Cygnet Health UK Limited

Annual Report and Consolidated
Financial Statements
Registered number 06464637
Year ended 31 December 2019

Contents

Strategic Report

The strategic report set out below is the Cygnet Health UK Limited Group ("the Group") strategic report relating to the Cygnet Group of Companies ("Cygnet") for the year ended 31 December 2019.

Principal Activities

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.

Strategic Report *(Continued)*

Business review

The results for the year ended 31 December 2019 are set out in the Consolidated and Company Statements of Financial Position on page 23 and the Consolidated Income statement on page 18.

Group Revenue for the year was £434.2m *(2018: £375.6m)*. Operating profit before significant 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 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 £42m *(2018: £38m)* 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	**1,116**	1,048
Total liabilities	**(116)**	(103)
Net assets	**1,000**	945

*Separately reported items in 2019 include:

Impairment of freehold land and buildings	(£29.6m)	(£9.2m)
Reversal of previous impairment of freehold land and buildings	£17.4m	£8.4m

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.

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 *(2018: 7,841)*.

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.

Strategic Report *(Continued)*

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.

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 (non-statutory), 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).*

Strategic Report *(Continued)*

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.

Strategic Report *(Continued)*

Our commitment to Service Users

Cygnet 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 Cygnet, 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

Cygnet 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. Cygnet 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

Cygnet'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 Cygnet, 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 Cygnet 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.

Strategic Report *(Continued)*

Our commitment to community and the environment

As a leading provider of hospital and social care services, Cygnet 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.

Energy

Cygnet 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. Cygnet 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

Cygnet 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.

Cygnet 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, Cygnet 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.

Cygnet 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.

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

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

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

Strategic Report *(Continued)*

Our commitment to our people (continued)

Cygnet continues to review our benefits packages and have introduced a number of new features recently. Cygnet 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.

In order to obtain staff feedback an annual staff survey is carried out. Cygnet's staff engagement score for 2019 was 80% (2018: 65%).

- 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 revenue and operating profit before separately reported items. Adjusted margins are also considered and reflect the causes for changes in revenue, such as changes in occupancy rates.

Management consider other KPI's including occupancy, average daily fees 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.

Strategic Report *(Continued)*

Future prospects

Cygnet'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 Cygnet 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.

Cygnet 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

Cygnet 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

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

Strategic Report *(Continued)*

Key risks and uncertainties (continued)

Brexit

Cygnet 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 Cygnet. Cygnet has considered the impact in a number of areas including:

- Suppliers
  - Cygnet 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. Cygnet 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.

<u>Danshell acquisition and Whorlton Hall</u>

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 Cygnet 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.

Strategic Report *(Continued)*

Key risks and uncertainties (continued)

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

Mr Gerald Corbett
Director

27 August 2020

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

Directors' report

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

Directors

The following Directors who have held office during the year, and until the date of approval of these financial statements:

T Romero

M G Ground

M McQuaid

G Corbett (Appointed 7 August 2019)

L Harrod (Resigned 7 August 2019)

M G Ground (Company Secretary)

Principal activities

The principal activity of Cygnet Health UK Limited ("the Company") is that of a holding company to subsidiaries that own and operate psychiatric and elderly healthcare facilities.

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.

Market and external risk

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.

Cygnet 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.

Cygnet 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.

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

Cygnet 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.

Directors' report *(continued)*

Financial risk management *(continued)*

Liquidity risk

Cygnet 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. Cygnet 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 CCGs.

Data risk

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

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.

Cygnet 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.

Employee involvement

The Directors recognise the importance of Human Resources. The Cygnet Health UK Limited Group ("Group") policy is to encourage active involvement of employees in the management of its facilities and in matters affecting employees' interests. Facilities have a Staff Relations Group ('SRG').

The elected chairperson of the SRG attends meetings at their facility and serves as a conduit for interaction between the Board and employees. The SRG also takes an active role in quality assurance and the accreditation process which all the Group's facilities embrace. In addition, the Group encourages personal career development for all employees through providing access to training and promotional opportunities.

