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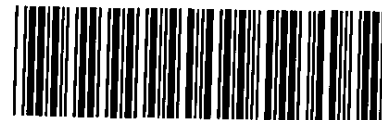
Priory Holdings Company No. 2 Limited

Annual Report and Unaudited Financial Statements

for the Year Ended 31 December 2018

Registration number: FC027624

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Priory Holdings Company No. 2 Limited

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Priory Holdings Company No. 2 Limited

Company Information

Directors	Trevor Torrington Nigel Myers
Company secretary	David Hall
Registered office	c/o M&C Corporate Services Ltd PO Box 309GT Ugland House South Church Street George Town

Priory Holdings Company No. 2 Limited

Strategic Report for the Year Ended 31 December 2018

The Directors present their strategic report for the year ended 31 December 2018.

Principal activity

The principal activity of the company is to act as an investment holding company.

Fair review of the business

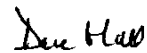
The results for the year are set out in the profit and loss account on page 5 and the position of the company as at the year end is set out in the balance sheet on page 7.

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 UK 1 Limited, an intermediate parent of the company, is discussed in the group's financial statements which includes the company and does not form part of this report.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principle risks and uncertainties of Priory Group UK 1 Limited, which include those of the company, are discussed in the group's financial statements which do not form part of this report.

Approved by the Board on 14 June 2019 and signed on its behalf by:



.....
David Hall
Company secretary

Priory Holdings Company No. 2 Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

Directors of the Company

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

Trevor Torrington

Nigel Myers

The directors do not recommend the payment of a final dividend (2017: £nil). No dividends were paid during the year (2017: £nil).

Financial instruments

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 UK 1 Limited, which include those of the company, are discussed in the group's annual report which does not form part of this report.

Future developments

The future developments of the company are aligned to the strategy of the UK Group, headed by Priory Group UK 1 Limited. The group's strategy for the future development of the business is included in the group's annual report, which does not form part of this report.

Going concern

The intermediate parent company, Priory Group UK 1 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.

Auditors

The company is incorporated in the Cayman Islands and registered in both the Cayman Islands and the UK. The company is not required to publish audited financial statements. The purpose of these financial statements is to meet the obligations for filing in both the UK and the Cayman Islands. The filing requirements for the Cayman Islands are significantly less in scope than those for the UK. These financial statements have been prepared in accordance with applicable UK accounting standards and UK companies' legislation as applied to overseas companies and under the historical cost convention. References in these financial statements to the Companies Act and other legislation are therefore references to UK legislation. These financial statements comply the Companies Act 2006 as applied to overseas companies.

Approved by the Board on 14 June 2019 and signed on its behalf by:



.....
David Hall
Company secretary

Priory Holdings Company No. 2 Limited

Statement of Directors' Responsibilities

The Directors acknowledge their responsibilities for preparing the Annual 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 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Priory Holdings Company No. 2 Limited

Profit and Loss Account for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Turnover		-	-
Administrative expenses		<u>(190)</u>	<u>-</u>
Operating loss	3	(190)	-
Income from shares in group undertakings	4	<u>22,745</u>	<u>-</u>
Profit before tax		22,555	-
Taxation	6	<u>5</u>	<u>(4)</u>
Profit/(loss) for the financial year		<u>22,560</u>	<u>(4)</u>

The above results were derived from continuing operations.

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

Priory Holdings Company No. 2 Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Profit/(loss) for the year		<u>22,560</u>	<u>(4)</u>
Total comprehensive income for the year		<u>22,560</u>	<u>(4)</u>

Priory Holdings Company No. 2 Limited

(Registration number: FC027624)

Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Fixed assets			
Investments	7	-	190
Current assets			
Debtors	8	22,573	-
Creditors: Amounts falling due within one year	9	<u>-</u>	<u>(177)</u>
Net current assets/(liabilities)		<u>22,573</u>	<u>(177)</u>
Net assets		<u>22,573</u>	<u>13</u>
Capital and reserves			
Called up share capital	10	-	-
Share premium reserve		10	10
Profit and loss account		<u>22,563</u>	<u>3</u>
Total equity		<u>22,573</u>	<u>13</u>

Approved and authorised by the Board on 14 June 2019 and signed on its behalf by:

.....

Nigel Myers

Director

The notes on pages 9 to 16 form an integral part of these financial statements.

