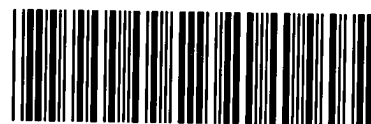


Company Registration No. 02141256 (England and Wales)

**CYGNET HEALTH CARE LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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# **CYGNET HEALTH CARE LIMITED**

## **COMPANY INFORMATION**

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**Directors**

Dr Antonio Romero  
Mr Mark Ground  
Mr Michael McQuaid  
Mr Gerald Corbett

**Secretary**

Mr Anthony Coleman

**Company number**

02141256

**Registered office**

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent  
TN15 7RS

**Independent auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

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# **CYGNET HEALTH CARE LIMITED**

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# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The strategic report set out below is the Cygnet Health Care Limited strategic report for the year ended 31 December 2019.

#### Principal Activities

The principal activity of the company is the operation of psychiatric and elderly healthcare facilities. The company is able to continue to carry out this trade as it operates out of hospitals either directly owned, owned by direct subsidiaries or leased from related undertakings such as Cygnet Propco Limited, Stac Healthcare Limited and Cygnet Health Developments Limited. Three of the sites are leased from third parties.

During the current year, Cygnet Health Care Limited employed 2,398 people (2018: 2,411).

Cygnet Health Care Limited is a wholly owned subsidiary of Cygnet Health UK Limited and the results of Cygnet Health Care Limited are included in the consolidated financial statements of Cygnet Health UK Limited.

The strategic report is group focused as that is how it is managed and management reporting is prepared on a group rather than an individual entity level. The risks are considered to be interrelated between the group companies.

#### Cygnet Health UK Limited Group

Cygnet Health UK Group ("Cygnet") is a leading UK provider of behavioural health services, focusing on delivering a diverse range of services to optimise the service user experience through its network of sites. Cygnet provides a broad coverage of the behavioural health spectrum from Secure, PICU / Acute, Mental Health Rehabilitation and Recovery, Personality Disorder, Children and Adolescents, Eating Disorder, Learning Disabilities, Autism Spectrum Disorder, Neuropsychiatric, Older Adults, Deafness and Mental Health. Cygnet operates across health and social care.

Cygnet is supported by its long term strategic partner Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA. UHS helps Cygnet to focus more on investing in the delivery of high quality, value-for-money services.

Cygnet is proud of its positive history of working alongside its commissioners to implement CQUIN schemes, which are embraced and recognised organisationally as a significant driver of innovation and service improvement. Individual CQUIN schemes are developed around areas of national best practice and are initiated by NHS England and various local commissioning groups (CCGs and Trusts), these schemes challenge providers to reflect on their current practices and encourage them to innovate and develop new ways of working.

Cygnet has received recognition nationally by other industry leading organisations and NHS bodies, for instance, NHS England South West MH produced a case study on Cygnet to share as best practice for achieving 100% compliance with NHS England's Child and Adolescent Mental Health Services (CAMHS) Inpatient Transition CQUIN scheme.

In addition to the above, in the year 2018 -2019 Cygnet were involved in 12 separate CQUIN schemes that cover a range of clinical best practice areas, ranging from reducing the length of inpatient stay, implementing Recovery Colleges in secure services, improving physical Health Care of those suffering from serious mental illness, reducing restrictive practices, collaborating with primary care providers and many more.

Cygnet remains focussed on quality and delivering clinically effective shorter lengths of stay with lower episode costs so that our customers receive better value, and service users are rehabilitated faster.

Cygnet recognises that its most valuable asset is its staff – their health, well-being and career development is crucially important. We fundamentally want to deliver on our vision and mission of working together in a positive culture of openness, honesty and inclusivity, which includes those who use our services. This means ensuring that everyone's voice is heard and acted upon. Therefore, we plan to look critically at all aspects of our work and develop long term outcome driven action plans for inclusion, equality and diversity. Not only will this ensure that we deliver services where no one suffers racism, prejudice or discrimination, and that everyone can access the right help they need at the right time, but also, ensure we recruit, support and retain talented people who exemplify our values and feel proud to be part of Cygnet in the delivery of person-centred care.

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### Review of the business

The results for the year ended 31 December 2019 are set out in the Income statement, Statement of Comprehensive Income and Statement of Financial Position.

In 2019, Cygnet Health Care Limited received £140.0m in revenue (2018: £134.0m), and had operating expenses of £149.0m (2018: £140.0m). Included in the operating expenses this year is separately reported items of £791.0k impairment of land and buildings (2018: £2.0k), and a reversal of previous impairment of land and buildings of £130.0k (2018: £nil).

Cygnet Health Care Limited received £17.0m (2018: £15.0m) in interest receivable on loans to group undertakings, and paid £33.9m (2018: £29.5m) in interest charged on loans from group undertakings.

The company generated a loss after tax of £34.3m (2018: £19.5m).

Cygnet Health Care Limited has £359.0m in property, plant and equipment (2018: £102.0m), with the increase primarily due to the recognition of £257.0m of Right of Use rental property assets in line with IFRS 16.

Cygnet Health Care Limited also has £292.0m of investments in subsidiaries (2018: £292.0m), and as at 31 December 2019 had net assets of £132.0m (2018: £159.0m).

Group Revenue for the year was £434.2m (2018: £375.6m). Operating profit before separately reported items for the year was £40.0m (2018: £45.2m) and the profit before tax was £27.6m (2018: £44.5m).

Net cash inflow from operating activities, before interest and taxation was £54.1m (2018: £59.5m).

Cygnet continued to invest its cash flow to fund capital expenditure to maintain its existing sites, to invest in the operational infrastructure, its IT and systems infrastructure, and to develop further capacity. During the period the business spent £42.0m (2018: £38.0m) on capital expenditure.

The financial highlights of the Group for the year are as follows:

	2019	2018
	£m	£m
Revenue	434.2	375.6
Operating profit (before separately reported items*)	40.0	45.2
 Total assets	 1,115	 1,048
Total liabilities	(115)	(103)
Net assets	<u>1,000</u>	<u>945</u>

\*Separately reported items include:

Impairment of freehold land and buildings:	<u>(£29.6m)</u>	<u>(£9.2m)</u>
Reversal of previous impairment of freehold land and buildings:	<u>£17.4m</u>	<u>£8.4m</u>

Cygnet made a statutory profit before tax of £27.6m (2018: £44.5m).

The business operates in a highly competitive market. Most competition is based on local catchment areas and the funding body's procurement initiatives with the NHS and Local Authorities.. Our business continues to be supported by strong relationships with customers; in 2019 Cygnet did business with 257 (2018: 228) NHS and Local Authority purchasing bodies. We are pleased to be partnering with our commissioners on working together in new innovative ways that are mutually beneficial to us both clinically and from an efficiency point of view but also in a way that puts service users first.

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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The Cygnet business operated 2,725 beds in 2019 (2018: 2,479) spread through a portfolio of over 100 sites and employed during the year 8,726 people.

In 2019, Cygnet has been able to extend its delivery of health and social care services through organic development with various extensions and including the opening of over 50 new beds.

#### **Our Corporate strategic priorities**

Our **purpose** is to make a positive difference to the lives of the individuals we care for, their loved ones and all those who work with us.

Our **vision** is to provide high quality, sustainable specialist services that: Ensure service users and residents feel safe and supported, staff are proud of, commissioners and service users and residents select, and stakeholders trust.

Our **mission** is to work together in a positive culture of openness, honesty and inclusivity, where we deliver safe, compassionate care for our service users and staff enjoy a fulfilling, rewarding environment in which to work.

Our Strategic priorities are:

- **Be the best:** To work together to enable people to achieve their personal best by creating opportunities for them to reach their true potential.
- **Support more people:** To care for as many people as possible through the provision of specialist services in communities across the country.
- **Deliver excellence:** To be seen as a provider of choice for the delivery of high quality, evidence-based, specialist care services that are always aligned to the needs of service users, staff and policy.
- **Value our staff:** To recruit and retain talented people who exemplify our values and feel proud to work with us in the delivery of person-centred care.
- **Innovation in services:** Continuously measure our progress, identify key needs and strive to continually enhance our services and outcomes.

