Cygnet Health Care Limited

Directors' report and financial statements

Registered number - 02141256

Year ended 31 October 2012

Contents

Chairman's Statement

(As presented in the parent company, Cygnet 2008 Limited, group financial statements)

Cygnet Health Care is a leading provider of psychiatric care services

During the year Cygnet has continued to develop its service offering and further adapt the services it provides to meet its customers' needs Cygnet continued to refresh the services it provides and worked to deliver more for less, striving to provide excellent value for money Cygnet estimates the cost of this investment in refreshing services (borne through the income statement) was £1 0m (2011 £1 6m) Furthermore it estimates the marginal adverse impact on trading EBITDA from having wards in infancy during the year was £0 9m (2011 £0 9m)

Cygnet believes that to continue to be successful it needs to be in tune with its customers, delivering concrete results rather than elaborate process Cygnet is focussed on delivering shorter lengths of stay and lower episode costs – so that our customers benefit, service users are rehabilitated faster and returned to the community, and those paying for their treatment are demonstrably provided with a high quality value for money service

Cygnet believes that it has never been better positioned to grow in partnership with the NHS in delivering healthcare services of increasing complexity and value for money The market is one that increasingly benefits operators with breadth and scale like Cygnet, where a network, an ability to compete for detailed tenders and a brand that stands for a quality guarantee are what commissioners are looking for

Our business continues to be supported by strong relationships with customers – Cygnet did business with 155 NHS purchasing bodies during the year ended 31 October 2012 ("FY2012") Formal arrangements in place with 83 of these bodies accounted for 67% of Cygnet's Revenue

We are pleased to be partnering with the NHS on working together in new innovative ways that are mutually beneficial to us both from both a clinical and efficiency point of view but also in a way that puts service users first

Corporate and Clinical Governance

Cygnet has continued its focus on striving for the highest quality corporate and clinical governance throughout everything we do – clinical excellence and governance are the bedrock of our business – with systems and processes in place to improve quality and to ensure service users and staff voices are heard in order to improve what we provide

Our Governance plan is designed to enhance Quality Assurance This plan is monitored regularly by local board and governance meetings We continue to work with the Care Quality Commission ("CQC"), the English regulating authority, aiming to be the market leader in our sector of delivery of clinical quality We are pleased to report the 100% compliance with CQUIN in 2011/12- all 174 out of 174 quality improvements were met on the 28 submissions made in 2011/12

Our People

I believe we have a first class team of management and staff in our organisation that combines a unique set of skills to drive our business forward It is the expertise of our people that enables us to do such a fantastic job of caring for our service users and improving their lives day by day I would like to take this opportunity to thank all staff for their tremendous commitment and skill

Process to find a new strategic investor

During the year Cygnet launched a process to find a new strategic investor with whom it can continue to invest and grow the business to continue its journey as a leading mental health service provider In preparation for this the company appointed a number of professional firms to perform due diligence and during the year incurred costs of £1 2m

Chairman's Statement *(continued)*

Our Network

Cygnet is able to deliver a diverse range of services to optimise the service user experience through its network of sites With a culture of team working and coverage of the entire mental health spectrum from Acute, Secure, Non-secure rehabilitation, and Out-patient services to Autism, Supported Living, and Elderly care Cygnet is different to other providers

Results and Outlook

The group's results for FY2012 with a profit for the year (before significant items) of £3 4m (2011 £3 0m) is a creditable performance It is worth noting that £1 1m of this was in the first six months and £2 3m in the second six months reflecting the fact that the business was coming out of its significant period of retooling in the early part of the year We therefore expect a continued modest growth in underlying profit in what is a challenging market and one in which we expect to partner further with the NHS

Ken Wilson
Executive Chairman and Chief Executive Officer

Chief Operating Officer's review

(As presented in the parent company, Cygnet 2008 Limited, group financial statements)

The market presented Cygnet with another challenging year in FY2012 - one which we met with enthusiasm and adaptability in order to continue with the good progress on our service provision capability

Our focus on service users enables us to deliver high quality, value for money services from which our customers benefit

We continued to deliver further re-tools of wards focussing on new or refreshed services in order to deliver the customer and Service Users what they want We expect this to be an ongoing feature of our business model, albeit at more modest levels than seen in the last couple of years

From its opening a year or so ago, Hansa, our new Learning Disabilities Ward at Cygnet Hospital Beckton, has been doing really well, delivering a very high specification service aiming to improve the capability of service users This is appreciated by customers looking for high quality in a very difficult environment

In addition at Cygnet Hospital Stevenage we have looked to provide more in the way of locked wards for customers needing to move their service users through the care pathway and prepare them for life in the community

With Community Services being a key focus in the Quality, Innovation, Productivity and Prevention ("QIPP") agenda, Cygnet has now opened its first Supported Living provision Cygnet Supported Living ('CSL'), in conjunction with a Registered Social Landlord, provides community housing along with individualised care planning We are excited about CSL's potential for growth and enhancement to the Cygnet Care Pathway as well as offering opportunities for external service users

FY2012 has been another significant year of investment into the upgrade and refurbishment of our units with Cygnet Wing Blackheath benefitting from substantial input which improved the environment for both service users and staff

Another example of this investment is at Grade I listed Tabley House, one of our nursing homes, which has upgraded its internal specification to a new build standard – providing high quality care in a superb setting

The continued focus on quality and governance within the organisation has led us to create a new governance post which will enable us to ensure more integration between local and corporate governance

Further, our IT infrastructure has been developing innovative tailored solutions to various processes at pace to ensure we give the right support to the hospitals and homes in being able to capture, analyse and audit data - with this year's key focus on our staffing and staff governance package

The Nicholson challenge continues to drive change with our customers The relationships that we continue to build with our customers allow us to work collaboratively to deliver services that are required both at a local level and for some more specialist services, a more national level

As these changes continue into the upcoming year we again relish the opportunity to work side by side with our NHS customers to provide solutions to service provision, quality and financial issues

Nicky McLeod
Chief Operating Officer

Chief Financial Officer's review

(As presented in the parent company, Cygnet 2008 Limited, group financial statements)

Cygnet made good progress in FY2012, starting to reflect the impact of the successful reconfiguration over the last two to three years and reopening a number of refreshed or new services

The financial highlights for the group are as follows

- Revenue of £81 4 million (2011 £78 2million)
- Group EBITDA of £22 0 million (2011 £20 8 million)
- Net cash inflow from operating activities before interest and taxation of £20 6 million (2011 £19 4 million)
- Capital Expenditure of £1 8 million (2011 £4 7 million)
- Repayment of debt of £4 1 million (2011 £4 8 million)
- Cash at bank and in hand of £4 2 million (2011 £3 1 million)

Group revenue was £81 4 million, up 4% on FY2011 reflecting the reopening of a number of wards following reconfiguration or 'retooling' The retoolings were in response to our customers and mean we continue to use our expertise to provide services that are needed In fact the revenue for the year of £81 4m splits £39 3m and £42 1m between the first and second six months, demonstrating the traction being achieved as retooled wards fill up and consequent margin recovery