Priory Holdings Company No. 2 Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2018	-	10	3	13
Profit for the year	-	-	22,560	22,560
Total comprehensive income	-	-	22,560	22,560
At 31 December 2018	-	10	22,563	22,573

	Share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2017	-	10	7	17
Loss for the year	-	-	(4)	(4)
Total comprehensive income	-	-	(4)	(4)
At 31 December 2017	-	10	3	13

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The company is a private company limited by share capital incorporated in Cayman Islands.

The address of its registered office is:

c/o M&C Corporate Services Ltd
PO Box 309GT
Ugland House
South Church Street
George Town
Cayman Islands

These financial statements were authorised for issue by the Board on 14 June 2019.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

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.

Summary of disclosure exemptions

The principle disclosure exemptions adopted by the company in accordance with FRS 102 are as follows:

- Statement of cash flows;
- Certain financial instrument disclosures;
- Disclosure of key management personnel compensation;
- 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.

Going concern

The financial statements have been prepared on a going concern basis.

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

2 Accounting policies (continued)

Tax

The tax expense for the period comprises current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Tangible fixed assets

Tangible fixed assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible fixed assets includes directly attributable incremental costs incurred in their acquisition and installation.

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

3 Operating loss

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Impairment loss	190	-

4 Income from shares in group undertakings

	2018 £ 000	2017 £ 000
Income from shares in group undertakings	22,745	-

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

5 Directors' remuneration

The costs relating to the directors' services have been borne by Priory Central Services Limited, a fellow group company. No amounts have been recharged (2017: £nil) 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.

6 Taxation

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	(5)	4

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	22,555	-
Corporation tax at standard rate	4,285	-
Effect of expense not deductible in determining taxable profit (tax loss)	36	-
Tax increase (decrease) from transfer pricing adjustments	(5)	4
Tax increase (decrease) from effect of dividends from UK companies	(4,321)	-
Total tax (credit)/charge	(5)	4

The company's profits for this accounting year are taxed at an effective rate of 19% (2017: 19.25%).

The main rate of corporation tax has been reduced from 19% to 17% with effect from 1 April 2020.

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Investments in subsidiaries, joint ventures and associates

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2018	230
Disposals	(230)
At 31 December 2018	-
Provision	
At 1 January 2018	40
Provision	190
Eliminated on disposals	(230)
At 31 December 2018	-
Carrying amount	
At 31 December 2018	-
At 31 December 2017	190

On 31 December 2018 the following subsidiary companies were wound up:

Priory Bristol (Property) Limited, Priory Chadwick Lodge (Property) Limited, Priory Coach House (Property) Limited, Priory Condoval (Property) Limited, Priory Coombe House (Property) Limited, Priory Eastwood Grange (Property) Limited, Priory Eden Grove (Property) Limited, Priory Farm Place (Property) Limited, Priory Hemel Grange (Property) Limited, Priory Hove (Property) Limited, Priory Jacques Hall (Property) Limited, Priory Marchwood (Property) Limited, Priory Mark College (Property) Limited, Priory Nottingham (Property) Limited, Priory Roehampton (Property) Limited, Priory Sheridan House (Property) Limited, Priory Sketchley Hall (Property) Limited, Priory Solutions (Property) Limited, Priory Sturt (Property) Limited, Priory Tadley Court (Property) Limited, Priory Unsted Park (Property) Limited and Priory Widnes (Property) Limited.

As a result the Company received a dividend of £22,745,000 (2017: £nil).

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Investments in subsidiaries, joint ventures and associates (continued)

Details of undertakings

Details of the investments the company holds are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2018	2017
Subsidiary undertakings				
Aspire Scotland Limited	United Kingdom	Ordinary shares	100%	100%
Aspire Scotland Holdings Limited	United Kingdom	Ordinary shares	100%	100%
Galaxy Cafe Limited	United Kingdom	Ordinary shares	100%	100%
Galaxy UK Leisure Limited	United Kingdom	Ordinary shares	100%	100%
Priory Holdings Company No 3 Limited	Cayman Islands	Ordinary shares	100%	100%
Priory Healthcare Limited	United Kingdom	Ordinary shares	100%	100%
Priory Rehabilitation Services Limited	United Kingdom	Ordinary shares	100%	100%
Priory Education Services Limited	United Kingdom	Ordinary shares	100%	100%
Priory Central Services Limited	United Kingdom	Ordinary shares	100%	100%
Velocity Healthcare Limited	United Kingdom	Ordinary shares	100%	100%
Renova LLP	United Kingdom	Membership capital	100%	100%
Priory (Thetford 1) Limited	United Kingdom	Ordinary shares	100%	100%
Priory (Thetford 2) Limited	United Kingdom	Ordinary shares	100%	100%
Thetford Trustee LLP	United Kingdom	Membership capital	100%	100%
Castlecare Group Limited	United Kingdom	Ordinary shares	100%	100%
Castlecare Holdings Limited	United Kingdom	Ordinary shares	100%	100%