#### **Corporate Governance and Clinical Delivery**

Cygnet 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.

Cygnet has a range of corporate, as well as regional specialist roles and structures which support the local operational needs and delivery of our services and provide the organisation with external mechanisms to gain assurance and identify where further support is required.

We use a governance matrix approach which includes processes at a local, regional and corporate level. This structure encourages increased opportunities to improve communication and learning across the organisation from ward to board. In addition to local teams there are regional quality assurance and governance leads, regional clinical directors, regional nursing directors, regional psychology and regional Occupational Therapy support.

Our continued focus on quality and governance has seen investment in people and a more streamlined reporting structure for the governance team with Quality Assurance Managers for each region. The governance team delivers evidence and assurance of systems and processes ensuring that we have evidence of our high standards and service delivery at individual service user level and across the whole group, learning from experience as we go.

During September 2019 we commissioned an external review of our Corporate Governance arrangements in response to a period of significant growth over the past 3 years, through merger and acquisition, and in response to a Care Quality Commission (CQC) Well-Led inspection of our headquarters function in July and August 2019.

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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As a result we have reviewed our corporate governance structures and are implementing the following sub committees of the Board in 2020: Clinical Governance Committee, Audit and Risk Committee, Nomination and Remuneration committee. Cygnet has also appointed a Senior Independent Director, Lord Kamlesh Patel.

We continue to work with our regulators 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 2018/19 in line with the relevant NHS financial year. During the year we achieved 82% Good or Outstanding CQC ratings (85% in 2018).

#### **Cygnet's approach to Clinical Governance**

The Clinical Directorate team are responsible for the oversight and implementation of clinical governance across Cygnet to ensure quality, safety, service user experience and lessons learnt. The three Regional Clinical Directors each chair the quarterly Regional Clinical Governance meetings that review the local Clinical Governance meetings with representation from each unit.

The framework used for local and regional clinical governance is based on 7 pillars of clinical governance, namely, clinical effectiveness and research, risk management, audit, service user and carer involvement, clinical staff management, information management, education and training.

Information gathered at local level is analysed in Regional Clinical Governance to identify trends, themes and lessons learned in each region. Unresolved or significant issues are escalated to clinical board. Lessons learned and best practice are disseminated to individual units.

We have a comprehensive suite of policies which are regularly updated to ensure they comply with legislative and best practice recommendations. This year we have significantly consolidated our policies across our business.

Examples include:

- Recruitment, Selection and Appointment of Staff Policy – to consolidate our safer recruitment guidelines;
- Freedom to Speak Up (Whistleblowing) Policy – as well as our independently run Whistleblowing line, we have also introduced a Freedom to Speak Up Guardian (FTSUG). As well as reviewing all concerns raised, the FTSUG is responsible for nurturing a culture of openness. This role sits outside the management structure and reports directly to the Executive Management Board. The Executive lead for the freedom to speak up service is the Director of Nursing; and
- Staff Retention and Leaving the Company Policy – retention of our people is one of key strategic goals.

#### Anti- Bribery and Corruption

Cygnet has a policy for anti-bribery and corruption and has a zero tolerance to such activities and requires compliance with the current legislation.

#### Data Protection Act (DPA) 2018 including General Data Protection Regulations (GDPR) 2016

Cygnet takes its data protection responsibilities very seriously and is committed to operating within the necessary regulatory boundaries of the data protection legislation. Cygnet is aware of the requirements and is keeping its data protection and governance practices up to date accordingly.

#### Modern Slavery Act 2015

Cygnet has a Slavery and Human Trafficking statement available on the company website. This states that Cygnet Health Care Limited has zero tolerance to slavery, human trafficking and violation of slavery law. Modern slavery is recognised as a category of abuse within our safeguarding policies. In regards our suppliers and procedures, Cygnet has a number of procedures in place that contribute to ensuring modern slavery does not occur in our business or supply chains.

# **CYGNET HEALTH CARE LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Our commitment to Service Users**

Cygnnet remains committed to ensuring that our Service Users receive the highest standards of care across each of our sites and services. Service User experience is at the heart of this, and everything we do at Cygnnet, and we continue to do our utmost to involve our Service Users in shaping their services to ensure they continue to be responsive to their needs.

Our People's Council meetings are held locally at site level and provide our Service Users with a forum where they can discuss their experiences with other Service Users and local managers. The views and discussions from these meetings are anonymised and reported on through local governance

structures to identify any areas that may require further focus and identify if any themes or hotspots are emerging across the business.

We also assure ourselves of our progress in this key area regularly by utilising a number of different methods to capture our Service Users views and experiences to track our progress. We conduct a number of surveys throughout the year to capture our Service User's views and use this valuable data to shape our improvement programmes across the business. Using our existing governance structures, we put this data in the hands of leaders and key members of staff across the business who are able to translate these comments into real improvements for our Service Users.

Visibility of this data is key to driving our programme of continual quality improvement across the business and disseminating results through our Ward to Board governance structures ensures that results get discussed at each level of the business and improvements are fully embedded and sustained.

### **Expert by Experience**

Cygnnet has a full programme of Expert by Experience visits within the organisation. These are primarily to ensure our service users views are heard in the provision and development of our services. Our clinical services ensure our service users voice is at the heart of our provision of high quality services. Cygnnet has entered into a service level agreement with Choice Support who manage the contracts with Expert by Experience. This ensures there is a robust governance around experts by experience and that they are looked after and all references and DBS checks are performed on all those who we use as experts by experience.

### **Our commitment to operational excellence**

Cygnnet's services provide individuals and their families with compassionate, quality care based on proven therapies and treatments that result in successful, long-term recovery and qualities of life that are recognised among the country's best.

We remain committed to our top priority — taking care of people. This includes a relentless focus on treating individuals with respect, operating with integrity, building trust, empowering our teams and in providing a superior quality care.

At Cygnnet, employees from all levels of the organisation constantly strive to improve our services. In support of these efforts, progress is continually measured against our goals. Our teams focus on patient satisfaction and we quantify our clinical care. These measures allow Cygnnet to benchmark, improve and report on the high-quality care provided.

Our resolute clinical and quality outcomes enable our ability to measure a broad set of evidence-based clinical and therapeutic practices that are linked to positive service user outcomes.

### **Our commitment to community and the environment**

As a leading provider of hospital and social care services, Cygnnet delivers high-quality, compassionate care to those in need. Our dedicated and talented staff treat service users and residents with dignity and respect throughout our care pathways.

Our facilities have an established history as care providers and as supporters of initiatives important to the local community. As an employer of choice, provider of high-quality health and social care services, and value-generating business partner, we are proud to contribute meaningfully to the communities we are privileged to serve.



# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### Energy

Cygnnet is actively engaged in fulfilling its commitments under the Energy Savings Opportunity Scheme (ESOS).

We aim to reduce our energy consumption and seek renewable sources as and when they come on to the market. Cygnnet are currently in long term contracts with our electricity suppliers; renewables make up circa. 15% of their generation mix. As our existing electricity contracts expire our target is to exceed the UK average renewable generation mix.

#### Waste

Waste generation is minimised with an active commitment to reduce landfill by ensuring paper, cardboard, cans, glass, plastics, cooking oil and food is recycled.

#### Our commitment to our people

Cygnnet has a very experienced Human Resources ('HR') department to support our people, including operational HR Business Partners, a Learning and Development team covering our mandatory and developmental training programmes, and a Resourcing team who specialise in award winning branding and campaigns, international recruitment, innovative recruitment strategies.

Cygnnet has introduced a new HR strategy which includes:

- Ensuring we have the right people in the right roles;
- Having a clear and sustainable recruitment strategy;
- Providing focus on retention of our staff;
- Ensuring our staff are appropriately skilled to undertake their roles safely; and
- Having up to date and effective HR processes.

In addition to the national recruitment strategy, Cygnnet has a clear international staffing strategy to recruit for skill shortages. Working alongside an external company of expert recruiters we have sourced many more sponsorship visas than have ever before been available to us so that we can attract doctors and nurses from overseas.

