

Cygnnet Health Care Limited

Annual Report

Registered number - 02141256

14 month period ended 31 December 2014

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Strategic Report

This strategic report set out below is the Cygnnet 2008 Limited Group ("Group") strategic 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

The Cygnnet 2008 Limited Group ("Cygnnet" or "Group") is a leading UK provider of psychiatric care services.

During the 14 month period Cygnnet has continued to develop its service offering and adapt the services it provides to meet its customers' needs. Cygnnet continued to refresh the services it provides and to deliver more for less, striving to provide excellent value for money. Cygnnet believes that, to continue to be successful, it needs to be in tune with its customers, delivering concrete results rather than elaborate processes.

The Group is focussed on delivering shorter lengths of stay and lower episode costs – so that our customers benefit, service users are rehabilitated faster and where possible returned to the community, and those paying for their treatment are demonstrably provided with a high quality, value for money service.

In September 2014, Cygnnet found a new strategic partner in Universal Health Services Inc. ("UHS"), a leading health care provider in the USA and the leading provider of behavioural health care in the USA. Under new ownership, Cygnnet believes that it has never been better positioned to grow, in partnership with the NHS, delivering healthcare services of increasing complexity and value for money.

The market is one that increasingly benefits operators with breadth and scale, where a network, contractual relationships with most commissioners, the ability to deliver detailed performance information and compete for tenders and a brand that stands for quality are what customers look for.

Our business continues to be supported by strong relationships with customers – Cygnnet did business with 176 NHS purchasing bodies in FY2014. Formal arrangements in place with 103 of these bodies accounted for 84% of Cygnnet'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

Cygnnet has continued to focus on striving for the highest quality corporate and clinical governance throughout everything we do – clinical excellence and governance are the foundation of our business. 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 in delivery of clinical quality.

We are pleased to report 100% compliance with Commissioning for Quality and Innovation ("CQUIN") in 2013/14 (measured 1st April 2013 to 31st March 2014 in line with the relevant NHS financial year) - all 106 out of 106 quality improvements were met on the 26 submissions made in 2013/14.

The continued focus on quality and governance has seen a more streamlined reporting structure for the governance team. Reporting directly to the Board, the team delivers evidence and assurance of robust systems and processes ensuring that we have proof of our high standards and service delivery at individual service user level and across the whole group, learning from experience as we go.

Strategic Report *(continued)*

Our People

We 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 and the culture of passion and commitment that enables us to do such a fantastic job of caring for our service users and improving their lives day by day. Building on the vision of Service Users being at the heart of our business in 2013, during 2014 we launched our values proposition. Our values are to be helpful, responsible, respectful, honest and empathetic.

We would like to take this opportunity to thank all our staff for their tremendous commitment and skill.

Our Network

Cygnnet 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, Learning Disability and Elderly care, Cygnnet is different to other providers.

On 6th February 2015, Cygnnet Health Care was pleased to announce the acquisition of Orchard Portman House Hospital ("Orchard Portman"). Orchard Portman, a 46 bed mental health hospital located near Taunton, Somerset, provides a range of specialist support services to older males and females with a mental illness. It will be renamed Cygnnet Hospital Taunton.

The acquisition marks the first completed phase in a number of new developments and acquisitions Cygnnet Health Care has been pursuing since it was acquired by UHS in September 2014. Cygnnet plans to invest further in Orchard Portman to provide enhanced therapy and support services for people with challenging needs.

Post year end Cygnnet Health Care closed its underperforming 12 bed service at Stockport and its 10 beds of supported living services in Harrow and Devon.

Cygnnet now operates 765 (2013: 755 beds) spread through a portfolio of 18 quality facilities (2013: 19 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;
- Health and Safety compliance;
- Staff and management skills development;
- Staff turnover;
- Debtor days;
- Occupancy rates;
- Fee levels and pricing;
- EBITDA;
- Margin; and
- Staff and agency costs.