In order to obtain staff feedback, an annual staff engagement survey is carried out and reported on and exit interviews are collated independently. A new Employee Assistance Programme has been introduced enabling staff to seek support on work or home/life issues, with the aim of the Company offering improved support to staff working in challenging environments. Cygnet's staff engagement score was 80% in 2019 *(2018: 80%)*.

Disabled persons

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

Political and charitable contributions

The Group made charitable contributions during the year of £5,000 *(2018: £5,000)*.

Directors' report *(continued)*

Proposed dividend

A dividend of £50,000,000 was paid during the year *(2018: £nil)*.

Creditor payment policy

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

Post reporting date events

A significant post balance sheet event is the impact of Covid-19. At Cygnet 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, they have modelled possible outcomes but have assessed limited impact apart from the change to operations to follow Covid-19 guidelines. Our teams meet every day, from Ward to Board, to help ensure business continuity and adaptation to the evolving situation. Cygnet 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.

Independent auditors

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

Statement of disclosure of information to auditors

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

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.

As part of the going concern review, the directors have considered the impact of Covid-19 as discussed in the strategic report. The Directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has net assets of £1,000,067,000 *(2018: £944,973,000)*. The Company has net assets of £852,219,000 *(2018: £861,260,000)*.

Directors' report *(continued)*

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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company 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 group and parent company and of the profit or loss of the group and parent 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 IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, 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 group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the group and parent 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 group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

On behalf of the board

Dr Antonio Romero	Mr Gerald Corbett
Director	**Director**
27 August 2020	27 August 2020

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

Independent auditors' report to the members of Cygnet Health UK Limited

Report on the audit of the Financial Statements

Opinion

In our opinion:

- Cygnet Health UK Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements 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
- the financial statements 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 Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2019; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements 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 group 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 group's and parent 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 group's and parent company's ability to continue as a going concern.

Independent auditors' report to the members of Cygnet Health UK Limited (continued)

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 group and parent company and their 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 group's and the parent 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 group or the parent 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. This description forms part of our auditors' report.

Independent auditors' report to the members of Cygnet Health UK Limited *(continued)*

Responsibilities for the financial statements and the audit *(continued)*

Use of this report

This report, including the opinions, has been prepared for and only for the parent 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 parent 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 parent company 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

Consolidated Income Statement

for the year ended 31 December 2019

	Note	Year ended 31 December 2019			Year ended 31 December 2018		
		Before separately reported items	**Separately reported items ***	**Total**	Before separately reported items	Separately reported items *	Total
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue		**434,247**	**-**	**434,247**	375,621	-	375,621
Operating expenses		**(394,252)**	**(12,177)**	**(406,429)**	(330,395)	(798)	(331,193)
Operating Profit	*2*	**39,995**	**(12,177)**	**27,818**	45,226	(798)	44,428
Finance income	*5*	**40**	**-**	**40**	46	-	46
Finance costs	*5*	**(250)**	**-**	**(250)**	(9)	-	(9)
Net Finance (costs)/income		**(210)**	**-**	**(210)**	37	-	37
Profit before tax		**39,785**	**(12,177)**	**27,608**	45,263	(798)	44,465
Taxation	*6*	**(4,155)**	**2,314**	**(1,841)**	(5,581)	152	(5,429)
Profit for the financial year		**35,630**	**(9,863)**	**25,767**	39,682	(646)	39,036
Attributable to:							
Equity holders of the company		**35,630**	**(9,863)**	**25,767**	39,682	(646)	39,036

* Separately reported items relate to items outside our general trading operations but do form part of our statutory profit, the following are not considered part of our core trading business.

Included within operating expenses:

- Deal costs relating to the purchase of Danshell Health Care Group of £nil (2018: £513,000).
- Sale of assets resulting in a profit on disposal of £nil (2018: £474,000).
- Impairment of freehold land and buildings of £29,600,000 (2018: £9,175,000).
- Reversal of previous impairment of freehold land and buildings of £17,423,000 (2018: £8,416,000).