Cygnnet has introduced a central on-boarding team to ensure a positive candidate experience and speed up the process from the candidate applying to their start date.

Our HR Business Partners carry out HR site reviews with service managers regularly. This is a full review of the employee life cycle and includes staffing, turnover, retention, employee issues including disciplinary, grievance, ill health, etc.

HR Clinics are conducted every 6 months or more frequently for sites if required. The clinics are an open forum for all staff to speak to HR in confidence about anything they may be experiencing or with queries and for HR to gauge staff morale and take positive action and work with local management on action plans if required.

Cygnnet undertakes Mental Health First Aider training. To date Cygnnet has around 70 Mental Health First Aiders in Cygnnet to ensure that not only the individuals in our care receive mental health support but also our colleagues.

Cygnnet has further expanded its apprenticeships programmes including Trainee Nurse Associate and Leadership and Management. In 2019 we had 295 staff on apprenticeships. Cygnnet also regularly reviews its induction processes.

In 2019 Cygnnet put together an inclusion and diversity working party including a wide range of people across the business. Cygnnet conducted a staff survey into issues and also created an information and support area on the intranet.

Cygnnet continues to review our benefits packages and have introduced a number of new features recently. Cygnnet benchmarks its approach to pay and reward annually, both across the sector and geographically. We also continue to report on gender pay gap, comparing men and women's average pay across the organisation.

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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In order to obtain staff feedback an annual staff survey is carried out. Cygnet's staff engagement score for 2019 was 70% (2018: 65%). The 2019 survey showed the following:

- 70% (2018: 63%) of staff recommend Cygnet as a great place to work;
- 93% (2018: 94%) of Cygnet staff understand Cygnet's values;
- 8 out of 10 (2018: 8 out of 10) people feel supported by their managers;
- 7 out of 10 (2018: 7 out of 10) people would be happy for their relatives to be supported by Cygnet; and
- 82% (2018: 77%) of people think Cygnet's top priority is the care of service users.

Cygnet is very proud to have a first class team of management and staff in our organisation who combine 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. We believe in our core values of Care, Respect, Empower, Trust and Integrity.

We would like to take this opportunity to thank all of our staff for their dedication to the business and service users.

#### **People with disabilities**

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

#### **Key Performance Indicators ('KPIs')**

Cygnet uses a range of financial and non-financial indicators to measure and monitor its progress.

#### **Financial**

These include EBITDA, which reflects the earnings before interest and tax, depreciation and amortisation. Adjusted margins are also considered and reflect the causes for changes in EBITDA, such as changes in occupancy rates.

Management consider other KPI's including occupancy, average daily fees, EBITDA margin and agency hours, these are considered commercially sensitive and therefore specific examples are not included in this report.

#### **Non-financial**

We use a variety of Quality KPI's to ascertain our performance and compliance with standards.

A monthly Quality Dashboard by region is produced which summarises performance by unit, this includes published Regulatory Ratings as well as the Internal Quality Assurance Manager Rating of the service. The Dashboard includes Audit Submissions as well as identifying underperforming audit compliance ratings, Resuscitation Simulations, surveys and results of Medication Audits.

This year we have developed a sophisticated Incident Management System, which links into our other electronic systems and enables real time reporting and the early identification of risks and key themes and trends, this will be rolled out across the business by April 2020.

We have worked with Experts by Experience to further improve our process to manage and learn from Comments, Complaints and Compliments this includes a new Complaints Procedure and information in accessible formats. We have appointed a new Group Quality Standards Leads and will be rolling out the new Complaints Dashboard in 2020.

Staffing KPI's include: Recruitment of staff, Retention of staff, Training compliance.

# **CYGNET HEALTH CARE LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Future prospects**

Cygnnet's strategy is to continue to consolidate the business, to focus on quality and to grow and develop the business through:

- Putting services users and residents at the centre of everything we do;
- Looking after our staff;
- Maintaining and improving CQC ratings and CQUINS;
- Integration of policies and procedures;
- Furthering geographical coverage;
- Development and broadening of current service lines;
- Extension of service lines and care pathways;
- Reacting to the 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**

The Group faces many risks and uncertainties from external factors. The following are the most significant risk and uncertain facing the Group:

#### **COVID-19**

At Cygnnet as the effects of COVID-19 are becoming clear our focus continues to be keeping those in our care, and our staff as protected and safe as possible. We have very dedicated teams who are closely tracking the situation. Our teams meet every day, from Ward to Board, to help ensure business continuity and adaptation to the evolving situation.

Cygnnet is informed of government guidance and able to respond to the guidance as it changes. Our priority is to make sure we can provide safe continued care. We are working closely with our business partner, the NHS.

#### **Loss of funding**

Cygnnet relies on publicly funded entities in the UK such as the NHS, Clinical Commissioning Groups (CCGs) and Local Authorities for substantially all of its revenues and the loss or reduction of such funding, or changes in procurement methods, could negatively impact the Company's occupancy rates which could have corresponding material adverse effects.

#### **Competition**

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

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### **Brexit**

Cygnnet is monitoring closely the legal and political developments in the process towards Brexit as a result of the 2016 referendum. We have established a Brexit working group which reports to our Executive Team.

We have undertaken planning to prepare the Group for trading post transition period. We take business continuity very seriously and our priority is to mitigate the risks to continuity and safety of patient care, alongside critical issues related to other stakeholders be they employees, customers or consultants.

Although the Withdrawal Agreement was signed 24th January 2020, the absence of an agreed and binding post-transition trade arrangement with the EU, means that a no-deal Brexit remains a principal risk for Cygnnet. Cygnnet has considered the impact in a number of areas including:

- **Suppliers**

Cygnnet buys from UK suppliers but the source of their products can be from or via the EU.

- **Employees**

Whilst a relatively small portion of our employees are EU citizens we are keeping a watching brief over this area and continue to strive to recruit the highest calibre of candidates.

- **Increased Costs**

It is reasonable to anticipate that EU imports could be subject to customs charges and tariffs. We do not yet know what duties will be levied so cannot quantify the impact.

- **Mitigation**

We have been working closely with our key suppliers over recent months to understand their Brexit plans.

We have also been undertaking detailed contingency planning for some time to mitigate the impact of a no-deal Brexit in accordance with Government guidance.

We believe we are taking the reasonable steps to ensure that disruption to our patients and other stakeholders is minimised. However, given the uncertainties around the impact of a no-deal Brexit, we cannot rule out some disruption to the business as there may be some circumstances outside of our reasonable control.

#### **Reputational risk**

Reputational risk is the risk arising from adverse publicity. Cygnnet believes this is only likely to occur in relation to poor customer and/or service user care and has multi-layered systems to help prevent the risk occurring and manage any challenges arising.

#### **Danshell acquisition and Whorlton Hall**

Following the acquisition of Danshell in the summer of 2018 and during the early stages of the integration in 2019, one of the Danshell sites - Whorlton Hall was featured in a BBC Panorama TV programme. This had an impact on Cygnnet during the year.

As soon as we were aware of the allegations, we immediately and simultaneously informed all the relevant authorities, including the Care Quality Commission, NHS Commissioning Authorities, Social Workers and the Police. We also immediately suspended all the members of staff involved, and took the initiative of transferring all the patients out of the service and closed the hospital.

The company has taken the situation extremely seriously conducting a significant operational and procedural review and making investment to rectify issues. It is also reviewing the adequacy of the seller disclosure process at the time of the deal.

# CYGNET HEALTH CARE LIMITED

## STRATEGIC REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **Regulatory risk**

Regulatory risk is the risk arising from adverse regulatory inspections, or employees failing to adhere to Cygnet's policies and procedures. All themes and trends arising from 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.

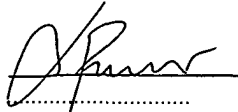
The Group engages in clinical audit, internal audit of systems, controls and continuous monitoring of performance of employees and customer and service user satisfaction.

Cygnet has an external whistleblowing phone line to ensure that any concerns felt by staff can be assured of a full hearing and action as a consequence this is in addition to having a Freedom to Speak Up Guardian (FTSU).

