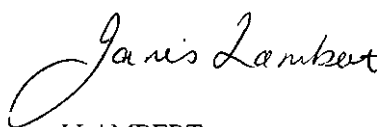
The directors of the company during the year ended 30 November 1996 were those listed on page 1. None of the directors had any beneficial interest in the share capital of the company during the year.

The directors' interests in the ultimate parent company are shown in that company's financial statements.

## AUDITORS

Price Waterhouse resigned as auditors of the company during the year and Deloitte & Touche were appointed by resolution in their place. A resolution to reappoint Deloitte & Touche will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board



J LAMBERT

Secretary

11<sup>th</sup> April 1997

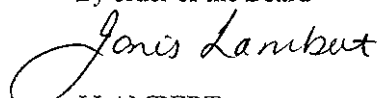
## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. 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

  
J LAMBERT

Secretary

11th April 1997

## **PRIORY CHILDCARE SERVICES LIMITED**

### **AUDITORS' REPORT TO THE MEMBERS**

We have audited the financial statements on pages 5 to 10 which have been prepared under the accounting policies set out on page 7.

#### **Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 November 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

Chartered Accountants and  
Registered Auditors

31 April 1997

# PRIORY CHILDCARE SERVICES LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 30 November 1996

		1996 £	1995 £
<b>TURNOVER</b>	2	3,086,075	1,931,258
Operating expenses		<u>(2,817,021)</u>	<u>(1,829,937)</u>
<b>OPERATING PROFIT</b>	3	269,054	101,321
Interest receivable		<u>-</u>	<u>1,366</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		269,054	102,687
Tax on profit on ordinary activities	8	<u>(101,993)</u>	<u>(41,000)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<u>167,061</u>	<u>61,687</u>
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR</b>	13	<u>167,061</u>	<u>61,687</u>

All turnover and operating profit derive from continuing operations.

There are no recognised gains or losses in either the current or preceding year other than the profit attributable to shareholders of the company.

# PRIORY CHILDCARE SERVICES LIMITED

## BALANCE SHEET

30 November 1996

	Note	1996 £	1995 £
<b>FIXED ASSETS</b>			
Intangible assets	7	141,748	159,466
Tangible assets	8	222,897	198,876
		<u>364,645</u>	<u>358,342</u>
<b>CURRENT ASSETS</b>			
Debtors	9	420,291	178,148
Stock		19,851	-
Cash at bank and in hand		4,514	70,585
		<u>444,656</u>	<u>248,733</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(518,605)</u>	<u>(383,440)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(73,949)</u>	<u>(134,707)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>290,696</u>	<u>223,635</u>
<b>CREDITORS: amounts falling due after more than one year</b>		<u>-</u>	<u>(100,000)</u>
<b>NET ASSETS</b>		<u>290,696</u>	<u>123,635</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	2	2
Profit and loss account	13	290,694	123,633
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>290,696</u>	<u>123,635</u>

These financial statements were approved by the Board of Directors on 11<sup>th</sup> April 1997.

Signed on behalf of the Board of Directors

I P Reynolds

Director





**NOTES TO THE ACCOUNTS**  
Year ended 30 November 1996

**1. ACCOUNTING POLICIES**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The company has not presented a statement of cashflows in accordance with Financial Reporting Standard Number 1 as Priory Hospitals Holdings Limited, the only undertaking in the UK to consolidate the results of the company, has published a consolidated statement of cashflows which includes the cashflows of the company.

**Basis of consolidation**

The company is exempt from the obligation to prepare and deliver group accounts by virtue of Section 228 of the Companies Act 1985.

**Depreciation**

Freehold land is not depreciated. The cost of other fixed assets is written off by equal instalments over their expected useful lives as follows:

Fixtures, fitting and equipment	2 to 5 years
Motor vehicles	2 to 5 years

**Goodwill**

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. It is amortised on a straight line basis over 10 years.

**Pensions**

The company is a member of a group defined benefit pension scheme which requires contributions to be made to a separately administered fund. Contributions to the fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the group. The regular cost is attributed to individual years using the current unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are spread over the average expected working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. The actuarial statement for the pension fund is given in the consolidated accounts of the ultimate parent company, Priory Hospitals Holdings Limited.