The notes to the financial statements are given on pages 26 to 51.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 £'000
Profit for the year		**25,767**	39,036
Other comprehensive			
Revaluation of property	*7*	**94,785**	11,425
Deferred tax movement on revaluation recognised directly in equity	*11*	**(15,821)**	(1,895)
Total other comprehensive income for the year		**78,964**	9,530
Total comprehensive income for the year		**104,731**	48,566
Attributable to:			
Equity Holders of the company		**104,731**	48,566

The notes to the financial statements are given on pages 26 to 51.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Called up Share Capital	Share Premium	Merger Reserve	Revaluation Reserve	Reserve Acquisition Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2019	6,989	691,283	3,166	172,610	(210,042)	280,967	**944,973**
Profit for the year	-	-	-	-	-	25,767	**25,767**
Other comprehensive income for the year	-	-	-	78,964	-	-	**78,964**
Total comprehensive income for the year	**-**	**-**	**-**	**78,964**	**-**	**25,767**	**104,731**
Transactions with owners in their capacity as owners							
Issue of share capital	-	192	-	-	-	-	**192**
Dividend	-	-	-	-	-	(50,000)	**(50,000)**
Share based payment expense	-	-	-	-	-	180	**180**
Transfer from revaluation reserve*	-	-	-	(7,750)	-	7,750	**-**
Balance at 31 December 2019	**6,989**	**691,475**	**3,166**	**243,824**	**(210,042)**	**264,664**	**1,000,076**

* The transfer from revaluation reserve to retained earnings relates to the excess depreciation charged following the revaluation of property compared to what would have been charged had the property not been revalued.

The notes to the financial statements are given on pages 26 to 51.

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 December 2018

	Called up Share Capital	Share Premium	Merger Reserve	Revaluation Reserve	Reserve Acquisition Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
.Balance at 1 January 2018	6,313	624,359	3,166	170,794	(210,042)	233,686	**828,276**
Profit for the year	-	-	-	-	-	39,036	**39,036**
Other comprehensive income for the year	-	-	-	9,530	-	-	**9,530**
Total comprehensive income for the year	**-**	**-**	**-**	**9,530**	**-**	**39,036**	**48,566**
Transactions with owners in their capacity as owners							
Issue of share capital	676	66,924	-	-	-	-	**67,600**
Share based payment expense	-	-	-	-	-	531	**531**
Transfer from revaluation reserve*	-	-	-	(7,714)	-	7,714	**-**
Balance at 31 December 2018	**6,989**	**691,283**	**3,166**	**172,610**	**(210,042)**	**280,967**	**944,973**

* The transfer from revaluation reserve to retained earnings relates to the excess depreciation charged following the revaluation of property compared to what would have been charged had the property not been revalued.

The notes to the financial statements are given on pages 26 to 51.

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Called up Share Capital	Share Premium	Merger Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2019	6,989	691,283	3,166	159,822	**861,260**
Total comprehensive income for the year	-	-	-	40,767	**40,767**
Dividend	-	-	-	(50,000)	**(50,000)**
Issue of share capital	-	192	-	-	**192**
Balance at 31 December 2019	**6,989**	**691,475**	**3,166**	**150,589**	**852,219**

For the year ended 31 December 2018

	Called up Share Capital	Share Premium	Merger Reserve	Retained Earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2018	6,313	624,359	3,166	129,604	**763,442**
Total comprehensive income for the year	-	-	-	30,218	**30,218**
Issue of share capital	676	66,924	-	-	**67,600**
Balance at 31 December 2018	**6,989**	**691,283**	**3,166**	**159,822**	**861,260**

The notes to the financial statements are given on pages 26 to 51.