### **S172**

From the perspective of the board, as a result of the group governance structure whereby the entity board is embedded within the group board, the matters that it is responsible for considering under Section 172 (1) of the Companies Act 2006 ('s172') have been considered to an appropriate extent by the group board in relation both to the group and to this entity. The board has also considered relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the group board has considered the matters set out in s172 (for the group and for the entity) is set out in the body of this strategic report.

On behalf of the board



Dr Antonio Romero  
Director

27 August 2020

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent  
England  
TN15 7RS



Mr Gerald Corbett  
Director

27 August 2020

# **CYGNET HEALTH CARE LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2019**

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The directors present their annual report and audited financial statements for the year ended 31 December 2019.

#### **Principal activities**

The principal activity of Cygnet Health Care Limited ("the Company") is the operation of psychiatric and elderly healthcare facilities. The company is able to continue to carry out this trade as it operates out of hospitals either directly owned, owned by direct subsidiaries or leased from related undertakings such as Cygnet Propco Limited, through a master lease agreement, Stac Healthcare Limited and Cygnet Health Developments Limited (also related undertakings) through lease agreements. Three of the sites are leased from third parties.

#### **Results and dividends**

The results for the year are set out on page 19.

No ordinary dividends were paid during the year (2018: £nil). The directors do not recommend payment of a final dividend (2018: £nil).

#### **Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Dr Antonio Romero

Mr Laurence Harrod

(Resigned 7 August 2019)

Mr Mark Ground

Mr Michael McQuaid

Mr Gerald Corbett

(Appointed 7 August 2019)

#### **Qualifying third party indemnity provisions**

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the reporting date.

#### **Financial risk management**

The group's activities expose it to a variety of financial risks that include market and external risks, liquidity risk, interest rate risk, credit risk and data risk. Risks are managed on a group basis:

# **CYGNET HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### ***Market and external risks***

The business operates in a highly competitive market. Most competition is based on local catchment areas and the funding body's procurement initiatives with the NHS and Local Authorities. Our business continues to be supported by strong relationships with customers, and we continue to work with our regulators aiming to be the market leader in our sector in delivery of clinical quality.

Cygnnet monitors competition closely to ensure that it remains competitive in the market place. We are pleased to be partnering with our commissioners on working together in new innovative ways, and we continue to invest in capital expenditure to maintain existing sites, and to develop further capacity.

Cygnnet manages the risk associated with demand fluctuations by offering diversified services and monitoring demand, converting unused capacity to alternative services when appropriate. Cygnnet monitors prices charged both internally and externally to ensure that its services are appropriately priced to compete and provide value for customers.

There are also other external risks that Cygnnet is exposed to, for example the effects of Brexit.

Cygnnet is monitoring closely the legal and political developments in the process towards Brexit as a result of the 2016 referendum. We have established a Brexit working group which reports to our Executive Team.

We have undertaken planning to prepare the Group for trading post transition period. We take business continuity very seriously and our priority is to mitigate the risks to continuity and safety of patient care, alongside critical issues related to other stakeholders be they employees, customers or consultants.

We have also been undertaking detailed contingency planning for some time to mitigate the impact of a no-deal Brexit in accordance with Government guidance.

# **CYGNET HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### ***Liquidity risk***

Cygnnet relies on publicly funded entities in the UK such as the NHS, Clinical Commissioning Groups (CCGs) and Local Authorities for substantially all of its revenues and the loss or reduction of such funding, or changes in procurement methods, could negatively impact the Company's occupancy rates which could have corresponding material adverse effects on liquidity.

The Group monitors cash flow to ensure it has sufficient available funds for operations and planned expansions, and adapts its service provision depending on what is required. Cygnnet is supported by its long term strategic partner Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA.

### ***Interest rate risk***

Other than funding from its strategic partner Universal Health Services Inc., the group has no other external funding attracting interest, and therefore has limited exposure to interest rate risk.

### ***Credit risk***

The Group has limited credit risk, as the majority of income is due from the NHS, Local Authorities and CCG's.

### ***Data risk***

The security and availability of operational data is essential and system security hardware and software are used to achieve this.

Cygnnet takes its data protection responsibilities very seriously and is committed to operating within the necessary regulatory boundaries of the data protection legislation. Cygnnet is aware of the requirements and is keeping its data protection and governance practices up to date accordingly.

Cygnnet continued to invest its cash flow in operational infrastructure, its IT and systems infrastructure.

This year we have developed a sophisticated Incident Management System, which links into our other electronic systems and enables real time reporting and the early identification of risks and key themes and trends, this will be rolled out across the business by April 2020.

### ***Independent auditors***

PricewaterhouseCoopers LLP were appointed as auditors to the company and in accordance with section 485 of the Companies Act 2006.



# **CYGNET HEALTH CARE LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

#### **Statement of disclosure to independent auditors**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

#### **Going concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has net current liabilities of £280.2m (2018: £233.5m), of which £262.3m (2018: £249.0m) relates to amounts due to related group undertakings.

The directors have received a letter from Cygnet Health UK Limited indicating their intention to: (1) continue to provide the financial resources necessary to support the company in meeting its liabilities as and when they fall due for a period of at least one year from the date of signing of the company's financial statements for the year ended 31 December 2019; and (2) not to require settlement of outstanding intercompany balances to the extent that money is not, at the relevant settlement date, otherwise available to the company to meet such liabilities for a period of at least one year from the date of signing of the company's financial statements for the year ended 31 December 2019. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so and they have reviewed the consolidated group cash flow forecasts for the entity providing the letter of support extending 12 months from signing date and have concluded there are adequate resources to support the company as a going concern as well as all other subsidiaries to whom support is being provided for this period.

#### **Future developments**

Future developments of the company are covered in the strategic report.

# CYGNET HEALTH CARE LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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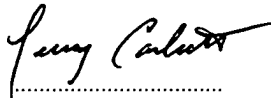
The financial statements on pages 19 to 49 were approved by the Board of Directors on .....27 August 2020..... and signed on its behalf by



Dr Antonio Romero

**Director**

Date: .....27 August 2020.....



Mr Gerald Corbett

**Director**

Date: .....27 August 2020.....

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent  
TN15 7RS

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYGNET HEALTH CARE LIMITED**

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Cygnet Health Care Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYGNET HEALTH CARE LIMITED**

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

*In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.*

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 14, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### ***Auditors' responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CYGNET HEALTH CARE LIMITED**

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### ***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


### **Other required reporting**

#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



**Nigel Reynolds (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**London**  
**27 August 2020**

## CYGNET HEALTH CARE LIMITED

### INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019		Total	2018		Total
		Before separately reported items	Separately reported items*		Before separately reported items	Separately reported items*	
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Revenue		140,370	-	140,370	133,902	-	133,902
Operating expenses		(148,784)	(661)	(149,445)	(138,357)	(1,465)	(139,822)
Operating loss	3	(8,414)	(661)	(9,075)	(4,455)	(1,465)	(5,920)
Finance income	7	17,159	-	17,159	15,181	-	15,181
Other investment income	7	29	-	29	-	-	-
Finance expense	8	(33,865)	-	(33,865)	(29,452)	-	(29,452)
Other finance costs	8	(9,088)	-	(9,088)	-	-	-
Loss before taxation		(34,179)	(661)	(34,840)	(18,726)	(1,465)	(20,191)
Tax on loss	9	535	-	535	678	53	731
Loss for the financial year		(33,644)	(661)	(34,305)	(18,048)	(1,412)	(19,460)

\*separately reported items have been deemed as non-recurring expenses which are not part of the core operating activities of the group and relate to:

- Deal costs relating to the purchase of Danshell Health Care Group of Enil (2018: £513,000)
- Impairment of land and buildings of £791,000 (2018: £2,000)
- Reversal of previous impairment of land and buildings of £130,000 (2018: £nil)
- Impairment of investment in Orchard Portman House Limited of Enil (2018: £950,000)

The income statement has been prepared on the basis that all operations are continuing operations.