Strategic Report (continued)

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

Regulatory risk

Regulatory risk is the risk arising from adverse healthcare commission inspections, employees failing to adhere to Cygnet's policies and procedures. All CQC inspection reports are disseminated and action planning for improvements is shared across the group for learning purposes and to confirm Board Assurance. Health and Safety regulations are reviewed and internal policies, procedures and training updated in line with those 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.

Cygnet has proactively set up an external whistleblowing contact phone number to ensure that any concerns felt by staff can be assured of a full hearing and action as a consequence.

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 multi-layered 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.

Strategic Report (continued)

Financial Review

Cygnet made very encouraging progress in the period to 31 December 2014, with much improved occupancy levels and consequently improved revenue, EBITDA and operating cash flow.

The financial highlights for the group are as follows (14 months to December 2014 versus 12 Months to October 2013):

	14 months to 31 December 2014/ as at 31 December 2014	12 months to 31 October 2013/ as at 31 October 2013
	£m	£m
Revenue	118.4	90.9
Group EBITDA	31.6	23.1
Net cash inflow from operating activities before interest and taxation	23.2	24.3
Capital expenditure	8.7	2.0
Repayment of debt	127.9	6.6
Cash at bank and in hand	9.9	4.7

*Excluding one off exceptional costs relating to the transaction in the period.

Financing and Cash Flow

Net cash inflow from operating activities, before interest and taxation was £23.2 million. During the period, and following the acquisition of Cygnet 2008 Limited by UHS, the group repaid its bank loans in full, and replaced with additional share capital taken up by the UK parent company UK Acquisitions No.6 Ltd.

The business continued to invest its cash flow to fund capital to maintain our existing sites and to prepare for development of further capacity. During the period the business spent £8.7 million on capital expenditure including the purchase of the freehold of Cygnet Hospital Harrow.

Financing costs were £16.0m (2013: £3.9 million) inclusive of an accounting adjustment, which arose from the recognition of the change in the fair value of the Group's 25 year interest rate swap contracts on a mark to market basis. The SWAP positions were closed out and settled on the change of ownership to UHS Inc.



DJ Cole
Director



MG Ground
Director

2015

3rd Floor, Suffolk House
154 High Street
Sevenoaks
Kent
TN13 1XE

Directors' report

The directors present their report and audited financial statements for the 14 month period ended 31st December 2014. The year end for the company was changed from 31 October to 31 December and hence the financial statements include a 14 month period to the 31 December 2014.

Directors

The following directors have held office during the period, and up until the point of signing were:

J C Hughes	(Resigned 01/04/14)
M K O'Donnell	(Resigned 26/09/14)
K A R Wilson	(Resigned 01/04/14)
D J Cole	(Chief Executive Officer) (Appointed 01/04/14)
N J McLeod	(Chief Operating Officer)
M G Ground	(Chief Financial Officer)
A J Coleman	(Company Secretary)

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

Principal activities

The principal activity of Cygnnet Health Care Limited ("the Company") is that of an operating company, operating psychiatric and elderly healthcare facilities. Cygnnet Health Care Limited is able to continue to carry out this trade as it leases the psychiatric hospitals and elderly health care facilities from Cygnnet PropCo Limited (a related undertaking), through a master lease agreement, and Stac Healthcare Limited (also a related undertaking) through a lease agreement.

Employee involvement

The directors recognise the importance of human resources. The Cygnnet 2008 Limited Group's ("Group") 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 actively developing promotional opportunities.

In order to obtain staff feedback, an annual staff engagement survey is carried out and reported on and exit interviews are collated independently. A new Employee Assistance Programme has been introduced enabling staff to seek support on work or home/life issues, with the aim of the Company offering improved support to staff working in challenging environments.

Disabled persons

It is the Group's 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 period (2013: *£nil*).

