

Company Registration No. 04590303 (England and Wales)

CYGNET SURREY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



CYGNET SURREY LIMITED

COMPANY INFORMATION

Directors	Dr Antonio Romero Mr Mark Ground Mr Gerald Corbett
Secretary	Mr Anthony Coleman
Company number	04590303
Registered office	Nepicar House London Road Wrotham Heath Sevenoaks Kent TN15 7RS
Auditor	KPMG LLP Plym House 3 Longbridge Road Plymouth PL6 8LT

CYGNET SURREY LIMITED

CONTENTS

	Page
Strategic report	1 - 5
Directors' report	6
Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements	7
Independent auditor's report to the members of Cygnet Surrey Limited	8 - 10
Income statement	11
Statement of comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Notes to the financial statements	15 - 29

CYGNET SURREY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The strategic report set out below is Cygnet Health UK ("Cygnet") Limited strategic report relating to the year ended 31 December 2018.

Business review

Cygnet Surrey Limited is a trading company and 100% owned subsidiary of the Cygnet Health UK Limited Group.

Cygnet is able to deliver a diverse range of services to optimise the service user experience through its network of sites. Cygnet provides a broad coverage of the mental health spectrum from Acute, Secure, Non-secure rehabilitation, and Out-patient services to Adolescent, Autism, Learning Disability and Elderly 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, who help Cygnet to focus more on investing in the delivery of more high quality value for money services.

In 2018, Cygnet has been able to extend its delivery of healthcare services through organic development with various extensions and including the opening of the 65 bed hospital in Maidstone which completed in the autumn of 2018.

During 2018 Cygnet acquired the Danshell Group, which added 25 facilities and 288 beds to the Group.

The Group remains focussed on quality and delivering shorter lengths of stay with lower episode costs – so that our customers receive better value and service users are rehabilitated faster.

Our business continues to be supported by strong relationships with customers – in 2018 Cygnet did business with 228 (2017: 220) NHS purchasing bodies. We are pleased to be partnering with the NHS 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.

The Cygnet business operated 2,479 beds (excluding the impact of acquisition) in 2018 (2017: 2,404) spread through a portfolio of over 100 facilities and employed over 6,600 people.

Corporate and Clinical Delivery and Governance

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.

Our Governance approach is designed to enhance Quality Assurance which is monitored using a matrix of corporate, regional and local structures.

We continue to work with our regulators including the Care Quality Commission ("CQC"), the English regulatory authority, aiming to be the market leader in our sector in delivery of clinical quality. We are pleased to report 100% compliance with Commissioning for Quality and Innovation ("CQUIN") in 2017/18 in line with the relevant NHS financial year.

The 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. Reporting directly to the Board, 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.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Our People

We are 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.

Key performance measures

The key performance measures that the Board of Directors ("The Board") uses to monitor progress of the Company and its subsidiaries ("The Group") against its objectives are:

- Careful attention to clinical risk management
- Service user experience and involvement;
- Clinical quality, including safety and effectiveness;
- Customer satisfaction and patient care outcomes;
- Health and Safety compliance;
- Staff and management skills development;
- Staff turnover and retention;
- Debtor days;
- Occupancy rates;
- Fee levels and pricing;
- EBITDA;
- Margin; and
- Staff and agency costs.

Future prospects

Cygnets strategy is to continue to grow and develop the business through:

- furthering geographical coverage;
- development and broadening of current service lines;
- extension of service lines and care pathways;
- reacting to 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.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Key risks and uncertainties

Regulatory risk

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

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

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

Reputational risk

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

Competition

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

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Brexit impact on Cygnet

Cygnet is monitoring closely the legal and political developments in the process towards Brexit. We have established a Brexit working group which reports to our Executive Team. We have undertaken planning to prepare the Group for Brexit or a no-deal Brexit.

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.

However, the absence of an agreed and binding post-Brexit trade arrangement with the EU, means that a no-deal Brexit remains a principal risk for the Group. The Group has considered the impact in a number of areas:

- **Suppliers**
The Group 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, but it is not expected to have a material 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.

