

North Hill House Limited

Directors' report and financial statements

Year ended 31 December 2005

Registered number 3968590



Contents

Directors' report	1
Statement of directors' responsibilities	3
Independent auditors' report to the members of North Hill House Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

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

Principal activities

The company's principal activity is the provision of special boarding education for children with Asperger's Syndrome.

Business review

The results for the year are set out in the profit and loss account on page 5.

On 9 November 2005, the company entered into sale and leaseback agreements with Priory Finance Property LLP in relation to the sale of its properties. The properties were sold for a consideration of £365,000 and the resulting loss on sale was £290,000. The fixtures and fittings such as stock, furniture, catering equipment, medical equipment and other chattels which were solely related to the business of the company were retained. Other fixtures and fittings were sold to Priory Finance Property LLP and leased back under the sale and leaseback agreements.

Dividends

Dividends of £319,000 were paid during the year (2004: £nil).

Directors and directors' interests

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

PJ Greensmith
 Dr CB Patel

In accordance with the articles of association, no directors retire by rotation. None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

The interests of Dr CB Patel in the shares of Priory Investments Holdings Limited (the ultimate parent company) are disclosed in the financial statements of that company.

The interests of PJ Greensmith in the shares of Priory Investments Holdings Limited are set out below:

	Interest at end of year				Interest at beginning of year			
	A Ordinary shares	B Ordinary shares	Non Voting shares	Preference shares	A Ordinary shares	B Ordinary shares	Non Voting shares	Preference shares
PJ Greensmith	-	200,000	300,000	1,500,000	-	-	-	-

Directors' report *(continued)*

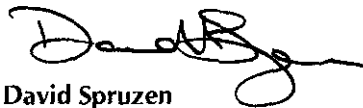
Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Provision of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board



David Spruzen
Company Secretary

Priory House
Randalls Way
Leatherhead
Surrey
KT22 7TP

24 May 2006

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 and of the profit or loss 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, 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 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of North Hill House Limited

We have audited the financial statements of North Hill House Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the reconciliation of movement in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24 May 2006

Profit and loss account
for the year ended 31 December 2005

	Note	2005 £000	2004 £000
Turnover		3,220	2,301
Cost of sales		(1,771)	(1,414)
		<hr/>	<hr/>
Gross profit		1,449	887
Administrative expenses		(177)	(64)
		<hr/>	<hr/>
Operating profit	2	1,272	823
Loss on disposal of fixed assets		(291)	-
		<hr/>	<hr/>
Profit on ordinary activities before interest and tax		981	-
Net interest payable and similar charges		(4)	(1)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		977	822
Tax on profit on ordinary activities	5	(391)	(251)
		<hr/>	<hr/>
Profit for the financial year	11	586	571
Dividends		(319)	-
		<hr/>	<hr/>
Amounts transferred to reserves		267	-
		<hr/>	<hr/>

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

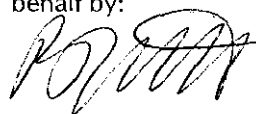
The company has no recognised gains or losses other than the profit for the year.

The historical cost profit and the reported profit are the same.

Balance sheet
at 31 December 2005

	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	6	196	231
Current assets			
Debtors	7	1,586	1,449
Cash at bank and in hand		2,498	1,382
		<u>4,084</u>	<u>2,831</u>
Creditors: amounts falling due within one year	8	(3,025)	(2,116)
Net current assets		<u>1,059</u>	<u>715</u>
Total assets less current liabilities		<u>1,255</u>	<u>946</u>
Creditors: amounts falling due after more than one year	9	(61)	(17)
Provisions for liabilities and charges		-	(2)
Net assets		<u>1,194</u>	<u>927</u>
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	1,194	927
Shareholders' funds – equity		<u>1,194</u>	<u>927</u>

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



P J Greensmith
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Priory Investments Holdings Limited, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Fixed assets and depreciation

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
Plant, fixtures and fittings	-	3 to 10 years
Motor vehicles	-	over the shorter of the lease and 4 years

No depreciation is provided on freehold land.

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.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. 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.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes (continued)

1 Accounting policies (continued)

Group relief

Payment is generally made for group relief at a rate of 30% at the time of first estimating the tax provision. To the extent that amendments are subsequently made to the group relief plan, there is generally no payment or receipt in respect of 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.

2 Profit on ordinary activities before taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration (inclusive of VAT):		
Audit	9	9
Depreciation and other amounts written off tangible fixed assets:		
Owned	43	26
Leased	17	9
Rentals under operating leases:		
Hire of plant and machinery	4	-
Other operating leases	128	-
Loss on disposal of fixed assets	291	-
	<hr/>	<hr/>

3 Remuneration of directors

The directors received no emoluments for services to the company during the year (2004: £nil).