Consolidated and Company Statements of Financial Position

at 31 December 2019

		Group		Company	
	Note	**31 December 2019 £'000**	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Non-current assets					
Property, plant and equipment	*7*	**932,109**	828,479	**-**	-
Intangibles assets	*8*	**88,475**	88,775	**-**	-
Investment in subsidiaries	*10*	**-**	-	**581**	581
Deferred tax assets	*11*	**1,091**	-	**-**	-
		1,021,675	917,254	**581**	581
Current assets					
Trade and other receivables	*12*	**67,824**	68,332	**192**	-
Cash and cash equivalents	*13*	**24,410**	62,507	**11**	11
Tax receivable		**1,931**	-	**-**	-
Amounts owed by group undertakings	*14*	**-**	-	**862,322**	867,027
		94,165	130,839	**862,525**	867,038
Total assets		**1,115,840**	1,048,093	**863,106**	867,619
Current liabilities					
Trade and other payables	*15*	**47,493**	54,981	**405**	405
Lease liabilities	*16*	**1,618**	-	**-**	-
Amounts due to parent undertaking	*17*	**251**	287	**-**	-
Tax payable		**-**	2,231	**10,482**	5,954
		49,362	57,499	**10,887**	6,359
Non-current liabilities					
Deferred tax liabilities	*11*	**59,818**	45,621	**-**	-
Lease liabilities	*16*	**6,584**	-	**-**	-
		66,402	45,621	**-**	-
Total Liabilities		**115,764**	103,120	**10,887**	6,359

Consolidated and Company Statements of Financial Position *(continued)*

at 31 December 2019

		Group		Company	
	Note	**31 December 2019 £'000**	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Equity attributable to equity holders of the parent					
Share capital	*18*	**6,989**	73,913	**6,989**	73,913
Share premium		**691,475**	624,359	**691,475**	624,359
Merger reserve		**3,166**	3,166	**3,166**	3,166
Revaluation reserve		**243,824**	172,610	**-**	-
Reverse acquisition reserve		**(210,042)**	(210,042)	**-**	-
Retained earnings		**264,664**	280,967	**150,589**	159,822
Total equity		**1,000,076**	944,973	**852,219**	861,260
Total Liabilities and equity		**1,115,840**	1,048,093	**863,106**	867,619

The notes to the financial statements are given on pages 26 to 51.

These financial statements were approved by the board of directors on 27 August 2020 and were signed on its behalf by:

On behalf of the board

Dr Antonio Romero
Director

27 August 2020

Mr Gerald Corbett
Director

27 August 2020

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Note	Group Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Profit for the year		**25,767**	39,036
Adjustments for:			
Depreciation	*7*	**30,632**	24,932
Amortisation	*8*	**300**	300
Impairment of properties	*7*	**29,600**	9,175
Reversal of previous impairment of properties	*7*	**(17,423)**	(8,416)
Financial income	*5*	**(40)**	(46)
Financial expenses	*5*	**250**	9
Profit on sales of property, plant and equipment		**-**	(474)
Share based payment expense	*21*	**180**	531
Taxation	*6*	**1,841**	5,429
		71,107	70,476
Decrease/(Increase) in trade and other receivables		**701**	(11,466)
(Decrease)/Increase in trade and other payables		**(7,323)**	4,352
Interest paid		**(236)**	(9)
Tax paid		**(8,694)**	(3,846)
Net cash from operating activities		**55,555**	59,507
Cash flows used in investing activities			
Interest received		**40**	46
Acquisition of subsidiaries (net of cash acquired)		**-**	(40,983)
Acquisition of property, plant and equipment	*7*	**(42,208)**	(37,642)
Proceeds from disposal		**-**	3,141
Net cash used in investing activities		**(42,168)**	(75,438)
Cash flows from financing activities			
Net cash inflow on new share capital issued in year		**-**	67,600
Dividends paid		**(50,000)**	-
Lease repayments		**(1,484)**	-
Refinancing of debt in subsidiaries on acquisition		**-**	(24,925)
Net cash from financing activities		**(51,484)**	42,675
Net (decrease)/increase on cash and cash equivalents		**(38,097)**	26,744
Cash and cash equivalents at 1 January		**62,507**	35,763
Cash and cash equivalents at 31 December		**24,410**	62,507

The notes to the financial statements are given on pages 26 to 51.

Notes

(forming part of the financial statements)

1 Accounting policies

Cygnet Health UK Limited (the "Company") is a company incorporated and domiciled in the UK. The Company's registered number is 06464637 and is a private company limited by shares.

The address of the Company's registered office is:
Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent
England
TN15 7RS

The Group financial statements consolidate those of the Company, and its subsidiaries as at 31 December 2019. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group's primary activity is the ownership and operation of psychiatric hospitals and residential facilities.

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 Group has adequate resources to continue in operational existence for the foreseeable future. The Group has a strong asset based and cash generation forecasts. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

As part of the going concern review, the directors have considered the impact of Covid-19 as discussed in the strategic report.