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Investments in subsidiaries, joint ventures and associates (continued)

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
Castle Homes Care Limited	United Kingdom	Ordinary shares	100%	100%
Castle Homes Limited	United Kingdom	Ordinary shares	100%	100%
Quantum Care (UK) Limited	United Kingdom	Ordinary shares	100%	100%
Castlecare Cymru Limited	United Kingdom	Ordinary shares	100%	100%
Castlecare Education Limited	United Kingdom	Ordinary shares	100%	100%
Rothcare Estates Limited	United Kingdom	Ordinary shares	100%	100%
C O Developments Limited	United Kingdom	Ordinary shares	100%	100%
Priory Care Homes Holdings Limited	United Kingdom	Ordinary shares	100%	100%
Helden Homes Limited	United Kingdom	Ordinary shares	100%	100%
Life Works Community Limited	United Kingdom	Ordinary shares	100%	100%

The principal activity of Aspire Scotland Limited is children's care and education.

The principal activity of Aspire Scotland Holdings Limited is holding company.

The principal activity of Galaxy Cafe Limited is children's care and education.

The principal activity of Galaxy UK Leisure Limited is children's care and education.

The principal activity of Priory Holdings Company No 3 Limited is to act as a holding company.

The principal activity of Priory Healthcare Limited is specialist healthcare.

The principal activity of Priory Rehabilitation Services Limited is brain injury rehabilitation services.

The principal activity of Priory Education Services Limited is schools for children with special needs.

The principal activity of Priory Central Services Limited is management services.

The principal activity of Velocity Healthcare Limited is specialist healthcare.

The principal activity of Renova LLP is non trading.

The principal activity of Priory (Thetford 1) Limited is non trading.

The principal activity of Priory (Thetford 2) Limited is non trading.

The principal activity of Thetford Trustee LLP is non trading.

The principal activity of Castlecare Group Limited is non trading.

The principal activity of Castlecare Holdings Limited is non trading.

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

7 Investments in subsidiaries, joint ventures and associates (continued)

The principal activity of Castle Homes Care Limited is children's care homes.

The principal activity of Castle Homes Limited is children's care homes.

The principal activity of Quantum Care (UK) Limited is children's care homes.

The principal activity of Castlecure Cymru Limited is children's care homes.

The principal activity of Castlecure Education Limited is specialist education services.

The principal activity of Rothcare Estates Limited is a property company.

The principal activity of C O Developments Limited is property development.

The principal activity of Priory Care Homes Holdings Limited is non trading.

The principal activity of Helden Homes Limited is rehabilitation services.

The principal activity of Life Works Community Limited is specialist healthcare.

8 Debtors

	2018 £ 000	2017 £ 000
Amounts owed by related parties	22,568	-
Income tax asset	5	-
Total current trade and other debtors	22,573	-

Amounts owed by related parties are unsecured, non-interest bearing and repayable on demand.

9 Creditors

	2018 £ 000	2017 £ 000
Due within one year		
Amounts due to related parties	-	173
Income tax liability	-	4
	-	177

Amounts due to related parties are unsecured, non-interest bearing and repayable on demand.

Priory Holdings Company No. 2 Limited

Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

10 Share capital

Allotted, called up and fully paid shares

	No. 000	2018 £ 000	No. 000	2017 £ 000
Ordinary shares of £1 each	-	-	-	-

11 Parent and ultimate parent undertaking

The company's immediate parent is Priory Holdings Company No.1 Limited, incorporated in the United Kingdom.

The ultimate parent is Acadia Healthcare Company Inc., incorporated in the US.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Acadia Healthcare Company Inc., incorporated in United States of America.

The address of Acadia Healthcare Company Inc. is:

830 Crescent Centre Drive, Suite 610, Franklin, TN 37067, United States of America.

The parent of the smallest group in which these financial statements are consolidated is Priory Group UK 1 Limited, incorporated in United Kingdom.

The address of Priory Group UK 1 Limited is:

Fifth Floor, 80 Hammersmith Road, London, W14 8UD, United Kingdom.