The accompanying notes on pages 25 to 49 form part of the financial statements.

# CYGNET HEALTH CARE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2019**

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	2019 £'000	2018 £'000
Loss for the year	(34,305)	(19,460)
	<u>          </u>	<u>          </u>
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Revaluation of property, plant and equipment	8,811	6,517
Deferred tax movement on revaluation	(1,424)	(1,260)
	<u>          </u>	<u>          </u>
Total items that will not be reclassified to profit or loss	7,387	5,257
	<u>          </u>	<u>          </u>
 Total comprehensive expense for the year	 (26,918)	 (14,203)
	<u>          </u>	<u>          </u>

The accompanying notes on pages 25 to 49 form part of the financial statements.

# CYGNET HEALTH CARE LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	10	2,687	2,687
Property, plant and equipment	11	359,129	101,903
Investments	12	292,436	292,436
		<u>654,252</u>	<u>397,026</u>
<b>Current assets</b>			
Other receivables	14	29,299	31,855
Current tax recoverable		12,318	3,721
Cash and cash equivalents		5,270	24,227
		<u>46,887</u>	<u>59,803</u>
<b>Current liabilities</b>			
Trade and other payables	15	314,295	291,510
Taxation and social security		1,923	1,766
Lease liabilities	16	10,892	-
		<u>327,110</u>	<u>293,276</u>
<b>Net current liabilities</b>		<u>(280,223)</u>	<u>(233,473)</u>
<b>Total assets less current liabilities</b>		<u>374,029</u>	<u>163,553</u>
<b>Non-current liabilities</b>			
Lease liabilities	16	236,353	-
<b>Provisions for liabilities</b>			
Deferred tax liabilities	17	5,365	4,504
<b>Net assets</b>		<u>132,311</u>	<u>159,049</u>



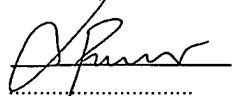
# CYGNET HEALTH CARE LIMITED

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

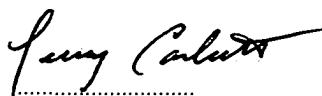
AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
<b>Equity</b>			
Called up share capital	19	715	715
Share premium account		178	178
Revaluation reserve		35,019	27,815
Capital redemption reserve		4,839	4,839
Retained earnings		91,560	125,502
<b>Total equity</b>		<b>132,311</b>	<b>159,049</b>

The financial statements were approved by the board of directors and authorised for issue on 27 August 2020 and are signed on its behalf by:



Dr Antonio Romero  
Director



Mr Gerald Corbett  
Director

The accompanying notes on pages 25 to 49 form part of the financial statements.

Company Registration No. 02141256

**CYGNET HEALTH CARE LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total equity
Note	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 January 2018</b>	715	178	23,566	4,839	143,423	172,721
<b>Year ended 31 December 2018:</b>						
Loss for the year	-	-	-	-	(19,460)	(19,460)
Other comprehensive income:						
Revaluation of property, plant and equipment	-	-	6,517	-	-	6,517
Tax relating to other comprehensive income	-	-	(1,260)	-	-	(1,260)
Total comprehensive expense for the year	-	-	5,257	-	(19,460)	(14,203)
Credit to equity for equity settled share-based payments	<b>18</b>	-	-	-	531	531
Other movements*	-	-	(1,008)	-	1,008	-
<b>Balance at 31 December 2018</b>	715	178	27,815	4,839	125,502	159,049

\* Other movements relate to a transfer from the revaluation reserve to retained earnings to reflect the difference between depreciation on a historic cost basis and revaluation basis.

**CYGNET HEALTH CARE LIMITED**

**STATEMENT OF CHANGES IN EQUITY (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total equity
Note	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2019	715	178	27,815	4,839	125,502	159,049
<b>Year ended 31 December 2019:</b>						
Loss for the year	-	-	-	-	(34,305)	(34,305)
Other comprehensive income:						
Revaluation of property, plant and equipment	-	-	8,811	-	-	8,811
Tax relating to other comprehensive income	-	-	(1,424)	-	-	(1,424)
Total comprehensive expense for the year	-	-	7,387	-	(34,305)	(26,918)
Credit to equity for equity settled share-based payments	18	-	-	-	180	180
Other movements*	-	-	(183)	-	183	-
Balance at 31 December 2019	715	178	35,019	4,839	91,560	132,311

\* Other movements relate to a transfer from the revaluation reserve to retained earnings to reflect the difference between depreciation on a historic cost basis and revaluation basis.

The accompanying notes on pages 25 to 49 form part of the financial statements.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

##### Company information

Cygnnet Health Care Limited is a private company limited by shares incorporated in England and Wales. The registered office is Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS. The registered number is 02141256.

#### 1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards and Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared on the historical cost basis, except for the revaluation of property. The principal accounting policies adopted are set out below.

Where relevant, the company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations. Equivalent disclosures are included in the consolidated financial statements of Cygnnet Health UK Limited in which the entity is consolidated;
- the requirements of paragraph 33 (c) of IFRS 5 Non current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 39 to 40, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where required, equivalent disclosures are given in the group financial statements of Cygnnet Health UK Limited. The group financial statements of Cygnnet Health UK Limited are available to the public and can be obtained as set out in note 23.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

---

#### 1 Accounting policies

(Continued)

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements. The financial statements present information about the company as an individual entity and not about its group.

Cygnnet Health Care Limited is a wholly owned subsidiary of Cygnnet Health UK Limited and the results of Cygnnet Health Care Limited are included in the consolidated financial statements of Cygnnet Health UK Limited which are available from Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS.

#### 1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate for the reasons set out below.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has net current liabilities of £280.2m (2018: £233.5m), of which £262.3m (2018: £249.0m) relates to amounts due to related group undertakings.

The directors have received a letter from Cygnnet Health UK Limited indicating their intention to: (1) continue to provide the financial resources necessary to support the company in meeting its liabilities as and when they fall due for a period of at least one year from the date of signing of the company's financial statements for the year ended 31 December 2019; and (2) not to require settlement of outstanding intercompany balances to the extent that money is not, at the relevant settlement date, otherwise available to the company to meet such liabilities for a period of at least one year from the date of signing of the company's financial statements for the year ended 31 December 2019. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so and they have reviewed the consolidated group cash flow forecasts for the entity providing the letter of support extending 12 months from signing date and have concluded there are adequate resources to support the company as a going concern as well as all other subsidiaries to whom support is being provided for this period.

#### 1.3 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.

#### 1.4 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less impairment losses.

The gain on a bargain purchase is recognised in profit or loss in the period of the acquisition.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is subsequently reversed if, and only if, the reasons for the impairment loss have ceased to apply.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### 1.5 Intangible assets other than goodwill

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.

#### 1.6 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

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 item and are recognised net within 'other operating income' in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

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:

Freehold & Leasehold land and buildings	40 years
Plant and equipment	10 years
Motor vehicles	5 years
IFRS 16 - ROU assets	Over remaining life of the lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

(Continued)

In the previous year, the group only recognised lease assets and liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 16.

Cygnnet Health Care Limited have applied IFRS 16 having made the following assumptions:

- The discount rate used in the calculations is the Groups incremental borrowing rate, for this assessment Cygnnet Health Care Limited used rates between 2.32% and 3.02%
- All leases which expired or were sold before December 2019 have been excluded
- Low value leases have been excluded

#### 1.7 Non-current investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

#### 1.8 Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### 1.9 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is exempt under IFRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### 1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

#### 1.11 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument. Financial assets are classified into specified categories, depending on the nature and purpose of the financial assets.

At initial recognition, financial assets classified as fair value through profit and loss are measured at fair value and any transaction costs are recognised in profit or loss. Financial assets not classified as fair value through profit and loss are initially measured at fair value plus transaction costs.

##### *Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

##### *Impairment of financial assets*

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

##### *Derecognition of financial assets*

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

#### 1.12 Financial liabilities

The company recognises financial debt when the company becomes a party to the contractual provisions of the instruments. Financial liabilities are classified as either 'financial liabilities at fair value through profit or loss' or 'other financial liabilities'.