Statement of compliance

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

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

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Notes *(continued)*

1 Accounting policies *(continued)*

***Statement of compliance** (continued)*

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries ;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

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

Basis of measurement

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that land and buildings are held at revalued amount.

Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Group and the parent Company.

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

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

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Notes *(continued)*

1 Accounting policies *(continued)*

Adoption of new and revised International Financial Reporting Standards

The group has applied the following standards and amendments for the first time for the reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Annual Improvements to IFRSs – 2015-2017 Cycle
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS Financial instruments
- Amendments to IAS 19 Employee benefits

The group had to change its accounting policies as a result of adopting IFRS16. The group has elected to apply IFRS16 using the modified retrospective approach and therefore the comparative information has not been restated. This is disclosed in note 16. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Revenue

Revenue relates to income received from operating psychiatric facilities, nursing homes, and supported living services, and arises entirely in the United Kingdom.

The majority of contracted services are with the NHS, and Cygnet provides an integrated package of services to service users on their behalf. Revenue is recognised, as earned, through the provision of contracted services, and is recognised in the accounting period in which the service is provided.

The Group works closely with the NHS with quarterly monitoring in place to ensure that targets are met. Since the NHS pays monthly in advance non-payment is unlikely and the amounts received are rarely different to the contract price. The Group never receives income more than a year in advance.

Segmental reporting

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

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses

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.

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; 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 and loss on a straight-line basis over the lease term.

Net financing costs

Net financing costs comprise interest payable, interest receivable on funds invested and dividend income.

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

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans

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

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

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries 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.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and are subsequently revalued at their fair value less accumulated depreciation and impairment losses on an annual basis.

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 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 Group will obtain ownership by the end of the lease term. The estimated useful lives are as follows:

Freehold buildings	40 to 50 years
Short leasehold buildings	Over the life of the lease
Long leasehold buildings	40 years
Fixtures, fittings and equipment	3 to 10 years
Motor vehicles	4 to 5 years
Assets in the course of construction	Not depreciated

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

Notes *(continued)*

1 Accounting policies *(continued)*

Assets in the course of construction are valued at the costs incurred to date and are not depreciated until the building is operational and is transferred to the appropriate property category.

Intangible assets and goodwill

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

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

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

Other intangibles

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

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

Amortisation of intangibles

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

Goodwill	Indefinite life
Trademarks	10 years
Customer contracts	15 years
Software	5 years

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

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. Non-derivative financial instruments are recognised initially at fair value.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment.

Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount.

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Classification of financial instruments issued by the Group

Objectives and policies

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

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

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

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

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

Notes *(continued)*

1 Accounting policies *(continued)*

Interest-bearing borrowings

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

Separately reported items

The consolidated income statement shows the effect of a number of separately reported items. These items have been highlighted as it is felt that these costs do not reflect the underlying performance of the Group. These items are either one-off in nature, such as the costs in relation to the acquisition of a subsidiary, or they are related to the revaluation of property.

Employee benefits

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, with any charge being spread over the vesting period. Further details are set out in note 21.

2 Operating profit

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Depreciation of property, plant and equipment	**30,632**	24,932
Amortisation of software	**300**	300
Impairment of freehold land and buildings	**29,600**	9,175
Reversal of previous impairment	**(17,423)**	(8,416)
Profit on disposal	**-**	(474)

Auditors' remuneration:

Fees payable to the Company's auditors:	**Year ended 31 December 2019 £'000**	Year ended 31 December 2018 £'000
Audit of these financial statements	**70**	55
Audit of financial statements of subsidiaries	**476**	671
Other services relating to legislation – iXBRL	**-**	8
Other services relating to taxation	**-**	145
All other services *	**-**	179
	546	1,058

The audit of the Company was paid for by Cygnet Health Care Limited of which shares the same ultimate parent undertaking as Cygnet Health UK Limited. This year's audit has been conducted by PricewaterhouseCoopers LLP. Last year's audit was completed by KPMG LLP.

* All other service fees relate to advice in connection with and following the acquisition of new subsidiaries.