Directors' report *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2013: *£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



David Cole

Director

3rd Floor, Suffolk House
154 High Street
Sevenoaks
Kent
TN13 1XE



MG Ground

Director

18 March 2015

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

The directors are responsible for preparing the Strategic Report and 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 period. 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 14 month period ended 31 December 2014 set out on pages 10 to 39. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 7, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 December 2014 and of its loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

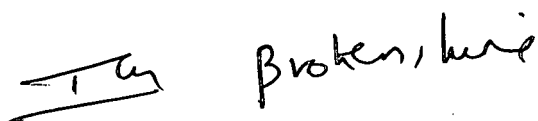
In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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.

 Ian Brokenshire

Ian Brokenshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Plym House
3 Longbridge Road
Plymouth
PL6 8LT

23 March 2015

Income Statement

for the 14 month period ended 31 December 2014

	Note	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Revenue	1	117,847	90,635
Operating expenses		(117,609)	(87,377)
		<u>238</u>	<u>3,258</u>
Impairment of leasehold land and buildings	7	(202)	(806)
Operating profit before net finance costs		<u>36</u>	<u>2,452</u>
Finance income	5	40	24
Finance expenses	5	(126)	(132)
Net finance expense		<u>(86)</u>	<u>(108)</u>
Impairment of leasehold land and buildings	7	(202)	(806)
All other net income and expenditure		<u>152</u>	<u>3,150</u>
(Loss)/profit on ordinary activities before tax	2	(50)	2,344
Taxation	6	(361)	(116)
(Loss)/profit for the financial period		<u>(411)</u>	<u>2,228</u>
Attributable to equity holders		<u>(411)</u>	<u>2,228</u>

There were no material acquisitions or discontinued activities, in the current or prior period.

Statement of Comprehensive Income
for the 14 month period ended 31 December 2014

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
(Loss)/Profit for the period	(411)	2,228
Revaluation of property <i>(see note 7)</i>	6,302	(1,015)
Deferred tax recognised on revaluation - recognised directly in equity <i>(see note 9)</i>	(1,368)	132
Net income/ (expense) recognised directly in equity	4,934	(883)
Total recognised profit attributable to equity holders of the Company	4,523	1,345

Statement of Financial Position

at 31 December 2014

	Note	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Non-current assets			
Property, plant and equipment	7	32,722	19,826
Intangible assets	8	937	4,874
		<u>33,659</u>	<u>24,700</u>
Current assets			
Amounts owed by group undertakings		153,473	157,881
Trade and other receivables	10	11,811	10,559
Cash and cash equivalents	11	9,806	3,863
Tax receivable		1,570	1,395
		<u>176,660</u>	<u>173,698</u>
Total assets		<u>210,319</u>	<u>198,398</u>
Current liabilities			
Trade and other payables	12	37,900	31,664
		<u>37,900</u>	<u>31,664</u>
Non-current liabilities			
Deferred tax liabilities	9	2,159	997
Total liabilities		<u>40,059</u>	<u>32,661</u>
Equity attributable to equity holders of the parent			
Share capital	13	715	715
Share premium	13	178	178
Revaluation reserve	13	5,706	1,114
Other reserve	13	4,839	4,839
Retained earnings	13	158,822	158,891
Total equity		<u>170,260</u>	<u>165,737</u>
Total equity and liabilities		<u>210,319</u>	<u>198,398</u>

Notes on pages 14 to 39 form part of the financial statements.

These financial statements were approved by the Board of Directors on 18 March 2015 and were signed on its behalf by:



David Cole
Director



MG Ground
Director

18 March 2015

Registered number: 02141256

Statement of Cash Flows

for the 14 month period ended 31 December 2014

	Note	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Cash flows from operating activities			
(Loss)/profit for the period		(411)	2,228
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	7,8	6,073	2,804
Financial income	5	(40)	(24)
Financial expense	5	126	132
Loss on transfer of property, plant and equipment		10	-
Share based payment expense	14	-	24
Taxation	6	361	116
		<hr/> 6,119	<hr/> 5,280
Decrease/ (increase) in trade and other receivables		4,080	(3,727)
Increase in trade and other payables		6,264	4,971
		<hr/> 16,463	<hr/> 6,524
Interest paid		(126)	(189)
Taxation paid		(1,700)	(1,753)
		<hr/>	<hr/>
Net cash from operating activities		<hr/> 14,637	<hr/> 4,582
		<hr/>	<hr/>
Cash flows from investing activities			
Interest received		40	24
Acquisition of property, plant and equipment	7	(8,734)	(1,970)
		<hr/>	<hr/>
Net cash from investing activities		<hr/> (8,694)	<hr/> (1,946)
		<hr/>	<hr/>
Cash flows from financing activities			
Repayment of borrowings		-	(2,336)
		<hr/>	<hr/>
Net cash flows from financing activities		<hr/> -	<hr/> (2,336)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		5,943	300
Cash and cash equivalents at 31 October 2013		3,863	3,563
		<hr/>	<hr/>
Cash and cash equivalents at 31 December 2014	11	<hr/> 9,806	<hr/> 3,863

Notes

(forming part of the financial statements)

1 Accounting policies

Cygnnet Health Care Limited is a company incorporated in the UK.

The address of the Company's registered office is:

Cygnnet 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

The Company has net assets together with the long term support from Group. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company and group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing these annual financial statements.

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 19.

Notes (continued)

1 Accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards

At the date of approval of these financial statements, the following standards, amendments and interpretations were issued but were not yet mandatory for the company and early adoption has not been applied.

- IAS 36 Amendment- Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Amendment- Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IFRS 10, IFRS 12, and IAS 27- Investment Entities

It is not anticipated that these standards, amendments and interpretations will have a significant impact on these financial statements of the Group.

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 period 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 period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous periods.

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 though 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 at invoiced value less any provision for doubtful debts.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured.

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.

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 (loss)/profit for the period are the following:

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Amortisation of intangibles	97	83
Depreciation of plant, property and equipment	1,933	1,915
Operating lease payments	22,660	19,624
	<u> </u>	<u> </u>

Auditor's remuneration:

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Audit of these financial statements	118	118
Other services relating to taxation	59	30
	<u> </u>	<u> </u>

3 Staff numbers and costs

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

	14 month period ended 31 December 2014 No.	Year ended 31 October 2013 No.
Nursing care staff	1,079	1,004
Support staff	278	230
Admin staff	209	201
	<u> </u>	<u> </u>
	1,566	1,435
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Wages and salaries	56,725	43,020
IFRS 2 Share based payments (see note 14)	-	24
Social security costs	5,615	4,086
Other pension costs	1,015	455
	<u> </u>	<u> </u>
	63,355	47,585
	<u> </u>	<u> </u>

Notes (continued)

18 Related parties (continued)

K A R Wilson (a director until 26/09/2014), was paid a commercial rent of £4,800 (2013: £9,600) during the period for the use of office premises.

A business in which K A R Wilson (a director until 26/09/2014) is a Partner, was paid a commercial rent of £25,269 (2013: £12,144) during the period for the use of business premises.

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 period the Company recognised a charge of £20,842,000 (2013: £17,865,000) in respect of its property lease arrangement with Cygnnet PropCo Limited. At 31 December 2014 £26,795,000 (2013: £23,211,000) 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.

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

During the period Stac Healthcare Limited, a related undertaking, charged rental income of £175,000 (2013: £150,000) to the Company. There was no outstanding balance at period end (2013: £nil) in relation to the rental income.

19 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 8 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 Cygnnet Health Care Limited and Cygnnet 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 Cygnnet 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 Cygnnet PropCo Limited would not be held on the statement of financial position of Cygnnet PropCo Limited but instead would be held by the Company. This would increase the Property, plant and equipment balance by £180.9 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 £0.8 million and would impact the statement of financial position of the Company.

Notes (continued)

19 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.

20 Ultimate parent company

The Company is a subsidiary undertaking of Universal Health Services Inc, a company incorporated in the US.