Group operating expenses were £70 0 million inclusive of £0 3 million incurred on start up costs on launching our Supported Living business

Group EBITDA of £22 0 million was up 6% on 2011 The split below between the first and second half EBITDA demonstrates the progress to date in the recovery of earnings following the intense period of retooling

	FY 2012		FY2011
	Total	**Pre start up***	
	£m	£m	£m
First half	10 3	10 4	10 3
Second half	11 7	11 9	10 4
Total	22 0	22 3	20 7

*The start up costs relate to launch of the Supported Living business

The consolidated loss before taxation (after significant items) was £6 6 million (2011 £7 9 million) The loss is predominantly as a result of the negative change by £5 7 million in the fair value of the interest rate swap, £2 2 million charge in respect of impairments to freehold land and buildings and non trading costs of £1 2 million incurred in connection with the process to find a new strategic investor and obtain financing for projects

Financing and Cash Flow

Net cash inflow from operating activities, before interest and taxation was £20 6 million During the year the group paid £11 7 million in bank interest and £4 1 million repaying loans

The business also continued to invest its cash flow to fund capital to maintain our existing sites and to prepare for development of further capacity During the year the business spent £1 8 million on Capital Expenditure

Financing costs were £18 0 million (2011 £17 7 million) £5 7 million (2011 £6 5 million) of the financing costs was due to an accounting adjustment, which arose from the recognition of change in the fair value of the Group's 25 year interest rate swap contracts on a mark to market basis The interest rate swap is expected to amortise over the term of the swap contracts as payments are made in line with the originally agreed payment profile accordingly no adverse cash impact would occur

Cygnet's bank credit agreements require compliance with financial covenants including maintenance of certain ratios and security During the year these continue to be maintained Cygnet believes it has sensible levels of headroom on its ratios moving forward

Mark Ground
Chief Financial Officer

Cygnet 2008 Limited Directors and Senior Officers

(As presented in the parent company, Cygnet 2008 Limited, group financial statements)

Ken Wilson, Executive Chairman and Chief Executive Officer

Ken was appointed Executive Chairman of the Group in 1991 In collaboration with Cygnet's founder, John Hughes, Ken has worked hard to build a market leading independent provider of mental health care, primarily to the NHS Ken has over 20 years of experience at board level in various organisations and was also a Non-Executive Director of Barchester Healthcare from 2004 for 8 years Ken was appointed Chief Executive Officer of Cygnet in 2008

John Hughes, Founder Director

After developing twelve new psychiatric hospitals in the United States, John acquired the loss making Priory Hospital in London in 1980 John was subsequently responsible for developing the first seven Priory hospitals John founded Cygnet in 1988 and has seen the organisation flourish and grow to become one of Britain's largest providers of psychiatric services In 2008 John won the Outstanding Contribution Award at the Laing & Buisson Independent Healthcare Awards

Nicky McLeod, Chief Operating Officer

Nicky comes from a clinical background having initially completed training as a RGN in 1980 After developing her management career with a pharmaceutical company Nicky joined Cygnet in 1998 as a Hospital Director After two years Nicky was promoted to Regional Director with responsibility for three Cygnet hospitals Nicky became the Managing Director of five Cygnet hospitals before being appointed Chief Operating Officer with responsibility for operations at all Cygnet units

Mark Ground, Chief Financial Officer

Mark is an FCA and comes from a strong professional background, having spent eight years with Arthur Andersen, the last four as a management consultant, before moving on to work for a listed professional services business for six years, where he held the position of Group Finance Director and Company Secretary Mark joined Cygnet in 2008 as Chief Financial Officer He is also Company Secretary

Mark Hindes, Non Executive Director

Mark represents the interest of Grove Investments UK Ltd, Cygnet's second largest shareholder Mark is Group Finance Director of the Grove Group of Companies Mark is an ACA with a first class honours degree in Business Studies He has previously held a number of senior management roles including Finance Director of David Lloyd Leisure and Next Generation Clubs as well as Finance Director of the sandwich chain EAT during a key part of its development

Craig Hughes, Non Executive Director

Craig is a serial entrepreneur, having created a number of successful technology companies in Silicon Valley, including Trickplay (Internet TV software platform), Gumstix (embedded Linux hardware), Deersoft (open source anti-spam acquired by McAfee), and Panop (real time optimization acquired by Kana)

Gerry Magee, Non Executive Director

Gerry also represents the interests of Grove Investments UK Ltd, Cygnet's second largest shareholder Gerry joined the board in November 2010 Gerry holds a number of Directorships including being Chairman of Wellness Foods Gerry is a Chartered Accountant and a former senior partner at Deloitte

Directors' report

The directors present their report and audited financial statements for the year ended 31st October 2012

Directors

The following directors have held office during the year

K A R Wilson
J C Hughes
M G Ground
N J McLeod
R C Dinham (Company Secretary)

None of the directors held any beneficial interest in shares of the Company during the year

Principal activities

The principal activity of Cygnet Health Care Limited ("the Company") is that of an operating company, operating psychiatric and elderly healthcare facilities Cygnet Health Care Limited is able to continue to carry out this trade as it leases the psychiatric hospitals and elderly health care facilities from Cygnet PropCo Limited (a related undertaking), through a master lease agreement, and Stac Healthcare Limited (also a related undertaking) through a lease agreement This directors' report set out below is the Group directors' report as due to the inter-related nature of the group's activities it is felt that items relevant to the group will be directly or indirectly relevant to the individual entity

Business review

Cygnet now operates 745 beds (*2011 741 beds*) spread through a portfolio of 19 quality facilities The key performance measures that the Board of Directors ("The Board") uses to monitor progress of the Company and its subsidiaries ("The Group") against its objectives are

- Careful attention to clinical risk management,
- User experience and involvement,
- Customer satisfaction and patient care outcomes,
- Staff and management skills development,
- Staff turnover,
- Debtor days,
- Occupancy rates,
- Fee levels and pricing,
- EBITDA,
- Margin, and
- Staff and agency costs

Future prospects

Cygnet's strategy is to continue to grow and develop the business through

- furthering geographical coverage,
- development and broadening of current service lines,
- extension of service lines and care pathways,
- reacting to changing dynamics of our market and customers, in particular the NHS, and
- providing an environment and culture which promotes excellence in what we do and a fulfilling place for staff to pursue their careers

Key risks and uncertainties

Interest rate fluctuations

The Board considers that a key risk and uncertainty facing the Group is fluctuations in interest rates However, the Group has hedged 98% of its term debt borrowings which mitigates the risk of any increase in interest rates but also prevents the Group benefiting from any reduction in rates In the short term the Group is required to recognise the mark to market value of the SWAP through the Income Statement This hedging fixes the cost of funds allowing the Group to plan the long term cash flow with certainty

Directors' report *(continued)*

The business is supported by strong future demand based on the demographics of the UK population This should protect the Group from the current difficult economic environment The Group's strategy is one of continued growth through maintaining close links with customers and developing services to meet their requirements