Acquisition

On 31 July 2018 Cygnet Health Care Limited acquired The Danshell Group Limited ("Danshell"). Danshell owns and operates 25 facilities with a total of 288 beds in the United Kingdom. Cygnet Health Care Limited will operate and manage these new facilities. The Danshell facilities support and care for adults living with learning disabilities, who may also have a diagnosis of autism, in specialist supported living, residential services and hospitals. Through this acquisition, the Group expands into new service lines and new geographical areas, complementary to the existing UK portfolio.

In May 2019 issues in relation to one of the Danshell services came to light. Cygnet Health Care took these allegations extremely seriously and as soon as they became aware of them Cygnet suspended all staff members involved. Cygnet simultaneously informed all relevant authorities, including the police, who have now opened an inquiry and Cygnet is fully cooperating with their investigation.

Cygnet reviewed the patients involved and took the initiative of transferring the patients to other hospitals. The safety and care of our patients and residents is of paramount importance and Cygnet has zero tolerance of unprofessional conduct towards them. Cygnet continues to work closely with its regulators and commissioners and is taking the appropriate positive steps towards the full integration of The Danshell Group facilities into its portfolio.

Cygnet is organised into two divisions: Health Care and Social Care. Danshell services are being incorporated into these two divisions.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Financial Review

Cygnnet made solid progress in the year to 31 December 2018, with good occupancy levels. Included in the asset value of £1,048m, £63m relates to the Danshell entities.

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

	2018	2017
	£m	£m
Revenue	375.6	334.2
Operating profit (before significant items)	45.2	40.3
 Total assets	 1,048	 909
Total liabilities	(104)	(80)
Net assets	944	829

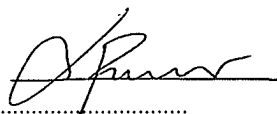
Cygnnet Surrey Limited made an operating loss for the year of £0.9m (2017: loss of £2m) on revenue of £10.1m (2017: £9.7m).

Financing and Cash Flow

Net increase in cash and cash equivalents was £26.7m (2017: £19.1m).

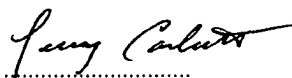
The business continued to invest its cash flow to fund capital expenditure to maintain its existing sites, to invest in the organisational infrastructure, and to develop further capacity. During the year the business spent £37.6m (2017: £32.8m) on capital expenditure.

On behalf of the board



Dr Antonio Romero
Director

30th September 2019



Mr Gerald Corbett
Director

30th September 2019

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

CYGNET SURREY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Principal activities

Cygnets Surrey Limited provides specialist secure psychiatric care for adults and adolescents at hospital facilities at Cygnets Hospital Woking and Cygnets Lodge Woking. All hospital facilities are registered with the Care Quality Commission in accordance with the requirements of the Health and Social Care Act 2008.

Results and dividends

The results for the year are set out on page 11.

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

Mr Mark Ground

Mr Gerald Corbett

(Resigned 7 August 2019)

(Appointed 7 August 2019)

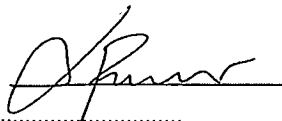
Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Statement of disclosure to auditor

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 auditor is 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 auditor is aware of that information.

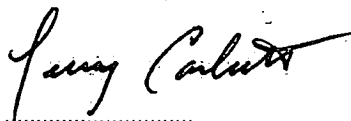
On behalf of the board



Dr Antonio Romero

Director

Date: 30th September 2019



Mr Gerald Corbett

Director

Date: 30th September 2019

CYGNET SURREY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGNET SURREY

Opinion

We have audited the financial statements of Cygnet Surrey Limited (the "company") for the year ended 31 December 2018 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of goodwill and fixed assets, the recoverability of debtors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGNET SURREY

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in those respects.