##### *Other financial liabilities*

Other financial liabilities, including borrowings, trade payables and other short-term monetary liabilities, are initially measured at fair value net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.



# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

(Continued)

##### *Derecognition of financial liabilities*

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

#### 1.13 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

#### 1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

##### *Current tax*

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 the tax payable in respect of previous periods.

##### *Deferred tax*

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.

#### 1.15 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 1 Accounting policies

(Continued)

##### 1.16 Retirement 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 in the ultimate parent, Universal Health Services Inc., which will be equity settled, are recognised as an expense with a corresponding increase in equity. The fair value of options is measured at grant date. Further details are set out in note 18.

The Group and 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.

##### 1.17 Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

##### 1.18 Leases

At inception, the company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Where a tangible asset is acquired through a lease, the company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are included within property, plant and equipment, apart from those that meet the definition of investment property.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of other property, plant and equipment. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee, and the cost of any options that the company is reasonably certain to exercise, such as the exercise price under a purchase option, lease payments in an optional renewal period, or penalties for early termination of a lease.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in: future lease payments arising from a change in an index or rate; the company's estimate of the amount expected to be payable under a residual value guarantee; or the company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, or for leases of low-value assets including IT equipment. The payments associated with these leases are recognised in profit or loss on a straight-line basis over the lease term.

See note 16 for a description of the impacts of IFRS 16 adoption.

#### 1.19 New standards

There are new accounting standards or amendments to existing accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2019.

The company has applied IFRS 16 during the year, and the modified retrospective approach was used in its application. The Right of Use asset and lease liability were recognised as at 1 January 2019, using the present value of the remaining lease payments and the group's incremental borrowing rate. The application of IFRS 16 has had a material impact on the financial statements, see note 16 for the impacts of IFRS 16 adoption. As the modified retrospective approach was used, no restatement of prior year figures was required.

No other new accounting standards or amendments to existing accounting standards or IFRIC interpretations have had a material impact on the company's financial statements.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### 1.20 Separately reported items

Separately reported items have been deemed as non-recurring expenses which are not part of the core operating activities of the group. During the current year, separately reported items include the impairment of land and buildings, and reversal of previous impairment of land and buildings. In the prior year, there was also separately reported items for deal costs relating to the purchase of Danshell Health Care Group, and an impairment of investment in Orchard Portman House Limited.

Operating expenses include central costs relating to the provision of support services to the wider Cygnet portfolio. The allocation of central costs means that the company has recurring losses.

### 2 Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 the revision and future periods if the revision affects both current and future periods.

During the current year, the company adopted IFRS 16, and this required judgements and estimations to be made. The modified retrospective approach was used in its application, and the IFRS 16 Right-of-use asset and lease liability were recognised as at 1 January 2019. The present value of the remaining lease payments was calculated using the lease's incremental borrowing rate. The rate represents the estimated rate that the company would be charged interest had it borrowed funds to purchase the property. The same rates have been applied across the Cygnet group using the portfolio approach, as borrowing is done on a group basis. The rates vary between 1.64% for a lease with 1 year remaining, and 3.62% for leases with more than 15 years remaining on the lease.

### 3 Operating loss

	2019	2018
	£'000	£'000
Operating loss for the year is stated after charging:		
Depreciation of property, plant and equipment	20,471	6,178
Share-based payments	180	531
	<u>          </u>	<u>          </u>

### 4 Auditors' remuneration

	2019	2018
	£'000	£'000
Fees payable to the company's auditors:		
Audit of the financial statements of the company	134	450
	<u>          </u>	<u>          </u>

Cygnet Health Care Limited meets the cost of the audit fees for all subsidiaries.

This year's audit has been conducted by PricewaterhouseCoopers LLP, last year's audit was completed by KPMG LLP.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 5 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019 Number	2018 Number
Clinical	1,717	1,670
Non-Clinical	681	741
	<u>2,398</u>	<u>2,411</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	74,526	69,039
Social security costs	7,909	7,255
Other pension costs	1,913	1,572
	<u>84,348</u>	<u>77,866</u>

The non- UK directors did not receive emoluments for their services directly from this company which are deemed to be of negligible value (2018: £nil).

### 6 Directors' remuneration

	2019 £'000	2018 £'000
Remuneration for qualifying services	1,526	2,155
Company pension contributions to defined contribution schemes	23	75
	<u>1,549</u>	<u>2,230</u>

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	625	892
Company pension contributions to defined contribution schemes	10	33
	<u></u>	<u></u>

The above directors remuneration relates to remuneration received by UK directors only.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 7 Investment income

	2019 £'000	2018 £'000
<b>Interest income</b>		
Interest on bank deposits	29	-
Interest receivable from group companies	17,159	15,181
	<u>17,188</u>	<u>15,181</u>
<b>Total income</b>	<u>17,188</u>	<u>15,181</u>

Interest receivable from group companies is accrued at a rate of 5.1% per annum above LIBOR on intercompany balances.

### 8 Finance costs

	2019 £'000	2018 £'000
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest payable to group undertakings	33,865	29,452
Interest on other loans	4	-
	<u>33,869</u>	<u>29,452</u>
<b>Interest on other financial liabilities:</b>		
Interest on lease liabilities	9,084	-
	<u>42,953</u>	<u>29,452</u>
<b>Total interest expense</b>	<u>42,953</u>	<u>29,452</u>

### 9 Income tax expense

	2019 £'000	2018 £'000
<b>Current tax</b>		
Other taxes	28	-
	<u>28</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(313)	(371)
Adjustment in respect of prior periods	(250)	(360)
	<u>(563)</u>	<u>(731)</u>
<b>Total tax (credit)</b>	<u>(535)</u>	<u>(731)</u>

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 9 Income tax expense

(Continued)

These financial statements account for the change in the UK Corporation Tax rate from 19% to 17% for financial years beginning 1 April 2020 based on enacted legislation. Deferred tax in the UK is provided at a blended rate, depending on when the deferred tax is expected to unwind. The group notes that the UK corporation tax reduction to 17% is expected to be (cancelled/ delayed) and will account for this when it is substantively enacted.

The deferred tax liability as at 31 December 2019 has been calculated based on these rates.

The credit for the year can be reconciled to the loss per the income statement as follows:

	2019 £'000	2018 £'000
Loss before taxation	(34,840)	(20,191)
Expected tax credit based on a corporation tax rate of 19.00% (2018:19.00%)	(6,620)	(3,836)
Effect of expenses not deductible in determining taxable profit	71	173
Income not taxable	(59)	-
Change in unrecognised deferred tax assets	-	170
Adjustment in respect of prior years	(250)	(360)
Effect of change in UK corporation tax rate	-	(4)
Group relief	6,216	2,025
Depreciation on assets not qualifying for tax allowances	7	12
Adjustments in respect of financial assets	-	(123)
Impairment	-	404
Transfer pricing adjustment	(284)	741
Capital allowances not in deferred taxation	(110)	(145)
Interest not deductible	952	182
Share of Cygnet DM LLP Loss	(523)	-
Adjustment to deferred tax to average rate	37	-
Other differences	28	30
<b>Taxation credit for the year</b>	<b>(535)</b>	<b>(731)</b>

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £'000	2018 £'000
Deferred tax arising on:		
Revaluation of property	1,424	1,260

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 10 Intangible assets

	Goodwill	Customer contracts and trademarks	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 31 December 2018	6,216	1,030	7,246
At 31 December 2019	6,216	1,030	7,246
<b>Amortisation and impairment</b>			
At 31 December 2018	3,529	1,030	4,559
At 31 December 2019	3,529	1,030	4,559
<b>Carrying amount</b>			
At 31 December 2019	2,687	-	2,687
At 31 December 2018	2,687	-	2,687



# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 11 Property, plant and equipment

	Freehold & Leasehold land and buildings	Assets under construction	Plant and equipment	Motor vehicles	IFRS 16 - ROU assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>						
At 31 December 2018	78,020	9,197	25,409	942	-	113,568
Additions	2,617	2,388	7,008	309	257,463	269,785
Disposals	-	(33)	(2,690)	(405)	-	(3,128)
Revaluation increase	6,786	-	-	-	-	6,786
Assets under construction transfer	8,660	(8,914)	254	-	-	-
At 31 December 2019	96,083	2,638	29,981	846	257,463	387,011
<b>Accumulated depreciation and impairment</b>						
At 31 December 2018	-	-	10,951	714	-	11,665
Charge for the year	2,006	-	3,966	142	14,357	20,471
Eliminated on disposal	-	-	(2,669)	(405)	-	(3,074)
Eliminated on revaluation	(1,180)	-	-	-	-	(1,180)
At 31 December 2019	826	-	12,248	451	14,357	27,882
<b>Carrying amount</b>						
At 31 December 2019	95,257	2,638	17,733	395	243,106	359,129
At 31 December 2018	78,020	9,197	14,458	228	-	101,903

In the previous year, the group only recognised lease assets and liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 16.