The largest group in which the results of the Company are consolidated is that headed by Universal Health Services Inc, a company incorporated in the US. The smallest in which they are consolidated is headed by Cygnnet 2008 Limited. The consolidated financial statements of these groups are available to the public. Universal Health Services Inc financial statements may be obtained from <http://www.uhsinc.com/> and Cygnnet 2008 Limited financial statements may be obtained from:

3rd Floor, Suffolk House
154 High Street
Sevenoaks
Kent
TN13 1XE

21 Guarantees

The Company has guaranteed the overdraft of its fellow Group Company - Cygnnet 2002 Limited; the amount outstanding at the period end was £nil (2013: £nil).

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.

Notes (continued)

4 Directors' remuneration

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Directors' emoluments	3,023	993
Company contributions to money purchase pension plans	215	32
	<u> </u>	<u> </u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £789,000 (2013: £440,000), excluding company pension contributions of £157,000 (2013: £13,000) which were made to a money purchase scheme on their behalf. No share options were exercised (2013: nil). Directors' emoluments in the 14 month period include one-off payments in relation to the transaction during the period.

5 Finance income and expense

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Interest income	40	24
	<u> </u>	<u> </u>
<i>Finance income</i>	40	24
	<u> </u>	<u> </u>
<i>Interest expense</i>		
On bank loans and overdrafts	(126)	(132)
	<u> </u>	<u> </u>
Finance expenses	(126)	(132)
	<u> </u>	<u> </u>
<i>Net finance expense</i>	(86)	(108)
	<u> </u>	<u> </u>

Notes (continued)

6 Taxation

Recognised in the income statement

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
<i>Current tax expense</i>		
Current period	-	34
Adjustments for prior periods	567	606
	<u>567</u>	<u>640</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(114)	(403)
Current year adjustment for prior periods	(92)	(121)
	<u>(206)</u>	<u>(524)</u>
Total tax expense in the income statement	<u>361</u>	<u>116</u>

Reconciliation of effective tax rate

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
(Loss)/profit for the period	(411)	2,228
Total tax expense	361	116
	<u>(50)</u>	<u>2,344</u>
(Loss)/profit excluding taxation		
Tax using the UK corporation tax rate of 21.71% (2013: 23.41%)	(11)	549
Depreciation of assets not eligible for capital allowances	38	42
Impairment	44	88
Transfer pricing	1,695	1,551
Group relief	(2,849)	(2,561)
Other adjustments	131	(38)
Adjustment in relation to tax charge in prior periods	475	485
Expenses not deductible for tax purposes	838	-
Total tax expense	<u>361</u>	<u>116</u>

Reductions in the UK corporation tax rate from 23% to 21% were effective from 1 April 2014. The further reduction to 20% will be effective from 1 April 2015 and will reduce the company's future tax liabilities accordingly.

The deferred tax balances at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

7 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 2012	19,103	4,386	549	24,038
Additions	1,041	891	38	1,970
Disposals	-	-	(9)	(9)
Revaluation	(3,151)	-	-	(3,151)
 Balance at 31 October 2013	 16,993	 5,277	 578	 22,848
 Balance at 1 November 2013	 16,993	 5,277	 578	 22,848
Additions	7,484	1,215	35	8,734
Disposals	-	-	(19)	(19)
Transfers	-	-	(8)	(8)
Revaluation	4,930	-	-	4,930
 Balance at 31 December 2014	 29,407	 6,492	 586	 36,485
Depreciation and impairment				
Balance at 1 November 2012	-	2,000	444	2,444
Depreciation charge for the period	1,328	546	41	1,915
Disposals	-	-	(9)	(9)
Revaluation	(2,134)	-	-	(2,134)
Impairment	806	-	-	806
 Balance at 31 October 2013	 -	 2,546	 476	 3,022
 Balance at 1 November 2014	 -	 2,546	 476	 3,022
Depreciation charge for the period	1,170	716	47	1,933
Disposals	-	-	(19)	(19)
Transfers	-	-	(3)	(3)
Revaluation	(1,372)	-	-	(1,372)
Impairment	202	-	-	202
 Balance at 31 December 2014	 -	 3,262	 501	 3,763
Net book value				
At 1 November 2012	19,103	2,386	105	21,594
 At 31 October 2013	 16,993	 2,731	 102	 19,826
 At 31 December 2014	 29,407	 3,230	 85	 32,722

Notes (continued)

7 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 period end using values consistent with the formal desktop valuation conducted by Knight Frank LLP on 3 July 2014.