Directors' responsibilities

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

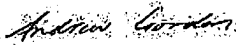
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at: <http://www.frc.org.uk/auditorsresponsibilities>.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGNET SURREY

The purpose of our audit work and to whom we owe our responsibilities

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



Mr Andrew Gordon (Senior Statutory Auditor)
for and on behalf of KPMG LLP

30th September 2019

Chartered Accountants
Statutory Auditor

Plym House
3 Longbridge Road
Plymouth
PL6 8LT

CYGNET SURREY LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Revenue		10,105	9,732
Operating expenses		(11,050)	(11,770)
Operating loss	3	(945)	(2,038)
Finance income	4	432	387
Other investment income	4	2	1
Finance expense	6	(3,253)	(2,917)
Other gains and losses	7	(272)	(5,762)
Loss before taxation		(4,036)	(10,329)
Tax on loss	8	35	179
Loss for the financial year		(4,001)	(10,150)

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

The accompanying notes on pages 15 to 29 form part of the financial statements.

CYGNET SURREY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£'000	£'000
Loss for the year	(4,001)	(10,150)
	<u> </u>	<u> </u>
Other comprehensive income:		
Revaluation of property, plant and equipment	-	(7,135)
	<u> </u>	<u> </u>
Total comprehensive income for the year	(4,001)	(17,285)
	<u> </u>	<u> </u>

The accompanying notes on pages 15 to 29 form part of the financial statements.

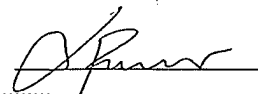
CYGNET SURREY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Property, plant and equipment	10	14,287	13,137
Investments	11	12,899	12,899
		<u>27,186</u>	<u>26,036</u>
Current assets			
Deferred tax asset	15	861	826
Other receivables	13	2,031	989
Cash and cash equivalents		1,465	531
		<u>4,357</u>	<u>2,346</u>
Current liabilities			
Trade and other payables	14	(50,492)	(43,330)
Net current liabilities		<u>(46,135)</u>	<u>(40,984)</u>
Total assets less current liabilities		<u>(18,949)</u>	<u>(14,948)</u>
Net liabilities		<u>(18,949)</u>	<u>(14,948)</u>
Equity			
Called up share capital	17	4,739	4,739
Share premium account		13,776	13,776
Retained earnings		(37,464)	(33,463)
Total equity		<u>(18,949)</u>	<u>(14,948)</u>

The financial statements were approved by the board of directors and authorised for issue on 30th September 2019 and are signed on its behalf by:



Dr Antonio Romero
Director



Mr Gerald Corbett
Director

Company Registration No. 04590303

The accompanying notes on pages 15 to 29 form part of the financial statements.

CYGNET SURREY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium account	Revaluation reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	4,739	13,776	7,135	(23,313)	2,337
Year ended 31 December 2017:					
Loss for the year	-	-	-	(10,150)	(10,150)
Other comprehensive income:					
Revaluation of property, plant and equipment	-	-	(7,135)	-	(7,135)
Total comprehensive income for the year	-	-	(7,135)	(10,150)	(17,285)
Balance at 31 December 2017	4,739	13,776	-	(33,463)	(14,948)
Year ended 31 December 2018:					
Loss and total comprehensive income for the year	-	-	-	(4,001)	(4,001)
Balance at 31 December 2018	4,739	13,776	-	(37,464)	(18,949)

The accompanying notes on pages 15 to 29 form part of the financial statements.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Cygnnet Surrey 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 04590303.

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.

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 appropriate, 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 UK Acquisitions No.6 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 accounts of UK Acquisitions No.6 Limited. The group accounts of UK Acquisitions No.6 Limited are available to the public and can be obtained as set out in note 20.

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

Cygnnet Surrey Limited is a wholly owned subsidiary of UK Acquisitions No.6 Limited and the results of Cygnnet Surrey Limited are included in the consolidated financial statements of UK Acquisitions No.6 Limited which are available from Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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 £46,135k (2017: £40,984k) and net liabilities of £18,949k (2017: £14,948), of which £47,846k (2017: £41,503k) relates to amounts due to related group undertakings included within current liabilities.

The Directors have received a letter from the ultimate parent company indicating their intention to not seek repayment of these amounts for at least the next twelve months from the approval of these financial statements. 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.