The Group believes that due to the economic situation, another area that may be perceived as a risk is the ability in the future to secure financing to enable the Group to continue to finance any acquisitions and developments Due to existing facilities held and the ability to generate cash the Group does not consider this is a major risk

Other areas of financial risk which include credit risk, liquidity risk and cash flow risk are considered to be well controlled and are dealt with in note 16 to the accounts

Other non-financial risks include

Regulatory risk

Regulatory risk is the risk arising from adverse healthcare commission inspections, employees failing to adhere to Cygnet's policies and procedures, and breaches of Health and Safety regulations The Group engages in clinical audit, internal audit of systems, controls and continuous monitoring of performance of employees and customer and service user satisfaction Additionally, internal managers' "unannounced visit" inspections are carried out twice a year at each unit

This quality is used proactively to improve services and give individuals an opportunity to raise concerns CQC results are discussed at all levels of the company units, and analysed in depth by the Governance team The Board is also sensitive to the need to comply with Health and Safety and other regulations and is engaged on continuous training and upgrading of manuals and management responsible for ensuring that the Group remains up to date

Reputational risk

Reputational risk is the risk arising from adverse publicity The Group believes this is only likely to occur in relation to poor customer and/or service user care and has multilayered systems to prevent this occurring and manage any challenges arising

Competition

The Group monitors competition closely to ensure that it remains competitive in the market place The Group manages the risk associated with demand fluctuations by offering diversified services and monitoring demand, converting unused capacity to alternative services when appropriate Cygnet monitors prices charged both internally and externally to ensure that its services are appropriately priced to compete and provide value for customers

Employee involvement

The directors recognise the importance of human resources The Group's policy is to encourage active involvement of employees in the management of its facilities and in matters affecting employees' interests Each facility has a Staff Relations Group ('SRG') The elected chairperson of the SRG attends the twice yearly Board meetings at their facility and serves as a conduit for interaction between the Board and employees The SRG also takes an active role in quality assurance and the accreditation process which all the Group's facilities embrace In addition, the Group encourages personal career development for all employees through providing access to training and promotional opportunities

In June 2009, Cygnet 2008 Limited launched an Inland Revenue approved Share Incentive Plan ("SIP") under which Group employees are able to buy shares in Cygnet 2008 Limited out of pre-tax income The new scheme in which over 500 employees have become shareholders in Cygnet 2008 Limited represented a renewal of prior schemes In conjunction with the SIP, the executive directors undertook to produce and circulate half year reports on the performance of Cygnet 2008 Limited to SIP subscribers A separate HM Revenue & Customs approved share option scheme has been established for managers

Directors' report *(continued)*

Employee involvement *(continued)*

Further, Cygnet 2008 Limited launched a B Ordinary Share Plan in December 2008 whereby managers were invited to purchase B shares for nominal value These B shares would realise value above a hurdle level ('the Hurdle'), on a capital winding up or other realisation event ('an Event') There are two classes of ordinary shares, of which 56 0 million A shares were in issue or under option as at 31st October 2012 On an Event the A shareholders will be entitled to proceeds equal to the Hurdle Thereafter, the A and B shares will share in the proceeds equally as though all shares were of the same class The Hurdle was set as the equity value of the Group at which share options were awarded in December 2008, computed as £155,500,000 based on the then current number of A shares in issue and/or under option and equivalent to £2 75 per A share As at 31 October 2012 there are 3,370,500 B shares in issue

Disabled persons

It is Group policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to their employment Wherever practicable, we continue to employ and promote the careers of existing employees who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitudes and abilities

Political and charitable contributions

The company made no political or charitable contributions during the year *(2011 £nil)*

Proposed dividend

The directors do not recommend the payment of a dividend *(2011 £nil)*

Creditor payment policy

It is the Group's policy to pay approved liabilities to creditors promptly and within agreed terms

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditor annually and KPMG LLP will until further notice continue in office

By order of the Board

KAR Wilson
Director

10 December 2012

Cygnet Hospital Godden Green
Godden Green
Sevenoaks
Kent
TN15 0JR

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 year Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, 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 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

KPMG LLP
Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Independent auditor's report to the members of Cygnet Health Care Limited

We have audited the financial statements of Cygnet Health Care Limited for the year ended 31 October 2012 set out on pages 12 to 41 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 (APB's) Ethical Standards for Auditor

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private.cfm

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 October 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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

Independent auditor's report to the members of Cygnet Health Care Limited *(continued)*

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

I J Brokenshire

IJ Brokenshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

10 December 2012

Income Statement
for the year ended 31 October 2012

	Note	2012 £000	2011 £000
Revenue	1	**81,373**	75,114
Operating expenses		**(79,061)**	(74,400)
		2,312	714
Impairment of leasehold land and buildings	8	**(1,517)**	-
Operating profit before net finance costs		**795**	714
Finance income	5	**22**	8
Finance expenses	5	**(153)**	(56)
Net finance expense		**(131)**	(48)
Impairment of leasehold land and buildings	8	**(1,517)**	-
All other net income and expenditure		**2,181**	666
Profit before tax	2	**664**	666
Taxation	6	**493**	(599)
Profit for the financial year		**1,157**	67
Attributable to equity holders		**1,157**	67

There were no acquisitions or discontinued activities, in the current or prior year

Statement of Comprehensive Income
for the year ended 31 October 2012

	2012 £000	2011 £000
Profit for the year	**1,157**	67
Revaluation of property	**(2,031)**	(1,945)
Deferred tax recognised on revaluation - recognised directly in equity	**398**	539
Net income recognised directly in equity	**(1,633)**	(1,406)
Total recognised loss attributable to equity holders of the Company	**(476)**	(1,339)

Statement of Financial Position
at 31 October 2012

	Note	2012 £000	2011 £000
Non-current assets			
Property, plant and equipment	*8*	**21,594**	25,288
Intangible assets	*9*	**4,957**	5,040
		26,551	30,328
Current assets			
Amounts owed by group undertakings		**150,158**	147,089
Trade and other receivables	*11*	**10,785**	8,461
Cash and cash equivalents	*12*	**3,563**	2,688
Tax receivable		**1,657**	-
		166,163	158,238
Total assets		**192,714**	188,566
Current liabilities			
Trade and other payables	*13*	**26,693**	21,291
		26,693	21,291
Non-current liabilities			
Deferred tax liabilities	*10*	**1,653**	2,467
Total liabilities		**28,346**	23,758
Equity attributable to equity holders of the parent			
Share capital	*14*	**715**	715
Share premium	*14*	**178**	178
Revaluation reserve	*14*	**2,627**	5,018
Other reserve	*14*	**4,839**	4,839
Retained earnings	*14*	**156,009**	154,058
Total equity		**164,368**	164,808
Total equity and liabilities		**192,714**	188,566

These financial statements were approved by the Board of Directors on 10 December 2012 and were signed on its behalf by