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.

The directors of the Group are not aware of any material change in the value between 3 July 2014 and 31 December 2014.

Leasehold land and buildings

At 31 December 2014, 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 £3,333,000 (2013: £3,624,000).

The net book value of leasehold land and buildings (including certain leasehold improvements) comprises long leasehold of £4,400,000 (2013: £4,710,000) and short leasehold of £ 3,000,000 (2013: £6,280,000).

8 Intangible assets

	Goodwill £000	Customer contracts and trademarks £000	Total £000
Cost			
Balance at 1 November 2012, 31 October 2013, and 31 December 2014	4,466	1,030	5,496
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
Balance at 1 November 2012	-	539	539
Amortisation for the year	-	83	83
	<hr/>	<hr/>	<hr/>
Balance at 31 October 2013	-	622	622
	<hr/>	<hr/>	<hr/>
Balance at 1 November 2013	-	622	622
Amortisation for the period	-	97	97
Impairment	3,529	311	3,840
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2014	3,529	1,030	4,559
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 November 2012	4,466	491	4,957
	<hr/>	<hr/>	<hr/>
At 31 October 2013	4,466	408	4,874
	<hr/>	<hr/>	<hr/>
At 31 December 2014	937	-	937
	<hr/>	<hr/>	<hr/>

Notes (continued)

8 Intangible assets (continued)

Amortisation and impairment charge

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

	14 month period ended 31 December 2014 £000	Year ended 31 October 2013 £000
Operating costs	97	83

Patents and trademarks (which were fully impaired at the end of the period) were amortised over their useful economic life of 10 years.

Customer contracts (which were fully impaired at the end of the period) were amortised over their useful life of 15 years.

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

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.

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

The Directors have reviewed the portfolio for impairment and consider the following impairments to have arisen:

The Directors have taken the decision to cease operations from the cash generating unit of the Springs Community post period end. Therefore the goodwill, customer contracts and trademarks relating to this unit have been written down to £nil.

The impairment tests at 31 December 2014 has resulted in a £311,000 charge to customer contracts and trademarks impairment expense within the income statement. All customer contracts and trademark were associated with the Springs Community, and therefore not deemed to have future value to the business.

The impairment tests at 31 December 2014 using value in use resulted in a charge of £3,529,000 to goodwill impairment expense within the income statement solely relating to the goodwill associated with the Springs Community.

Notes (continued)

9 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31 December 2014	31 October 2013	31 December 2014	31 October 2013
	£000	£000	£000	£000
Property, plant and equipment	-	-	2,186	926
Intangible assets	-	-	-	82
Other	(27)	(11)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Tax (assets) / liabilities	(27)	(11)	2,186	1,008
Net off tax liabilities/(assets)	27	11	(27)	(11)
	<hr/>	<hr/>	<hr/>	<hr/>
Net tax liabilities	-	-	2,159	997
	<hr/>	<hr/>	<hr/>	<hr/>

Movement in deferred tax during the period:

	1 November 2013	Recognised in income	Recognised in equity	31 December 2014
	£000	£000	£000	£000
Property, plant and equipment	926	(108)	1,368	2,186
Intangible assets	82	(82)	-	-
Other	(11)	(16)	-	(27)
	<hr/>	<hr/>	<hr/>	<hr/>
	997	(206)	1,368	2,159
	<hr/>	<hr/>	<hr/>	<hr/>

Movement in deferred tax during the prior year

	1 November 2012	Recognised in income	Recognised in equity	31 October 2013
	£000	£000	£000	£000
Property, plant and equipment	1,553	(495)	(132)	926
Intangible assets	113	(31)	-	82
Other	(13)	2	-	(11)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,653	(524)	(132)	997
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

10 Trade and other receivables

	31 December 2014 £000	31 October 2013 £000
Trade receivables	10,042	8,321
Other receivables and prepayments	1,769	2,238
	<u>11,811</u>	<u>10,559</u>

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.

