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**Priory Holdings Company No.3
Limited**

Directors' report and financial statements

Year ended 31 December 2015

Incorporated in the Cayman Islands with registered
number MC-187015

UK Registered number FC027625

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Strategic report for the year ended 31 December 2015

The directors present their strategic report on Priory Holdings Company No 3 Limited for the year ended 31 December 2015

Principal activities and review of business

The principal activity of the company is to act as an intermediate holding company. The company did not trade during the year.

As the company's subsidiaries are focussed on the health and education sector, their performance can be impacted by external factors. The principal factors are changes in the UK government's policy towards outsourcing of health and education, changes in the regulatory regime and competitive threats from other independent providers.

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, are discussed in the group's annual report which does 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 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 annual report which 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 principal risks and uncertainties of Priory Group No 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 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 annual report, which does not form part of this report.

By order of the board



D Hall
Company secretary
19 August 2016

Directors' report for the year ended 31 December 2015

The directors present their report and the financial statements for the year ended 31 December 2015

Going concern

The intermediate 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.

Dividends

The directors do not recommend the payment of a final dividend (2014 £nil)

Directors

The directors 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)
J Lock	(resigned 1 April 2015)
M Moran	(appointed 1 April 2015, resigned 1 March 2016)
T Riall	

In accordance with the articles of association, no directors retire by rotation

Future developments

The future developments of the company are discussed in the strategic report

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102).

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 102, have been followed, subject to any material departures disclosed and explained in the financial statements, and
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements

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.

Directors' report for the year ended 31 December 2015 *(continued)*

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 with the Companies Act 2006 as applied to overseas companies.

By order of the board



D Hall
Company secretary

PO Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

19 August 2016

Profit and loss account and statement of changes in equity
for the year ended 31 December 2015

	<i>Note</i>	2015 £000	2014 £000
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities	3	362	394
Profit for the financial year		362	394
Net addition to shareholders' equity		362	394
Opening shareholders' equity		861	467
Closing shareholders' equity		1,223	861

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

There is no other comprehensive income for the period

Balance sheet

As at 31 December 2015

	Note	£000	2015 £000	£000	2014 £000
Fixed assets					
Investments	4		18,207		18,207
Current assets					
Debtors	5	362		394	
Creditors amounts falling due within one year	6	(17,346)		(17,740)	
Net current liabilities			(16,984)		(17,346)
Total assets less current liabilities			1,223		861
Net assets			1,223		861
Capital and reserves					
Called up share capital	7		-		-
Share premium	8		10		10
Retained earnings	8		1,213		851
Total shareholders' equity			1,223		861

The financial statements on pages 4 to 10 were approved by the board of directors on 19 August 2016 and were signed on its behalf by



T Riall
Director

UK registered number FC027625

Notes to the financial statements for the year ended 31 December 2015

1 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 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and UK companies' legislation as applied to overseas companies. References in these financial statements to the Companies Act and other legislation are therefore references to UK legislation. These financial statements comply with the Companies Act 2006 as applied to overseas companies.

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.

The intermediate parent company, Prory 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.

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

The company has taken advantage of the exemption, under FRS 102 from preparing a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Prory Group No 1 Limited, includes the company's cash flows in its own consolidated financial statements.

The preparation of financial statements in conformity with FRS 102 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 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.

Notes to the financial statements for the year ended 31 December 2015 (continued)

1 Accounting policies (continued)

Investments

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

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.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments. Financial liabilities, comprising loans from fellow group companies, are initially recognised at transaction price and subsequently carried at amortised cost using the effective interest method.

2 Profit on ordinary activities before taxation

The directors received no emoluments for services to the company during the year (2014 nil). The company had no employees during the current and prior year.