1.3 Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

1.4 Property, plant and equipment

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

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

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

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

Freehold land and buildings	40 years
Plant and equipment	5-10 years
Motor vehicles	5 years

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Properties whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being their fair value at the date of valuation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of the land and buildings is usually considered to be their market value.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in equity, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in equity; such gains and losses are recognised in profit or loss.

1.5 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.

1.6 Impairment of tangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible 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.

1.7 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 FRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

1.8 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.

1.9 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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.

1.10 Financial liabilities

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, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

1.11 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.

1.12 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.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

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.

1.13 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.

1.14 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.

1.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases, less any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.16 Significant accounting policies

The preparation of financial statements in conformity with FRS101 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The directors do not believe there are any judgements or estimates made by management in the application of Adopted IFRS that have a significant effect on the financial statements.

2 Employees

The average monthly number of persons employed by the company during the year was:

	2018 Number	2017 Number
Nursing Staff	172	143
Administrative	17	71
	<u>189</u>	<u>214</u>

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	4,959	6,905
Social security costs	550	643
Pension costs	126	141
	<u>5,635</u>	<u>7,689</u>

The directors did not receive emoluments for their services directly from this company. However, the UK directors received remuneration for services to Cygnet Health Care Limited of which Cygnet Surrey Limited is a fellow subsidiary undertaking. Management have estimated that the approximate value of directors' remuneration relating to Cygnet Surrey Limited is £60,000 (2017: £60,000).

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

3 Operating loss

	2018	2017
	£'000	£'000
Operating loss for the year is stated after charging:		
Depreciation of property, plant and equipment	854	718
Operating lease payments	-	104
	<u> </u>	<u> </u>

4 Investment income

	2018	2017
	£'000	£'000
Interest income		
Interest on bank deposits	2	1
Interest receivable from group companies	432	387
	<u> </u>	<u> </u>
Total income	434	388
	<u> </u>	<u> </u>

Interest in the period relates to interest payable and receivable on amounts owed to and from group undertakings.
Interest has accrued at a rate of 4.85% per annum above LIBOR.

5 Auditor's remuneration

	2018	2017
	£'000	£'000
Fees payable to the company's auditor:		
For audit services		
Audit of the financial statements of the company	14	14
Other services relating to taxation	-	4
	<u> </u>	<u> </u>
	14	18
	<u> </u>	<u> </u>

The remuneration of the auditor in the current and previous financial period was borne by another group company.
The amount disclosed above is management's best estimate of the proportion relating to this company.

6 Finance costs

	2018	2017
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	3,253	2,917
	<u> </u>	<u> </u>

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

7 Other gains and losses

	2018 £'000	2017 £'000
Impairment of freehold land and buildings	(272)	(5,762)

8 Income tax expense

	2018 £'000	2017 £'000
Deferred tax		
Origination and reversal of temporary differences	19	(166)
Adjustment in respect of prior periods	(54)	(13)
	(35)	(179)

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

	2018 £'000	2017 £'000
Loss before taxation	(4,036)	(10,329)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(767)	(1,988)
Adjustment in respect of prior years	(54)	(13)
Effect of change in UK corporation tax rate	(2)	22
Group relief	822	788
Revaluation of fixed assets	176	(1,373)
Indexation	29	178
Restriction/Wasting of base cost	168	2,219
Capital allowances not in deferred tax	(12)	(12)
Other differences	(395)	-
Taxation credit for the year	(35)	(179)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax credit accordingly.

The deferred tax asset as at 31 December 2018 has been calculated based on these rates.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	2018 £'000	2017 £'000
In respect of:		
Freehold land and buildings	(272)	(5,762)

In addition, £nil (2017: £7,135,000) has been recognised in other comprehensive income in respect of impairment losses on previously revalued assets.