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

	31 December 2014 £000	31 October 2013 £000
<i>Not yet due:</i>		
0-29 days	6,229	5,145
<i>Overdue:</i>		
30-59 days	2,850	2,095
60+ days	963	1,081
	<u>10,042</u>	<u>8,321</u>

The Company's exposure to credit risks related to trade and other receivables are disclosed in note 15.

11 Cash and cash equivalents

	31 December 2014 £000	31 October 2013 £000
Cash and cash equivalents per statement of financial position	9,806	3,863
Cash and cash equivalents per statement of cash flows	9,806	3,863

The Company's exposure to interest rate risk is disclosed in note 15.

12 Trade and other payables

	31 December 2014 £000	31 October 2013 £000
Trade payables	1,929	2,064
Non-trade payables and accrued expenses	35,971	29,600
	<u>37,900</u>	<u>31,664</u>

The Company's exposure to liquidity risks related to trade and other payables is disclosed in note 15.

Notes (continued)

13 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 2012	715	178	2,627	4,839	156,009	164,368
Total recognised income and expense	-	-	-	-	2,228	2,228
Transfer from revaluation reserve	-	-	(630)	-	630	-
Revaluation	-	-	(883)	-	-	(883)
IFRS 2 adjustment	-	-	-	-	24	24
Balance at 31 October 2013	715	178	1,114	4,839	158,891	165,737
Balance at 1 November 2013	715	178	1,114	4,839	158,891	165,737
Total recognised income and expense	-	-	-	-	(411)	(411)
Transfer from revaluation reserve	-	-	(342)	-	342	-
Revaluation*	-	-	4,934	-	-	4,934
Balance at 31 December 2014	715	178	5,706	4,839	158,822	170,260

**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.

Revaluation movements include the deferred tax impact on movements in the period.

Notes (continued)

13 Capital and reserves (continued)

Share capital	31 December 2014 £000	31 October 2013 £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
	<hr/>	<hr/>
	28,671	28,671
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	715	715
	<hr/>	<hr/>

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.

14 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 period there were no shares awarded (2013: nil).

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			
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 2010	111,575	No performance conditions attach	10 November 2020

Notes (continued)

14 Employee benefits

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. The SIP scheme as at the end of the period was closed.

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). In the year all eligible employees participated in the scheme.

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

	<i>Weighted Average exercise price 31 Dec 2014 £</i>	<i>Number of options 31 Dec 2014</i>	<i>Weighted average exercise price 31 Oct 2013 £</i>	<i>Number of options 31 Oct 2013</i>
Outstanding at the beginning of the period	1.82	575,725	1.82	626,375
Forfeited during the period	1.83	(566,375)	1.83	(50,650)
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the period	2.56	9,350	1.82	575,725
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at the end of the period	2.56	9,350	1.70	499,350
	<hr/>	<hr/>	<hr/>	<hr/>

The 9,350 options outstanding at the period end have an exercise price in the range of £1.50 to £2.75 and a revised contractual life of 3 months following the transaction on 26 September 2014 which gave all option holders the offer to participate up until 26th March 2015 (6 month period to exercise from offer).

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)

14 Employee benefits (continued)

Share-based payments (continued)

	<i>Exercise price</i>	<i>Market price at grant date</i>	<i>Volatility of share return</i>	<i>Risk free discount rate</i>	<i>Fair value per award</i>
Award date					
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 period and the total liabilities recognised at the end of the period arising from share based payments are as follows:

	<i>Expense</i>	
	14 month period ended 31 December 2014	Year ended 31 October 2013
	£000	£000
Award date		
1 December 2008	-	-
11 November 2010	-	24
	<hr/>	<hr/>
Total CSOP	-	24
SIP (various dates)	-	-
	<hr/>	<hr/>
Total all awards	-	24
	<hr/>	<hr/>
	2014	2013
	£000	£000
Total intrinsic carrying amount of liabilities in respect of vested benefits	-	533
	<hr/>	<hr/>

Notes (continued)

15 Financial instruments

Cygnnet Health Care Limited is the primary operating subsidiary of Cygnnet 2008 Limited. This note sets out the risks faced by the Cygnnet 2008 Limited Group ("Group" or "Cygnnet") since they both directly and indirectly affect Cygnnet Health Care Limited.