**Leasing**

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

**2. TURNOVER**

Turnover comprises the invoice value of services supplied by the company excluding VAT. All services have been carried out in the United Kingdom and relate to the principal activities of the company.

**3. OPERATING PROFIT**

Operating profit is stated after charging:

	1996	1995
	£	£
Depreciation	108,417	74,067
Auditors' remuneration - audit services	4,800	3,508
Loss on disposal of fixed assets	1,529	769
Amortisation of goodwill	17,718	17,718
Operating lease charges - other	11,698	6,156

# PRIORY CHILDCARE SERVICES LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 November 1996

### 4. DIRECTORS' REMUNERATION

None of the directors received any remuneration during the year (1995: £nil).

### 5. STAFF COSTS

	1996 £	1995 £
Wages and salaries	1,264,948	762,581
Social security costs	103,055	67,109
Pension costs	34,630	11,056
	<u>1,402,633</u>	<u>840,746</u>

The average number of persons employed by the company during the year, including executive directors, was 104 (1995: 97).

### 6. TAXATION

	1996 £	1995 £
Corporation tax on profits at 33%	101,563	41,000
Adjustments in respect of prior years	430	-
	<u>101,993</u>	<u>41,000</u>

### 7. INTANGIBLE ASSETS

	1996 £
Goodwill arising on acquisition of Eden Grove	177,184
Less:	
Accumulated amortisation at 1 December 1995	(17,718)
Charge for the year	<u>(17,718)</u>
	<u>141,748</u>

# PRIORY CHILDCARE SERVICES LIMITED

## NOTES TO THE ACCOUNTS Year ended 30 November 1996

### 8. TANGIBLE FIXED ASSETS

	Motor vehicles £	Fixtures, fitting, tools and equipment £	Total £
Cost			
At 1 December 1995	55,539	266,333	321,872
Additions	36,692	100,857	137,549
Disposals	(10,040)	(3,916)	(13,956)
At 30 November 1996	82,191	363,274	445,465
Depreciation			
At 1 December 1995	21,111	101,885	122,996
Charge for the year	18,437	89,979	108,416
Disposals	(8,126)	(718)	(8,844)
At 30 November 1996	31,422	191,146	222,568
Net book value			
At 30 November 1996	50,769	172,228	222,897
At 30 November 1995	34,429	164,448	198,876

### 9. DEBTORS

	1996 £	1995 £
Trade debtors	143,404	175,336
Amounts owed from parent company	271,184	-
Other debtors	18	-
Prepayments	5,685	2,812
	420,291	178,148

### 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £	1995 £
Trade creditors	44,022	66,630
Amount owed to group undertaking	-	45,019
Corporation tax	101,563	40,910
Other creditors	33,771	-
Contingent consideration	100,000	-
Accruals and deferred income	239,249	230,881
	518,605	383,440

The consideration is contingent on turnover in respect of the school year Autumn 1996 to Summer 1997 at the Eden Grove School.

# PRIORY CHILDCARE SERVICES LIMITED

## NOTES TO THE ACCOUNTS

Year ended 30 November 1996

### 11. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

	1996 £	1995 £
Contingent consideration (note 10)	-	100,000

### 12. CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised Ordinary shares of £1 each	100	100
Allotted, called up and fully paid	2	2

### 13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £	Profit and loss account £	Total £
At 1 December 1995	2	123,633	123,635
Profit for the year	-	167,061	167,061
At 30 November 1996	2	290,694	290,696

### 14. FINANCIAL COMMITMENTS

#### Operating lease commitments

	Equipment 1996 £	Equipment 1995 £
Leases which expire:		
Within one year	2,461	2,461
Between two and five years	8,642	9,418
After 5 years	20,896	24,331
	31,999	36,210

### 15. ULTIMATE PARENT COMPANY

The ultimate parent company is Priory Hospitals Holdings Limited registered in England and Wales. Its previous parent company was Community Psychiatric Centres Inc, a Nevada corporation registered in the United States of America. Copies of the group accounts can be obtained from the registered office.