Of the £272,000 (2017: £5,762,000) recognised through the profit and loss, £753,000 (2017: £5,762,000) is in relation to an impairment losses and £481,000 [2017: £nil] is in relation to impairment gains on previously impaired assets.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

10 Property, plant and equipment

	Freehold land and buildings £'000	Assets under construction £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 31 December 2017	11,996	196	2,286	-	14,478
Additions	1,628	-	601	47	2,276
Revaluation	(896)	-	-	-	(896)
Transfers	196	(196)	-	-	-
At 31 December 2018	12,924	-	2,887	47	15,858
Accumulated depreciation and impairment					
At 31 December 2017	-	-	1,341	-	1,341
Charge for the year	624	-	221	9	854
Eliminated on revaluation	(624)	-	-	-	(624)
At 31 December 2018	-	-	1,562	9	1,571
Carrying amount					
At 31 December 2018	12,924	-	1,325	38	14,287
At 31 December 2017	11,996	196	945	-	13,137

For the year ended 31 December 2018, an internal valuation was carried out by the Directors which was based on the EBIDTA of the company. This is considered a reasonable basis to assess the valuation, as it indicates the earning potential of the property.

A formal external valuation is carried out on a periodic basis, with the last desktop valuation being carried out on 9 March 2018, with a valuation date of 31 December 2017. This valuation was carried out by independent external valuers, Knight Frank LLP, following principles of the practice statements in the valuation standards (The Red Book) published by the Royal Institution of Chartered Surveyors.

Knight Frank LLP are members of the Royal Institution of Chartered Surveyors and have the appropriate qualification and recent experience in the valuation of properties in the relevant locations.

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.

At 31 December 2018, had the freehold land and building been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £13,283,746 (2017: £11,996,355).

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Investments

Movements in non-current investments

	Shares in group undertakings £'000
Cost or valuation	
At 1 January 2018 & 31 December 2018	12,899
Carrying amount	
At 31 December 2018	12,899
At 31 December 2017	12,899

12 Subsidiaries

Details of the company's subsidiaries at 31 December 2018 are as follows:

Name of undertaking	Registered office	Ownership interest (%)	Voting power held (%)	Nature of business
Cygnnet NW Limited	United Kingdom	100	100	Healthcare
Safe Spaces Limited*	United Kingdom	100	100	Dormant

*Owed via shareholding in Cygnnet NW Limited.

The above undertakings are registered and incorporated in England and Wales, and share the same registered office as Cygnnet Surrey Limited.

The year end of the above companies is December.

The Company's share of income for the period and distributable reserves of its direct subsidiary is 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
	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Cygnnet NW Limited	<u>13,275</u>	<u>103,136</u>	<u>9,675</u>	<u>85,213</u>

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	2,017	793
Provision for bad and doubtful debts	(102)	(84)
	<u>1,915</u>	<u>709</u>
Prepayments and other debtors	116	280
	<u>2,031</u>	<u>989</u>

14 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	1,629	1,246
Amounts due to fellow group undertakings	47,846	41,503
Accruals	568	432
Social security and other taxation	139	149
Other payables	310	-
	<u>50,492</u>	<u>43,330</u>

The amounts owed to Group undertakings 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. These amounts do not attract interest.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Deferred taxation

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Accelerated capital allowances £'000	Other £'000	Total £'000
Deferred tax liability at 1 January 2017	60	-	60
Deferred tax asset at 1 January 2017	-	(707)	(707)
Deferred tax movements in prior year			
Credit to profit or loss	(175)	(4)	(179)
Deferred tax liability at 1 January 2018	-	-	-
Deferred tax asset at 1 January 2018	(115)	(711)	(826)
Deferred tax movements in current year			
Credit to profit or loss	(23)	(12)	(35)
Deferred tax liability at 31 December 2018	-	-	-
Deferred tax asset at 31 December 2018	(138)	(723)	(861)

	2018 £'000	2017 £'000
Deferred tax assets	(861)	(826)

16 Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £126,000 (2017: £141,000).

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

17	Share capital	2018	2017
		£'000	£'000
	Ordinary share capital		
	<i>Issued and fully paid</i>		
	4,738,617 Ordinary shares of £1 each	4,739	4,739
		<u> </u>	<u> </u>

18 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	£'000	£'000
Within one year	6	9
Between two and five years	10	17
	<u> </u>	<u> </u>
	16	26
	<u> </u>	<u> </u>

19 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 FRS101 in respect of transactions with wholly owned subsidiaries.

Transactions with key management personnel

The Company has applied the exemption available under FRS101 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 period.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

20 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