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	2005	2004
Teachers and social workers	75	63
Administrative staff	14	14
	<hr/>	<hr/>
	89	77
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005	2004
	£000	£000
Wages and salaries	1,276	1,029
Social security costs	105	83
Other pension costs	44	39
	<hr/>	<hr/>
	1,425	1,151
	<hr/>	<hr/>

Notes (continued)

5 Taxation

	2005 £000	2004 £000
<i>UK corporation tax</i>		
Current tax on income for the year	394	254
Adjustments relating to prior years	(1)	(3)
	<hr/>	<hr/>
	393	251
Deferred taxation	(2)	-
	<hr/>	<hr/>
	391	251
	<hr/>	<hr/>

The tax charge of [] (2004: £254,000) profits for the period has been relieved by the surrender of losses by other group companies in exchange for payment of the same amount.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30% (2003: 30%). The actual tax charge for the year is above the standard rate for the reasons set out in the following reconciliation:

	2005 £000	2004 £000
Profit on ordinary activities before tax	977	822
	<hr/>	<hr/>
Tax on profit on ordinary activities at standard rate	293	247
<i>Factors affecting charge for the year</i>		
Capital allowances for year in excess of depreciation	15	5
Other timing differences	(4)	(3)
Depreciation of non-qualifying assets	3	4
Profit/loss on non-qualifying assets	87	-
Expenses not deductible for tax purposes	-	1
Adjustment to tax charge in respect of prior years	(1)	(3)
	<hr/>	<hr/>
Total actual amount of current tax	393	251
	<hr/>	<hr/>

Notes (continued)

6 Tangible assets

	Freehold land and buildings £000	Assets in course of construction £000	Fixtures and fittings £000	Motor Vehicles £000	Total £000
Cost					
At beginning of the year	13	15	217	35	280
Additions	378	69	154	79	680
Disposals to group undertaking	(391)	(76)	(212)	-	(679)
At end of the year	-	8	159	114	281
Depreciation					
At beginning of the year	1	-	35	13	49
Charge for the year	4	-	39	17	60
On disposals to group undertaking	(5)	-	(19)	-	(24)
At end of the year	-	-	55	30	85
Net book value					
At 31 December 2005	-	8	104	84	196
At 31 December 2004	12	15	182	22	231

Included in the total net book value of motor vehicles is £84,000 (2004: £22,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £17,000 (2004: £9,000).

7 Debtors

	2005 £000	2004 £000
Trade debtors	226	214
Amounts owed by group undertakings	1,354	1,229
Prepayments and accrued income	6	6
	1,586	1,449

Notes (continued)

8 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Obligations under finance lease contracts	21	6
Trade creditors	42	21
Amounts owed to group undertakings	1,272	897
Group relief payable	394	254
Other taxes and social security	33	24
Other creditors	1	1
Accruals and deferred income	1,262	913
	<u>3,025</u>	<u>2,116</u>

9 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Obligations under finance leases	61	17
	<u>61</u>	<u>17</u>

Obligations under finance leases are payable as follows:

	2005 £000	2004 £000
Within one year or less	21	6
Within one to two years	19	6
Within two to five years	42	11
	<u>82</u>	<u>23</u>

Notes (continued)

10 Called up share capital

	2005 £	2004 £
Authorised		
100 (2004: 100) Ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
1 (2004: 1) Ordinary shares of £1 each	1	1

11 Reconciliation of movement in shareholders' funds

	Share capital £000	Profit and loss account £000	2005 £000	2004 £000
At beginning of the year	-	927	927	356
Profit for the financial		586	586	-
Dividends	-	(319)	(319)	571
At end of financial year	-	1,194	1,194	927

12 Commitments

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

	Land and buildings £000	2005 Other £000	Land and buildings £000	2004 Other £000
Operating leases which expire:				
Over five years	882	-	-	-

13 Contingent liabilities

- (a) The company has entered into banking facilities set-off agreements in respect of which guarantees have been given. The aggregate amount outstanding under the agreements was £nil at 31 December 2005 (2004: £nil).
- (b) A fellow subsidiary undertaking has issued secured fixed and floating rate notes amounting to £201.1 million as at 31 December 2004 (31 December 2003: £206.2 million). These notes are secured on the freehold and leasehold properties of certain of its subsidiaries. In addition, the company's share capital has been pledged as security for this loan.

Notes *(continued)*

14 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 £11,000 (2004: £9,000).

As at 31 December 2004, there were outstanding contributions of £1,000 (31 December 2004: £1,000).

The company participated in the Teachers' Pension Scheme ("the scheme") which is a government funded final salary scheme. The pension charge for the year was £33,000 (2004: £30,000). 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.

15 Ultimate parent company

The company is a subsidiary undertaking of Farleigh Schools Limited, which is incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Priory Investments Holdings Limited. No other group accounts include the results of the company.