Cygnnet Health Care Limited have applied IFRS 16 having made the following assumptions:

- The discount rate used in the calculations is the Groups incremental borrowing rate, for this assessment Cygnnet Health Care Limited used rates between 2.32% and 3.02%
- All leases which expired or were sold before December 2019 have been excluded
- Low value leases have been excluded

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 11 Property, plant and equipment

(Continued)

A formal valuation is carried out on a periodic basis, with the last valuation being carried out in March 2020, with a valuation date of 31 December 2019. This independent valuation was carried out by Knight Frank LLP, in accordance with the practice statements in the valuation standards (The Red Book) published by the Royal Institution of Chartered Surveyors. This valuation was taken into consideration by the Directors when valuing the properties for the current year.

The valuations are prepared by considering the aggregate of annual rents that would be receivable if the directors chose to charge market rents from letting the properties and, where relevant, associated costs or an EBITDA multiple. A yield which reflects the specific risks in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

The properties consist entirely of independent private hospitals, 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 December 2019, had the leasehold land and buildings been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £7,063,973 (2018: £8,170,568).

At 31 December 2019, had the freehold land and buildings been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £37,325,104 (2018: £38,023,825).

### 12 Investments

	2019 £'000	2018 £'000
Investments in subsidiaries	292,436	292,436

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

#### Fair value of financial assets carried at amortised cost

The directors consider that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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<b>12</b>	<b>Investments</b>	<b>(Continued)</b>
	<b>Movements in investments</b>	
		<b>Shares in group undertakings £'000</b>
	<b>Cost</b>	
	At 1 January 2019 & 31 December 2019	298,294
		<hr/>
	<b>Impairment</b>	
	At 1 January 2019 & 31 December 2019	(5,858)
		<hr/>
	<b>Carrying amount</b>	
	At 31 December 2019	292,436
		<hr/>
	At 31 December 2018	292,436
		<hr/>

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 13 Subsidiaries

Details of the company's subsidiaries at 31 December 2019 are as follows:

Name of undertaking	Registered office	Ownership interest (%)	Voting power held (%)	Nature of business
Orchard Portman House Limited*	United Kingdom	100	100	Holding company
Orchard Portman Hospital Limited	United Kingdom	100	100	Property holding
Taunton Hospital Limited	United Kingdom	100	100	Property holding
Cygnnet Hospital Holdings Limited*	United Kingdom	100	100	Holding company
Cygnnet Surrey Limited	United Kingdom	100	100	Psychiatric healthcare facilities
Cygnnet NW Limited	United Kingdom	100	100	Psychiatric healthcare facilities
Cygnnet Aspirations Developments Limited*	United Kingdom	100	100	Holding company
Safe Spaces Limited	United Kingdom	100	100	Non trading
Cygnnet Care Services Limited*	United Kingdom	100	100	Residential care facilities
Cygnnet Behavioural Health Limited*	United Kingdom	100	100	Psychiatric healthcare facilities
Cygnnet Learning Disabilities Midlands Limited	United Kingdom	100	100	Residential care facilities
CAS Learning Disabilities Services Limited	United Kingdom	100	100	Non trading
Isand Limited	United Kingdom	100	100	Residential care facilities
Isand (Domiciliary Care) Limited	United Kingdom	100	100	Residential care facilities
Cygnnet Learning Disabilities Limited	United Kingdom	100	100	Residential care facilities
CAS Aspirations Properties Limited	United Kingdom	100	100	Investment company
CAS St Paul's Limited	United Kingdom	100	100	Investment property
CAS Aspirations Properties V Limited	Jersey	100	100	Non trading
Short Ground Limited	United Kingdom	100	100	Residential care facilities
Relativeto Limited	United Kingdom	100	100	Residential care facilities
Caireach Limited	United Kingdom	100	100	Residential care facilities
Cygnnet Clifton Limited	United Kingdom	100	100	Residential care facilities
CAS Clifton Healthcare Limited	United Kingdom	100	100	Non trading
CAS Healthcare Properties Limited	United Kingdom	100	100	Investment property
CAS Aspirations Properties Limited	Jersey	100	100	Non trading
CAS Aspirations Properties III Limited	Jersey	100	100	Non trading
Cygnnet D Holdings Limited*	Guernsey	100	100	Holding company
Cygnnet DHG Limited	Guernsey	100	100	Holding company
Cygnnet (DM) LLP*	United Kingdom	98	98	Support services

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 13 Subsidiaries

(Continued)

Cygnnet (OE) Limited	United Kingdom	100	100	Residential care facilities
Cygnnet (DH) Limited	United Kingdom	100	100	Residential care facilities
Everycorner	United Kingdom	100	100	Residential care facilities

\*indicates direct holdings. Remaining subsidiaries acquired through direct acquisitions

All entities have the same registered office as Cygnnet Health Care Limited Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS with the exception of the Jersey and Guernsey entities. The Jersey entities have a registered office of 9 Burrard Street, St Helier, Jersey, JE4 5UE and the Guernsey entities have a registered office of 18-20 Le Pollet, St Peter Port, Guernsey, GY1 1WH.

The year end of the above companies is 31 December.

The Company's share of income for the year and distributable reserves of its subsidiaries are as follows:

	Share of Profit/(loss) for year ended	Share of capital and reserves	Share of Profit/(loss) for year ended	Share of capital and reserves
	31 December 2019 £'000	31 December 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Orchard Portman House Limited	(303)	(1,470)	(846)	(1,167)
Orchard Portman Hospital Limited	(1,280)	(3,274)	(1,010)	(1,994)
Taunton Hospital Limited	(1,047)	773	(799)	1,820
Cygnnet Hospitals Holdings Limited	170	5,628	153	5,458
Cygnnet Surrey Limited	5,486	(7,781)	(4,001)	(18,949)
Cygnnet NW Limited	13,216	132,806	13,275	103,136
Safe Spaces Limited	-	1	-	1
Cygnnet Aspirations Development Limited	(3,536)	49,354	(3,317)	52,890
Cygnnet Care Services Limited	1,903	19,258	3,090	17,355
Cygnnet Behavioural Health Limited	(29,870)	(51,610)	(23,734)	(21,740)
Cygnnet Learning Disabilities Midlands Limited	3,088	17,797	5,130	14,709
CAS Learning Disabilities Services Limited	-	(856)	-	(856)

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 13 Subsidiaries

(Continued)