KAR Wilson
Director

Registered number: 02141256

Statement of Cash Flows
for the year ended 31 October 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Profit for the year		1,157	67
Adjustments for			
Depreciation, amortisation and impairment	8,9	3,428	1,862
Financial income	5	(22)	(8)
Financial expense	5	153	56
Gain on sale of property, plant and equipment		(7)	-
Share based payment expense	15	36	105
Taxation	6	(493)	599
		4,252	2,681
Increase in trade and other receivables		(4,483)	(235)
Increase in trade and other payables		5,408	1,877
		5,177	4,323
Interest paid		(276)	(56)
Taxation paid		(1,910)	(2,144)
Net cash from operating activities		(2,186)	2,123
Cash flows from investing activities			
Interest received		22	8
Proceeds on disposal of property, plant and equipment		7	7
Acquisition of property, plant and equipment	8	(1,682)	(4,200)
Net cash from investing activities		(1,653)	(4,185)
Cash flows from financing activities			
Repayment of borrowings		(463)	-
Net cash flows from financing activities		(463)	-
Net increase/(decrease) in cash and cash equivalents		875	(2,062)
Cash and cash equivalents at 31 October 2011		2,688	4,750
Cash and cash equivalents at 31 October 2012	12	3,563	2,688

Notes

(forming part of the financial statements)

1 Accounting policies

Cygnet Health Care Limited is a company incorporated in the UK

The address of the Company's registered office is,

Cygnet Hospital Godden Green
Godden Green
Sevenoaks
Kent
TN15 0JR

Statement of compliance

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

Basis of preparation

Going Concern

These financial statements have been prepared on the going concern basis The Group is profitable, after adjusting for the movements on the swap accrual, and generates positive cashflows The Group does have term borrowings which have financial covenants attached However, management perform detailed forecasting for the next twelve months and the foreseeable future, which includes covenant compliance forecasting The renewal dates of the term borrowings do not fall within the next twelve months The current portion of the bank loan includes the requirement to provide £7 5m of new equity to reduce the outstanding loan by 30 April 2013 The Group has confirmed it has the ability to raise the required £7 5m new share capital, through existing or new shareholders, to meet the banking requirement Therefore there is no reason to suppose that the Group will not continue to be a going concern for the foreseeable future

Basis of measurement

The financial statements are presented in sterling, rounded to the nearest thousand They are prepared on the historical cost basis with the exception of Land and buildings that are revalued to fair value

Significant accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods

Judgements and estimates made by management in the application of Adopted IFRS that have significant effect on the financial statements are discussed in note 20

Notes *(continued)*

1 Accounting policies *(continued)*

The following are financial reporting standards applicable to the Company for future financial periods and have not been applied in preparing these financial statements

- IAS 17 Leases is an ongoing project by the IASB to reconsider the accounting treatment for leasing arrangements The project is being conducted jointly with the FASB The discussion paper that has been issued proposes for lessees, to eliminate the requirement to classify a lease contract as an operating or finance lease, and to require a single accounting model to be applied to all leases The paper proposes that a lessee recognize in its financial statements a "right of use" asset representing its right to use the leased asset, and a liability representing its obligation to pay lease rentals The proposals for lessor accounting are still being discussed The IASB have proposed an exemption from these requirements for lessors of investment property measured at fair value This will result in Cygnet Health Care Limited having to recognise in their statement of financial position the lease arrangements with Cygnet Propco Limited, Stac Health Care Limited, and external parties, if this standard comes into force
- IFRS 13 Fair Value Measurement (effective 1 January 2013) – This standard sets out a framework for measuring fair value and requires disclosure about fair value measurements IFRS 13 does not determine whether an asset, a liability or an entity's own equity instrument is measured at fair value Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions) This standard is not expected to have a material impact upon the financial statements

Revenue

Revenue relates to income received from operating psychiatric facilities and nursing homes and arises entirely in the United Kingdom Revenue from operating psychiatric facilities and residents of the Group's nursing homes is recognised, as earned, through the provision of contracted services

Revenue is recognised in the accounting period in which the Company provides the service

Segmental reporting

The Company's internal organisational and management structure and its system of internal financial reporting to the Board of directors is not based on geography It reports between psychiatric facilities as one segment and nursing homes as another segment, however, the size of the nursing home business is such that it has been deemed there is only one business segment and one geographical segment

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Net financing costs

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested and dividend income (see derivative financial instruments and hedging accounting policy)

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method Dividend income is recognised in the income statement on the date the entity's right to receive payments is established

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

Share-based payment transactions

The fair value of the amount payable to employees in respect of share options, which are equity settled, are recognised as an expense with a corresponding increase in equity The fair value of options is measured at grant date

The Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 November 2007

Taxation

Tax on the profit or loss for the year comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and associate to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Notes *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment

Properties are initially recorded at cost and are subsequently revalued at their fair value less accumulated depreciation and impairment losses

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses Lease payments are accounted for as described below

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognised net within 'other operating income' in the income statement

Depreciation is charged to the income statement to write off the cost less the estimated residual value on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment Freehold land is not depreciated Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term The estimated useful lives are as follows

- Short leasehold buildings — over the life of the lease
- Long leasehold buildings — 40 years
- Fixtures, fittings and equipment — 4 to 10 years
- Motor vehicles — 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date

Policy for interest and capitalisation

The cost of land and buildings includes interest on the capital employed in hospital developments, nursing home developments and development costs associated with initiating and monitoring the construction of hospital developments or nursing homes Such interest is capitalised only until the date of completion of the relevant hospital or home The rate of interest used is the applicable cost of funds during the period

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method Goodwill represents amounts arising on acquisition of trade and assets In respect of business combinations that have occurred since 1 November 2007, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

Goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is tested annually for impairment

In respect of acquisitions prior to 1 November 2007, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised

Negative goodwill arising on an acquisition is recognised in the income statement immediately

Other intangibles

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses

Amortisation of intangibles

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite Other intangible assets are amortised from the date they are available for use over their estimated useful lives The estimated useful lives are as follows

Goodwill	Indefinite life
Patents and trademarks	10 years
Customer contracts	15 years

The valuation of patents and trademarks is based on a fully-loaded royalty relief method The valuation of customer contracts is based on an income approach method

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment

The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

For goodwill, the recoverable amount is reviewed at each statement of financial position date

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 November 2007, the date of transition to Adopted IFRSs, even through no indication of impairment existed

Reversals of impairment

An impairment loss in respect of goodwill is not reversed

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount

Trade and other receivables

Trade and other receivables are stated invoiced value less any provision for doubtful debts

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Company

Objectives and policies

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of finance expenses Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

Notes *(continued)*

2 Expenses and Auditor's remuneration

Included in the profit for the year are the following

	2012	*2011*
	£000	*£000*
Amortisation of intangibles	83	*83*
(Profit)/ Loss on sale of property, plant, and equipment	(7)	-
Depreciation of plant, property and equipment	1,828	*1,779*
Operating lease payments	19,518	*19,293*
Impairment of property, plant and equipment	1,517	-

Auditor's remuneration

	2012	2011
	£000	£000
Audit of these financial statements	70	69
Other services relating to taxation	30	30

3 Staff numbers and costs

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

	2012	2011
	No	No
Nursing care staff	946	910
Support staff	216	209
Admin staff	192	190
	1,354	1,309