The Group has exposure (or had exposure to at least part of the period) to the following risks from its normal course of 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 these 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 has previously obtained finance from a mixture of sources including bank loans and capital market issues in sterling at fixed and floating rates of interest. 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 Group previously consisted of debt and shareholders' equity comprising issued share capital, reserves and retained earnings. During the period the Groups external debt was replaced by newly issued share capital.

The Group previously hedged 99% of its term debt borrowings which mitigated the risk of an increase in interest rates but also prevented the Group from benefitting from a reduction in interest rates.

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 exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country in which the customers domicile has less of an influence on credit risk. Cygnnet Health Care Limited did business with 176 NHS purchasing bodies. Cygnnet 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.

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 customers 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.

Notes (continued)

15 Financial instruments (continued)

Credit risk (continued)

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.

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 can be achieved by using overdraft facilities.

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 December 2014:

	<i>Total</i>	<i>Less than 1</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5years+</i>
	<i>£000</i>	<i>year</i> <i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash and cash equivalent	9,806	9,806	-	-	-

As at 31 October 2013:

	<i>Total</i>	<i>Less than 1</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5years+</i>
	<i>£000</i>	<i>year</i> <i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash and cash equivalent	3,863	3,863	-	-	-

Interest rate risk

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

Interest rate profile of financial instruments at the period 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.

Notes (continued)

15 Financial instruments (continued)

Fair value

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

Financial assets

	31 Dec 2014		31 Oct 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Trade and other receivables	11,811	11,811	10,559	10,559
Cash at bank	9,806	9,806	3,863	3,863
	<u>21,617</u>	<u>21,617</u>	<u>14,422</u>	<u>14,422</u>

Financial liabilities

	31 Dec 2014		31 Oct 2013	
	Carrying Amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Trade and other payables	37,900	37,900	31,664	31,664
	<u>37,900</u>	<u>37,900</u>	<u>31,664</u>	<u>31,664</u>

Notes (continued)

15 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.

	Total	Less than one year £000	31 December 2014		
			1 to 2 years £000	2 to 5 years £000	5 years and over £000
Cash and cash equivalents	9,806	9,806	-	-	-
	<u>9,806</u>	<u>9,806</u>	<u>9,806</u>	<u>-</u>	<u>-</u>
	<u><u>9,806</u></u>	<u><u>9,806</u></u>	<u><u>9,806</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
	Total	Less than one year £000	31 October 2013		
			1 to 2 years £000	2 to 5 years £000	5 years and over £000
Cash and cash equivalents	3,863	3,863	-	-	-
	<u>3,863</u>	<u>3,863</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>3,863</u></u>	<u><u>3,863</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Notes (continued)

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2014 £000	31 October 2013 £000
Less than one year	18,926	19,460
Between one and five years	75,904	78,149
More than five years	329,810	348,969
	<u>424,640</u>	<u>446,578</u>

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
- 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 period £22,660,000 was recognised as an expense in the income statement in respect of operating leases (2013: £19,624,000).

17 Capital commitments

The Company had capital contracted commitments of £nil (2013: £nil).

18 Related parties

Identity of related parties with which the Company has transacted

The ultimate controlling party of the Company is Universal Health Services Inc, and the UK ultimate parent of the Company is UK Acquisitions No.6 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:

	14 month period ended 31 December 2014 £000	Group Year ended 31 October 2013 £000
Key management emoluments including social security costs	4,818	1,606
Company contributions to money purchase pension plans	259	50
	<u>5,077</u>	<u>1,656</u>