	Share of Profit/(loss) for year ended	Share of capital and reserves	Share of Profit/(loss) for year ended	Share of capital and reserves
	31 December 2019 £'000	31 December 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Isand Limited	4,307	14,121	2,732	9,814
Isand (Domiciliary Care) Limited	907	4,077	618	3,170
Cygnnet Learning Disabilities Limited	(7,444)	2,723	(3,717)	10,167
CAS Aspirations Properties Limited	-	(2,033)	(4,400)	(2,033)
CAS St Paul's Limited	5,726	58,776	5,589	53,050
CAS Aspirations Properties V Limited*	-	17	-	17
Short Ground Limited	843	6,153	984	5,310
Relativeto Limited	1,199	6,976	808	5,778
Everycorner Limited	1,258	1,256	439	(2)
Caireach Limited	2,893	10,399	1,616	7,506
Cygnnet Clifton Limited	2,499	11,253	3,640	8,754
CAS Clifton Healthcare Limited	-	-	-	-
CAS Healthcare Properties Limited	22,142	200,723	21,068	178,581
CAS Aspirations Properties Limited*	-	(1,414)	-	(1,414)
CAS Aspirations Properties III Limited*	-	239	-	239
Cygnnet D Holdings Limited^ (formerly Danshell Holdings Limited)	-	16,164	(230)	16,164
Cygnnet DHG Limited^ (formerly Danshell Healthcare Group Limited)	-	2,198	(9,455)	2,198
Cygnnet (DM) LLP* (formerly Danshell Management LLP)	(2,802)	(2,786)	161	16
Cygnnet (OE) Limited (formerly Oakview Estates Limited)	(1,782)	14,403	(3,195)	16,185
Cygnnet (DH) Limited (formerly Danshell Healthcare Limited)	299	(5,314)	3,034	(5,015)

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 14 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	19,075	20,312
Provision for bad and doubtful debts	(559)	(852)
	<u>18,516</u>	<u>19,460</u>
Other receivables	675	1,422
Prepayments	10,108	10,973
	<u>29,299</u>	<u>31,855</u>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

### 15 Trade and other payables

	2019 £'000	2018 £'000
Trade payables	1,898	3,749
Amounts owed to fellow group undertakings	262,313	249,009
Accruals	42,296	38,588
Other payables	7,788	164
	<u>314,295</u>	<u>291,510</u>

The amounts owed to group companies are legally repayable on demand (and hence are disclosed as current liabilities), however, it is not expected that a demand for these amounts will be made within the next year.

Interest costs relates to interest payable on amounts due to group undertakings. Interest is accrued at a rate of 4.85% per annum above LIBOR.

### 16 Lease liabilities - IFRS 16

	2019 £'000	2018 £'000
<b>Maturity analysis</b>		
Within one year	10,892	-
In two to five years	46,676	-
In over five years	189,677	-
	<u>247,245</u>	<u>-</u>
<b>Total undiscounted liabilities</b>	<u>247,245</u>	<u>-</u>

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

#### 16 Lease liabilities - IFRS 16

(Continued)

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2019 £'000	2018 £'000
Current liabilities	10,892	-
Non-current liabilities	236,353	-
	<u>247,245</u>	<u>-</u>
	2019 £'000	2018 £'000
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities	<u>9,084</u>	<u>-</u>

The fair value of the company's lease obligations is approximately equal to their carrying amount.

The Company has adopted a modified retrospective approach in the application of IFRS 16, no restatement of prior year comparatives was required. The IFRS 16 asset and liability were recognised as at 1 January 2019. Cygnet Health Care Limited has 7 external lease properties and 3 properties leased internally within the group.

The lease right of use asset has been identified as £257,463,235 and is included within Property, Plant and Equipment. Amortisation of £14,356,872 has subsequently been applied using straight line method, leaving a netbook value of £243,106,363.

The present value of the remaining lease payments is £257,463,235 discounted using the lease's incremental borrowing rate. Interest charges of £9,083,943 have been applied. The lease liability is reduced by £19,302,393 of rent charged during the year which would have previously been charged to the income statement under IAS 17 as an operating lease expense. The total lease liability held on the balance sheet at the year end is £247,244,785.

Other leasing information is included in note 20.



# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 17 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting year.

	Other £'000	Short term timing differences £'000	Property, plant and equipment £'000	Total £'000
Deferred tax liability at 1 January 2018	-	-	4,296	4,296
Deferred tax asset at 1 January 2018	(322)	-	-	(322)
<b>Deferred tax movements in prior year</b>				
Credit to profit or loss	941	-	(1,671)	(730)
Credit to other comprehensive income	-	-	1,260	1,260
Deferred tax liability at 1 January 2019	619	-	3,885	4,504
<b>Deferred tax movements in current year</b>				
Credit to profit or loss	(918)	(162)	517	(563)
Credit to other comprehensive income	-	-	1,424	1,424
Deferred tax (asset)/liability at 31 December 2019	(299)	(162)	5,826	5,365

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 £'000	2018 £'000
Deferred tax liabilities	5,365	4,504

## CYGNET HEALTH CARE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### FOR THE YEAR ENDED 31 DECEMBER 2019

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#### 18 Share-based payment transactions

##### *Universal Health Services Inc. scheme*

Certain employees of the Group participate in a stock options scheme operated by Universal Health Services Inc., the ultimate parent undertaking. The options vest equally over four years and the options expire on the fifth anniversary of the grant date.

The fair value of the option at the date of the grant has been calculated using a Black-Scholes option pricing model.

The table below sets out details of the options granted under the Universal Health Services Inc. scheme:

Grant Date	Expiry date	Exercise Price	Fair value of option	Granted	Cancelled/ forfeit	Exercised	Outstanding
18 March 2015	18 March 2020	\$117.29	\$21.277	55,000	(17,500)	(36,500)	1,000
23 March 2016	23 March 2021	\$118.62	\$23.770	71,000	(32,750)	(30,250)	8,000
29 March 2017	28 March 2022	\$124.56	\$27.029	146,500	(46,750)	(48,500)	51,250
20 March 2018	20 March 2023	\$119.64	\$28.169	93,750	(21,754)	(17,798)	54,198
20 March 2019	20 March 2024	\$134.02	\$30.435	83,250	(8,250)	-	75,000

Total expenses of £180,000 related to equity settled share based payment transactions were recognised in the year. (2018: £531,000).

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2019

19	Called up share capital	2019 £'000	2018 £'000
	<b>Ordinary share capital</b>		
	<i>Authorised</i>		
	2,787,125,000 Ordinary shares (2018: 2,787,125,000) of 1p each	27,871	27,871
	<i>Issued and fully paid</i>		
	11,499,359 Ordinary shares (2018: 11,499,359) of 1p each	115	115
	<b>Preference share capital</b>		
	<i>Authorised</i>		
	800,000 Redeemable preference shares (2018: 800,000) of £1 each	800	800
	<i>Issued and fully paid</i>		
	600,000 Redeemable preference shares (2018: 600,000) of £1 each	600	600

Holders of Ordinary shares have equal entitlement to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held. Every holder of Ordinary shares are entitled to vote at a meeting of shareholders with each share entitled to one vote.

Preference shares are disclosed in equity as there is no contractual obligation to deliver dividends or interest payments.

## 20 Other leasing information

### Lessee

Set out below are the future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:

	2019 £'000	2018 £'000
<b>Operating leases apart from land and buildings</b>		
Within one year	-	19,859
Between two and five years	-	79,055
In over five years	-	257,720
	-	356,634

In the prior year, the property leased by Cygnet Health Care Limited was included as an operating lease commitment under IAS 17 Leases. However, from 1 January 2019, the company adopted IFRS16 which now includes the lease liability and Right of Use asset on the balance sheet.

Information relating to lease liabilities is included in note 16.

# CYGNET HEALTH CARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

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<b>21</b>	<b>Capital commitments</b>	<b>2019</b>	<b>2018</b>
		<b>£'000</b>	<b>£'000</b>

At 31 December 2019 the company had capital commitments as follows:

Contracted for but not provided in the financial statements:

Acquisition of property, plant and equipment	38	2,238
	<u>          </u>	<u>          </u>

## 22 Related party transactions

The ultimate controlling party of the Company is Universal Health Services Inc., and the UK ultimate parent is UK Acquisitions No.6 Limited. The registered office of the ultimate controlling party is 367 South Gulph Road, King of Prussia, PA 19406.

### *Identity of related parties*

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

The Company has applied the exemption available under FRS 101 in respect of transactions with wholly owned subsidiaries.

### *Transactions with key management personnel*

The Company has applied the exemption available under FRS 101 in respect of disclosure of the compensation of key management personnel.

### *Other related party transactions*

There were no other related party transactions during the current or preceding year.

## 23 Controlling party

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 Cygnet Health UK 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 Cygnet Health UK Limited financial statements may be obtained from:

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent, TN15 7RS