The aggregate payroll costs of these persons were as follows

	2012	2011
	£000	£000
Wages and salaries	40,284	37,860
IFRS 2 Share based payments (see note 15)	36	105
Social security costs	3,874	3,607
Other pension costs	431	442
	44,625	42,014

Notes *(continued)*

4 Directors' remuneration

	2012	2011
	£000	£000
Directors' emoluments	**951**	445
Company contributions to money purchase pension plans	**24**	20

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £448,000 (*2011 £207,000)*, and company pension contributions of £8,000, *(2011 £5,000)* were made to a money purchase scheme on their behalf No share options were exercised (*2011 nil*)

5 Finance income and expense

	2012	2011
	£000	£000
Interest income	**22**	8
Finance income	**22**	8
Interest expense		
On bank loans and overdrafts	**(153)**	(56)
Finance expenses	**(153)**	(56)
Net finance expense	**(131)**	(48)

Notes *(continued)*

6 Taxation

Recognised in the income statement

	2012 £000	2011 £000
Current tax (credit)/expense		
Current year	67	5
Adjustments for prior years	(144)	1,133
	(77)	1,138
Deferred tax expense		
Origination and reversal of temporary differences	(418)	(637)
Current year adjustment for prior years	2	98
	(416)	(539)
Total tax (credit)/expense in the income statement	(493)	599

Reconciliation of effective tax rate

	2012 £000	2011 £000
Profit for the period	1,157	67
Total tax (credit)/expense	(493)	599
Profit excluding taxation	664	666
Tax using the UK corporation tax rate of 24 83% (2011 26 83%)	165	179
Depreciation of assets not eligible for capital allowances	28	62
Impairment	394	-
Transfer pricing	1,863	1,740
Group relief	(2,610)	(2,218)
Other adjustments	(191)	(395)
Adjustment in relation to tax charge in prior years	(142)	1,231
Total tax (credit)/expense	(493)	599

The applicable tax rate for the current year is 24 83% following the reduction in the main rate of UK corporation tax from 26% to 24% with effect from 1 April 2012

The 2012 budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1st April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively

Notes *(continued)*

7 Dividend

	2012 £000	2011 £000
Dividend paid	-	-

8 Property, plant and equipment

	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost or valuation				
Balance at 1 November 2010	23,308	2,606	508	26,422
Additions	3,383	795	22	4,200
Disposals	-	(1)	(43)	(44)
Revaluation	(3,338)	-	-	(3,338)
Balance at 31 October 2011	23,353	3,400	487	27,240
Balance at 1 November 2011	23,353	3,400	487	27,240
Additions	608	986	88	1,682
Disposals	-	-	(26)	(26)
Revaluation	(4,858)	-	-	(4,858)
Balance at 31 October 2012	19,103	4,386	549	24,038
Depreciation and impairment				
Balance at 1 November 2010	-	1,222	383	1,605
Depreciation charge for the year	1,394	331	54	1,779
Disposals	-	-	(38)	(38)
Revaluation	(1,394)	-	-	(1,394)
Balance at 31 October 2011	-	1,553	399	1,952
Balance at 1 November 2011	-	1,553	399	1,952
Depreciation charge for the year	1,310	447	71	1,828
Disposals	-	-	(26)	(26)
Revaluation	(1,310)	-	-	(1,310)
Balance at 31 October 2012	-	2,000	444	2,444
Net book value				
At 1 November 2010	23,308	1,384	125	24,817
At 31 October 2011	23,353	1,847	88	25,288
At 31 October 2012	**19,103**	**2,386**	**105**	**21,594**

Notes *(continued)*

8 Property, plant & equipment *(continued)*

Revaluation

Leasehold land and buildings are measured using the revaluation model

The fair value of the Company's freehold land and buildings has been determined at year end using values consistent with the formal valuation conducted by Knight Frank LLP in October 2012

The Knight Frank LLP review was conducted in accordance with the practice statements in the valuation standards (The Red Book) published by the Royal Institution of Chartered Surveyors Knight Frank LLP are members of the Royal Institution of Chartered Surveyors and have appropriate qualification and recent experience in the valuation of properties in the relevant locations

The properties consist entirely of independent private hospital and nursing care home facilities which, having due regard to the Red Book, are to be treated as i) Land and buildings fully equipped as an operational entity and valued having regard to trading potential and, ii) Land and buildings owner-occupied for the purposes of the undertaking

Leasehold land and buildings

At 31 October 2012, had the leasehold land and building been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £3,566,000 (2011 £3,728,000)

The net book value of leasehold land and buildings (including certain leasehold improvements) comprises long leasehold of £5,180,000 (2011 £6,885,000) and short leasehold of £8,380,000 (2011 £10,823,000)

9 Intangible assets

	Goodwill £000	Customer contracts and trademarks £000	Total £000
Cost			
Balance at 1 November 2010, 31 October 2011, and 31 October 2012	4,466	1,030	5,496
Amortisation and impairment			
Balance at 1 November 2010	-	373	373
Amortisation for the year	-	83	83
Balance at 31 October 2011	-	456	456
Balance at 1 November 2011	-	456	456
Amortisation for the year	-	83	83
Balance at 31 October 2012	-	539	539
Net book value			
At 1 November 2010	4,466	657	5,123
At 31 October 2011	4,466	574	5,040
At 31 October 2012	**4,466**	**491**	**4,957**

Notes *(continued)*

9 Intangible assets *(continued)*

Amortisation and impairment charge

The amortisation charge is recognised in the following line items in the income statement

	2012	2011
	£000	£000
Operating costs	83	83

Patents and trademarks are amortised over their useful economic life of 10 years As at 31 October 2012 the remaining amortisation period for patents and trademarks is 3 year 6 months

Customer contracts are amortised over their useful life of 15 years As at 31 October 2012 the remaining amortisation period for customer contracts is 8 years and 6 months

Goodwill is considered to have an indefinite useful life It is tested at least annually for impairment in accordance with IAS 36 'Impairment of assets' and IAS 38 'Intangible assets'

Impairment

The directors have reviewed the portfolio for impairment and consider no impairment has arisen

The recoverability of goodwill and trademarks, patents and customer contracts is assessed in comparison to the cash generating units to which it is associated

The impairment tests at 31 October 2012 using value in use resulted in no charge to goodwill impairment expense within the income statement In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of cash generating units (CGUs), which is determined based on value in use calculations These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount

Goodwill of £3,529,000 and intangible assets of £1,030,000 have been allocated against the cash generating unit of The Springs Community a residential care facility

The basis on which the intangibles and goodwill has been determined is on a cost basis (fair value at the date of the acquisition)

The assumption that the third party had made in valuing the intangible assets are as follows

For customer contracts

The income approach method has been used which firstly projects the total cash flow expected to accrue The second step involves discounting these cash flows to present value at a discount rate that considers the degree of risk (or uncertainty) associated with the realisations of the projected monetary benefit The discount rate used is commensurate with the risk of investment, which is 8% for the Springs Community