3 Tax profit on ordinary activities

	2015 £000	2014 £000
<i>UK corporation tax</i>		
Current tax credit arising in the year	(362)	(394)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 20.25% (2014 21.5%). The actual tax credit for the year is higher than (2014 higher than) the standard rate for the reasons set out in the following reconciliation:

	2015 £000	2014 £000
Profit on ordinary activities before taxation	-	-
Tax on profit on ordinary activities at standard rate	-	-
<i>Factors affecting charge for the period</i>		
Transfer pricing adjustments	(362)	(394)
Total current tax	(362)	(394)

Notes to the financial statements for the year ended 31 December 2015 (continued)

3 Tax profit on ordinary activities (continued)

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the company's profits for this accounting year are taxed at an effective rate of 20.25% (2014 21.5%).

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change was to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 were substantively enacted on 26 October 2015.

4 Investments

<i>Shares in group undertakings</i>	Total £000
<i>Cost and net book value</i>	
At 1 January 2015 and 31 December 2015	18,207

The principal undertakings in which the company has an interest at the year end are as follows:

Subsidiary undertakings	Principal activities	Class and percentage of shares held
<i>Direct</i>		
Priority Healthcare Limited	Specialist healthcare services	100% ordinary
Priority Rehabilitation Services Limited	Rehabilitation services	100% ordinary
Priority Secure Services Limited	Forensic psychiatric services	100% ordinary
Priority Education Services Limited	Specialist education services	100% ordinary
Priority Central Services Limited	Management services	100% ordinary
Velocity Healthcare Limited	Specialist healthcare services	100% ordinary
<i>Indirect</i>		
Renova LLP	Trading	99% members' capital
Priority (Thetford 1) Limited	Non-trading	100% ordinary
Priority (Thetford 2) Limited	Non-trading	100% ordinary
Thetford Trustee LLP	Non-trading	100% members' capital
Castlecare Group Limited	Non-trading	100% ordinary
Castlecare Holdings Limited	Non-trading	100% ordinary
Castle Homes Care Limited	Children's care home	100% ordinary
Castle Homes Limited	Children's care home	100% ordinary
Quantum Care (UK) Limited	Children's care home	100% ordinary
Castlecare Cymru Limited	Children's care home	100% ordinary
Castlecare Education Limited	Specialist education services	100% ordinary
Rothcare Estates Limited	Property company	100% ordinary
Priority Farmfield Limited	Non-trading	100% ordinary
CO Developments Limited	Property company	100% ordinary
Priority Care Homes Holdings Limited	Non-trading	100% ordinary
Helden Homes Limited	Rehabilitation services	100% ordinary
Life Works Community Limited	Specialist healthcare	100% ordinary

All subsidiary undertakings are registered in England and Wales. 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 2015
(continued)

5 Debtors

	2015 £000	2014 £000
Group relief recoverable	362	394

6 Creditors amounts falling due within one year

	2015 £000	2014 £000
Amounts due to group undertakings	17,346	17,740

Amounts due to group undertakings are unsecured, non-interest bearing and repayable on demand

7 Called up share capital

	2015 £	2014 £
<i>Allotted, called up and fully paid</i>		
2 (2014 2) ordinary shares of £1 each	2	2

8 Reserves

	Share Premium £000	Retained earnings £000
At 1 January 2015	10	851
Profit for the financial year	-	362
At 31 December 2015	10	1,213

Notes to the financial statements for the year ended 31 December 2015 *(continued)*

9 Ultimate parent company

The company is a subsidiary undertaking of Priory Holdings Company No 2 Limited, which is incorporated in the Cayman Islands

The ultimate parent undertaking and controlling party at 31 December 2015 was Priory Group No 1 Limited, a company incorporated in England. Priory Group No 1 Limited was beneficially owned by funds managed by Advent International Corporation which was considered by the directors to be the ultimate controlling party of the company

On 16 February 2016 the entire share capital of Priory Group No 1 Limited was acquired by Whitewell UK Investments 1 Limited, an indirect wholly owned subsidiary of Acadia Healthcare Company Inc. From this date the ultimate parent undertaking and controlling party is Acadia Healthcare Company Inc

Priory Group No 1 Limited is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2015. Priory Group No 3 PLC is the parent undertaking of the smallest group of undertakings to consolidate these financial statements at 31 December 2015. 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