Trade names

For trade names, the intangible was valued by means of royalty savings (relief-from-royalty) method of income approach Under this approach, it is assumed that a company, without a similar trade name, would licence the right to use the Springs Community trade name and pay a royalty related to turnover achieved in this industry

Notes *(continued)*

9 Intangible assets *(continued)*

In order to determine an appropriate royalty rate a review of actual royalty rates have been taken into account as follows

- Royalties paid by companies in similar industries such as Comfort Keepers Home, Instead Senior Care, Karen Bass, and Senior Adult Recreation and Health Adult Day Services Inc

The above had rates in the region of 5% to 7% The Springs Community is able to charge a premium price compared to its competitors and hence a discount rate of 9%, equal to the Company's return on equity has been used in its calculation

In developing the discount rates, the following factors were considered

- the valuation of business acquired (using management's projections over 13 years),
- the risk and required return characteristics for various asset categories, and
- the weighted average return on assets analysis, using the appropriate discount rate for each asset

Goodwill of £937,000 has been allocated against the cash generating unit of Westlands Lodge, Kenton Road

The basis on which goodwill was determined was on a cost basis (fair value at date of acquisition)

There were no customer contracts or trade names acquired Management and workforce skill were acquired, which are considered goodwill under IFRS 38

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		**Liabilities**	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Property, plant and equipment	**-**	-	**1,553**	2,339
Intangible assets	**-**	-	**113**	144
Other	**(13)**	(16)	**-**	-
Tax (assets) / liabilities	**(13)**	(16)	**1,666**	2,483
Net off tax liabilities/(assets)	**13**	16	**(13)**	(16)
Net tax (assets) / liabilities	**-**	-	**1,653**	2,467

Notes (*continued*)

10 Deferred tax assets and liabilities (*continued*)

Movement in deferred tax during the year

	1 November 2011 £000	Recognised in income £000	Recognised in equity £000	31 October 2012 £000
Property, plant and equipment	2,339	(388)	(398)	**1,553**
Intangible assets	144	(31)	-	**113**
Other	(16)	3	-	**(13)**
	2,467	(416)	(398)	**1,653**

Movement in deferred tax during the prior year

	1 November 2010 £000	Recognised in income £000	Recognised in equity £000	31 October 2011 £000
Property, plant and equipment	3,485	(607)	(539)	2,339
Intangible assets	177	(33)	-	144
Other	(117)	101	-	(16)
	3,545	(539)	(539)	2,467

The 2012 budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively

This will reduce the company's future current tax charge accordingly The deferred tax liability at 31st October 2012 has been calculated based on the rate of 23% substantively enacted at the Statement of Financial Position date

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly

11 Trade and other receivables

	2012 £000	2011 £000
Trade receivables	**8,921**	7,320
Other receivables and prepayments	**1,864**	1,141
	10,785	8,461

The Company regularly reviews the ageing profile of the trade receivables and actively seeks to collect any amounts that have fallen outside the defined credit terms

Notes *(continued)*

11 Trade and other receivables *(continued)*

The ageing of trade receivables that have not been provided for are

	2012	2011
	£000	£000
Not yet due		
0-29 days	**6,173**	5,388
Overdue		
30-59 days	**1,843**	1,220
60+ days	**905**	712
	8,921	7,320

The Company's exposure to credit risks related to trade and other receivables are disclosed in note 16

12 Cash and cash equivalents

	2012	2011
	£000	£000
Cash and cash equivalents per statement of financial position	**3,563**	2,688
Cash and cash equivalents per statement of cash flows	**3,563**	2,688

The Company's exposure to interest rate risk is disclosed in note 16

13 Trade and other payables

	2012	2011
	£000	£000
Trade payables	**1,941**	1,234
Non-trade payables and accrued expenses	**24,752**	20,057
	26,693	21,291

The Company's exposure to liquidity risks related to trade and other payables is disclosed in note 16

Notes *(continued)*

14 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 November 2010	715	178	7,242	4,839	153,490	166,464
Total recognised income and expense	-	-	-	-	67	67
Transfer from revaluation reserve	-	-	(818)	-	818	-
Revaluation	-	-	(1,406)	-	-	(1,406)
IFRS 2 adjustment	-	-	-	-	(317)	(317)
Balance at 31 October 2011	715	178	5,018	4,839	154,058	164,808
Balance at 1 November 2011	715	178	5,018	4,839	154,058	164,808
Total recognised income and expense	-	-	-	-	1,157	1,157
Transfer from revaluation reserve	-	-	(758)	-	758	-
Revaluation*	-	-	(1,633)	-	-	(1,633)
IFRS 2 adjustment	-	-	-	-	36	36
Balance at 31 October 2012	**715**	**178**	**2,627**	**4,839**	**156,009**	**164,368**

**Revaluation reserve*

Where property, plant and equipment is revalued, the cumulative increase in the fair value of the property at the date of reclassification in excess of any previous impairment losses is included in the revaluation reserve

Notes *(continued)*

14 Capital and reserves *(continued)*

Share capital	2012 £'000	2011 £'000
Authorised		
2,787,125,000 Ordinary shares of 1p each	**27,871**	27,871
800,000 redeemable preference shares of £1 each	**800**	800
	28,671	28,671
Allotted and fully paid and called up		
11,499,359 Ordinary shares of 1p each	**115**	115
600,000 redeemable preference shares of £1 each	**600**	600
	715	715

The Company is a wholly owned subsidiary of Cygnet 2002 Limited The right of redemption of the preference shares and the entitlement to dividends has been waived

15 Employee benefits

Share-based payments

The Cygnet Group operates three share schemes, the Company Share Option Plan ("CSOP"), the Share Incentive Plan ("SIP") and the B share scheme These allow employees to acquire shares in the ultimate parent company

All employees are employed by Cygnet Health Care Limited, and so the charge is borne by Cygnet Health Care Limited

CSOP scheme

The CSOP scheme awards options over ordinary A shares in the Company to employees During the year there were no shares awarded (*2011 111,575*)

The terms and conditions of the option grants are as follows, whereby all options are settled by physical delivery of shares

Grant date / employees entitled	*Number of Instruments granted*	*Vesting conditions*	*Contractual life of options*
Award date			
17 September 2003	*447,500*	*No performance conditions attach*	*16 September 2013*
6 May 2004	*25,000*	*No performance conditions attach*	*5 May 2014*
18 May 2004	*15,000*	*No performance conditions attach*	*17 May 2014*
22 April 2005	*244,000*	*No performance conditions attach*	*21 April 2015*
16 September 2005	*10,000*	*No performance conditions attach*	*15 September 2015*
12 December 2005	*60,500*	*No performance conditions attach*	*11 December 2015*
22 May 2006	*221,300*	*No performance conditions attach*	*21 May 2016*
7 November 2006	*20,000*	*No performance conditions attach*	*6 November 2016*
14 June 2007	*241,330*	*No performance conditions attach*	*13 June 2017*
1 December 2008	*278,550*	*No performance conditions attach*	*30 November 2018*
11 November 2011	*111,575*	*No performance conditions attach*	*10 November 2020*

Notes *(continued)*

15 Employee benefits *(continued)*

Share-based payments *(continued)*

SIP scheme

A SIP scheme was launched in June 2009 in Cygnet 2008 Limited The SIP is a standard HMRC approved plan which allows eligible employees to purchase shares in the Company

B share scheme

In 2008 a B share scheme was launched which invited employees to purchase "growth shares" – B ordinary shares with a nominal value of 0 01p and thereby a share in the return in growth of the business over a certain preset value (over £2 75 per A ordinary share)

The number and weighted average exercise prices of share options are as follows

	Weighted average exercise price 2012 £	*Number of options 2012*	*Weighted average exercise price 2011 £*	*Number of options 2011*
Outstanding at the beginning of the year	***1 81***	***724,075***	*1 89*	*701,150*
Forfeited during the year	***2 08***	***(86,200)***	*2 13*	*(88,650)*
Granted during the year	**-**	**-**	*2 75*	*111,575*
Vested during the year	***0 75***	***(11,500)***	-	-
Outstanding at the end of the year	***1 82***	***626,375***	*1 81*	*724,075*
Exercisable at the end of the year	***1.69***	***532,500***	*1 23*	*424,700*

The options outstanding at the year end have an exercise price in the range of £0 36 to £2 75 and a weighted average contractual life of 4 36 years

The fair value of employee share options is measured using a binomial lattice model Measurement inputs and assumptions are as follows

The expected volatility is based on the historic volatility over the three year periods (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

The share options have been granted under a non-market based performance condition The expected dividends have been assumed to be zero

Notes *(continued)*

15 Employee benefits *(continued)*

Share-based payments *(continued)*

	Exercise price	*Market price at grant date*	*Volatility of share return*	*Risk free discount rate*	*Fair value per award*
Award date					
17 September 2003	*36p*	*36p*	*50% pa*	*4 7% pa*	*23p*
6 May 2004	*36p*	*36p*	*50% pa*	*5 0% pa*	*23p*
18 May 2004	*36p*	*36p*	*50% pa*	*5 1% pa*	*23p*
22 April 2005	*105p*	*105p*	*50% pa*	*4 6% pa*	*66p*
16 September 2005	*105p*	*105p*	*50% pa*	*4 2% pa*	*65p*
12 December 2005	*115p*	*115p*	*50% pa*	*4 4% pa*	*71p*
22 May 2006	*125p*	*125p*	*50% pa*	*5 8% pa*	*97p*
7 November 2006	*135p*	*135p*	*50% pa*	*4 9% pa*	*85p*
14 June 2007	*150p*	*150p*	*50% pa*	*5 8% pa*	*97p*
1 December 2008	*275p*	*275p*	*60% pa*	*4 0% pa*	*146p*
11 November 2010	*275p*	*275p*	*60% pa*	*2 1% pa*	*142p*

The fair values for the SIP are equal to the share prices at each date of grant

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share based payments are as follows

	Expense	
	2012	*2011*
	£000	*£000*
Award date		
14 June 2007	-	-
1 December 2008	**(1)**	59
11 November 2010	**37**	46
Total CSOP	**36**	*105*
SIP (various dates)	-	-
Total all awards	**36**	*105*

	2012	*2011*
	£000	*£000*
Total intrinsic carrying amount of liabilities in respect of vested benefits	**626**	*724*

Notes *(continued)*

16 Financial instruments

Cygnet Health Care Limited is the primary operating subsidiary of Cygnet 2008 Limited This note sets out the risks faced by the Group since they both directly and indirectly affect Cygnet Health Care Limited

The Group has exposure to the following risks from its normal course of the Group's business

- Credit risk,
- Liquidity risk, and
- Interest rate risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital Further quantitative disclosures are included throughout the Group consolidated financial statements

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations

The Board of Directors oversees the adequacy of the risk management framework in relation to the risks faced by the Group

The Group obtains finance from a mixture of sources including bank loans and capital market issues in sterling at fixed and floating rates of interest Facilities are monitored against predicted borrowing levels and are increased or cancelled as necessary to ensure that there is sufficient committed headroom to accommodate foreseen operational requirements Uncommitted bank facilities are maintained and used to provide flexibility and more advantageous terms The Group's main financial covenants in longer term facilities are in respect of Loan to Value, Group Leverage (Debt to EBITDA), Fixed Charge cover (rent plus interest) and cash flow cover

The treasury policy is that deposits will only be made, and other financial instruments entered into, with bank counterparties, that have been approved by the Board

Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of the business

The capital structure of the Company consists of shareholders' equity comprising issued share capital, reserves and retained earnings disclosed in note 14

The capital structure of the Group is reviewed annually with reference to the costs applicable to each element of capital, future requirements of the Group, flexibility of capital drawdown and availability of further capital should it be required

The Group has hedged 98% of its term debt borrowings which mitigates the risk of an increase in interest rates but also prevents the Group from benefitting from a reduction in interest rates The Group's agreed facilities include additional funding capacity which can be drawn down to facilitate Cygnet's expansion plans

The lenders of debt have imposed capital requirements over the debt The Group must report to the bank monthly management accounts and quarterly covenant calculations, to ensure there are no breaches

Notes *(continued)*

16 Financial instruments *(continued)*

Interest rate swap

The Group has interest rate swaps (held in Cygnet PropCo Limited and Stac Healthcare Limited)

All swap hedges are remeasured to fair value at the statement of financial position date

Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer The demographics of the Group's customer base, including the default risk of the industry and country in which the customers domicile has less of an influence on credit risk The Group did business with 155 NHS purchasing bodies Cygnet maintains an active dialogue with all of its customers in order to meet their needs and reduce individual reliance on them

Geographically there is no concentration of credit risk Any potential credit risk arises on UK customers The trade receivable profile and hence maximum exposure is set out in note 11

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis Credit evaluations are performed on all customers requiring credit over a certain predetermined amount The Group's privately funded customer are required to pay for services in advance unless covered by insurance in which case pre-authorisation is required from the insurer The NHS purchasing bodies are invoiced monthly in arrears but charges are pre-authorised at the point of admission except for emergencies where these are completed within 48 hours of admission

At the statement of financial position date there were no significant concentrations of credit risk The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position

The carrying amount of Cygnet Health Care Limited financial assets represents the maximum credit exposure

The exposure to credit risk for trade receivables at the reporting date was in the UK

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due The Group uses financial instruments, comprising bank overdraft and various items including trade receivables and trade payables that arise directly from its operations The main purpose of these financial instruments is to raise finance for the Group's operations The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably Short-term flexibility is achieved by overdraft facilities The Group has a Revolving Credit Facility that is unsecured Interest is payable at the rate of LIBOR plus 3 25%

Notes *(continued)*

16 Financial instruments *(continued)*

The following tables detail the Company's remaining contractual maturity in respect of income earning financial assets and interest bearing financial liabilities

As at 31 October 2012

	Total	*Less than 1 year*	*1-2 years*	*2-5 years*	*5years+*
	£000	*£000*	*£000*	*£000*	*£000*
Cash and cash equivalent	***3,563***	*3,563*	-	-	-

As at 31 October 2011

	Total	*Less than 1 year*	*1-2 years*	*2-5 years*	*5years+*
	£000	*£000*	*£000*	*£000*	*£000*
Cash and cash equivalent	***2,688***	*2,688*	-	-	-

Interest rate risk

Interest rate risk is the risk that the Group will be susceptible to large fluctuations in interest rates and hence the interest payable on its bank debts As noted above, the Group has largely hedged against this risk

Sensitivity analysis

As noted above, the Group has interest rate swaps in place so they believe they are not sensitive to changes in interest rates

Interest rate profile of financial instruments at the year end

The cash and liquid resources, where interest bearing, attract interest at floating rates based on LIBOR for three months or less Any variable rate loan liabilities have been hedged to eliminate the interest rate risk

Fair value

The estimated fair value of the Company's financial instruments is set out below

Financial assets

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Trade and other receivables	**10,785**	**10,785**	8,461	8,461
Cash at bank	**3,563**	**3,563**	2,688	2,688
	14,348	**14,348**	11,149	11,149

Financial liabilities

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£000	**£000**	£000	£000
Trade and other payables	**26,693**	**26,693**	21,291	21,291
	26,693	**26,693**	21,291	21,291

Notes *(continued)*

16 Financial instruments *(continued)*

Repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their periods in which they mature or, if earlier, are repriced at the statement of financial position date

	Note	2012 Total	2012 Less than one year £000	2012 1 to 2 years £000	2012 2 to 5 years £000	2012 5 years and over £000	2011 Total £000	2011 Less than one year £000	2011 1 to 2 years £000	2011 2 to 5 years £000	2011 5 years and over £000
Cash and cash equivalents		3,563	3,563	-	-	-	2,688	2,688	-	-	-
		3,563	3,563	-	-	-	2,688	2,688	-	-	-

Notes *(continued)*

17 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2012 £000	2011 £000
Less than one year	**19,449**	19,368
Between one and five years	**77,967**	77,747
More than five years	**368,246**	387,771
	465,662	484,886

Land and buildings have been considered separately for lease classification

- Tabley House lease is based on a 125 year lease The lease is reviewed every 25 years
- Blackheath lease is a 20 year lease which is reviewed every 3 years and increases with the Retail Price Index every year
- The Ealing lease is a 25 year lease which is reviewed every 5 years Cygnet have the right to cancel this lease at any time by giving nine months notice
- Harrow is a ten year lease
- The internal lease arrangement between the Company and Cygnet PropCo Limited, is treated as an operating lease The lease is a 30 year lease which allows the Company to operate the psychiatric hospital trade from the properties owned by Cygnet PropCo Limited

During the year £19,518,000 was recognised as an expense in the income statement in respect of operating leases *(2011 £19,293,000)*

18 Capital commitments

The Company had capital contracted commitments of £nil (*2011 £nil*)

19 Related parties

Identity of related parties with which the Company has transacted

The ultimate controlling party and parent of the Company is Cygnet 2008 Limited

Transactions with key management personnel

The compensation of directors has been disclosed in note 4

The compensation of key management personnel (including the directors) is as follows

	Group 2012 £000	2011 £000
Key management emoluments including social security costs	**1,550**	889
Company contributions to money purchase pension plans	**41**	37
	1,591	926

Notes *(continued)*

19 Related parties *(continued)*

Identity of related parties

The Company has a related party relationship with its ultimate parent undertaking, the ultimate parent's subsidiaries, and with its directors

During the year the Company recognised a charge of £17,865,000 (*2011 £17,865,000*) in respect of its property lease arrangement with Cygnet PropCo Limited At 31 October 2012 £19,848,000 (*2011 £16,201,000*) is outstanding in relation to the rental charge, this is due to the timing difference between cash paid and the rental charge recognised under lease accounting

Cygnet PropCo II Limited, a related undertaking, provide operating facilities to the Company No rent is charged for this service

During the year Stac Healthcare Limited, a related undertaking, charged rental income of £150,000 *(2011 £150,000)* to the Company There was no outstanding balance at year end *(2011 £nil)* in relation to the rental income

20 Accounting estimates and adjustments

Management discussed the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates

Key sources of estimation uncertainty

Note 1 gives detailed analysis about the useful economic lives of depreciable assets Note 9 gives an analysis about goodwill

Critical accounting judgements in applying the Company's accounting policies

Certain critical accounting judgements in applying the Company's accounting policies are described below

Determining whether a lease is a finance lease or an operating lease

The internal lease arrangement between the operating company Cygnet Health Care Limited and Cygnet PropCo Limited, is treated as an operating lease

The lease is a 30 year lease which allows the Company to operate the psychiatric hospital trade from the properties owned by Cygnet PropCo Limited

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Properties held by Cygnet PropCo Limited would not be held on the statement of financial position of Cygnet PropCo Limited but instead would be held by the Company This would increase the Property, plant and equipment balance by £164 1 million and would impact the statement of financial position of the Company

The internal lease arrangement between the Company and Stac Healthcare Limited is treated as an operating lease

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Property held by Stac Healthcare Limited would not be held on the statement of financial position of Stac Healthcare Limited but instead would be held by the Company This would increase the Property, plant and equipment balance by £1 9 million and would impact the statement of financial position of the Company

Notes *(continued)*

20 Accounting estimates and adjustments *(continued)*

Intangible Assets 'IAS 38'

It is appropriate not to recognise any impairment losses in relation to the intangible fixed assets and tangible fixed assets, except as otherwise stated

IFRS 2 'Share-based payments'

The Company believes it is appropriate to account for the share options as equity settled

The valuation of properties

In determining the value of the properties, the directors rely on external valuations carried out by professionally qualified valuers in accordance with the appraisal and valuation standards of the Royal Institution of Chartered Surveyors

The properties consist entirely of independent private hospital and nursing care home facilities which, having due regard to the Red Book, are to be treated as i) Land and buildings fully equipped as an operational entity and valued having regard to trading potential and, ii) Land and buildings owner-occupied for the purposes of the undertaking

The Directors do not believe that there has been any impairment in the carrying value of the properties, plant and equipment or intangible fixed assets, except as disclosed in the financial statements

21 Ultimate parent company

The Company is a wholly owned subsidiary of Cygnet 2002 Limited, a company registered in the UK

The Company's ultimate parent undertaking is Cygnet 2008 Limited a company incorporated and registered in the UK

The results of the Company are consolidated into the Group that is headed by Cygnet 2008 Limited The consolidated accounts of Cygnet 2008 Limited are available to the public and may be obtained from

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Kingston Upon Thames
Surrey
KT2 5JH

22 Guarantees

The Company has guaranteed the overdraft of its fellow Group Company - Cygnet 2002 Limited, the amount outstanding at the year end was £476,516 *(2011 £477,103)*

Where the Company has entered into financial guarantee contracts to guarantee the indebtedness of another Company within its Group, the Company consider these to be insurance arrangements, and accounts for them as such In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee The Group's policy is to provide financial guarantees only to wholly owned subsidiaries