Notes *(continued)*

3 Staff numbers and costs

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

	Year ended 31 December 2019	Year ended 31 December 2018
	Number	Number
Clinical staff	**6,972**	6,124
Non-clinical staff	**1,754**	1,717
	8,726	7,841

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Wages and salaries	**219,846**	179,036
Share based payments (note 21)	**180**	531
Social Security costs	**19,682**	17,110
Other pension costs	**4,771**	3,161
	244,479	199,838

There were no persons employed by the Company during the year (2018: £nil), except for the Directors.

Notes *(continued)*

4 Directors' remuneration

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Directors' emoluments	**1,526**	2,325
Company contributions to money purchase pension plans	**23**	75
	1,549	2,400

The Directors of the company received no emoluments for services to the Company during the year (2018: £nil). The Directors received remuneration for services to Cygnet Health Care Limited of which shares the same ultimate parent undertaking as Cygnet Health UK Limited.

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £625,000 *(2018: £920,000)*, excluding company pension contributions of £10,000 *(2018: £33,000)* which were made to a money purchase scheme on their behalf. 17,125 share options in the ultimate parent company, UHS were exercised by Directors in 2019 *(2018: 11,250)* leading to a gain of £464,000

5 Finance income and finance costs

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Interest income received on bank deposits	**40**	46
Finance income	**40**	46
Bank interest	**(6)**	(9)
Interest on lease liabilities	**(244)**	-
Finance costs	**(250)**	(9)

Notes *(continued)*

6 Taxation - Group

Recognised in the income statement

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Current tax expense:		
Current year	**4,648**	7,198
Adjustments for prior years	**(92)**	(531)
	4,556	6,667
Deferred tax expense:		
Origination and reversal of temporary differences	**(2,092)**	(772)
Current year adjustment for prior years	**(623)**	(466)
	(2,715)	(1,238)
Total tax charge in income statement	**1,841**	5,429

Reconciliation of effective tax rate

	2019	2018
Profit for the year	**25,767**	39,036
Total tax charge	**1,841**	5,429
Profit excluding taxation	**27,608**	44,465
Tax using the UK corporation tax rate of 19% *(2018: 19%)*	**5,246**	8,448
Non-deductible expenses	**85**	468
Deferred tax adjustments for non-current assets	**-**	(211)
Recognition of deferred tax assets	**-**	(60)
Group relief	**(3,126)**	(4,250)
Adjustment for prior years	**(715)**	(997)
Deferred tax not recognised	**(70)**	162
Non-qualifying depreciation	**334**	1,511
Rate difference on deferred tax	**237**	90
Revaluation movements	**-**	161
Income not taxable	**(150)**	-
Other differences	**-**	107
Total tax charge	**1,841**	5,429

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.

Notes *(continued)*

7 Property, plant and equipment – Group

	Assets in the course of construction	Freehold land and buildings	Leasehold land and buildings	Right of use assets	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
Balance at 1 January 2018	25,732	676,335	14,170	-	36,251	1,626	754,114
Additions	5,472	19,354	-	-	11,671	1,145	37,642
Acquisition additions	-	72,278	-	-	1,236	71	73,585
Revaluation	-	(17,439)	-	-	-	-	(17,439)
Disposals	-	(3,470)	-	-	(81)	-	(3,551)
Transfers	(20,553)	20,553	-	-	-	-	-
Reversal of previous impairment	-	8,416	-	-	-	-	8,416
Balance at 31 December 2018	10,651	776,027	14,170	-	49,077	2,842	852,767
Balance at 1 January 2019	10,651	776,027	14,170	-	49,077	2,842	852,767
Additions	17,089	6,909	69	-	14,732	3,409	42,208
Adjustment to transition to IFRS16	-	-	-	9,446	-	-	9,446
Revaluation	-	94,411	374	-	-	-	94,785
Disposals	-	-	-	-	(11,268)	(596)	(11,864)
Transfers	(4,389)	2,526	-	-	1,952	(89)	-
Transfer from depreciation	-	205,355	22,012	-	-	-	227,367
Balance at 31 December 2019	**23,351**	**1,085,228**	**36,625**	**9,446**	**54,493**	**5,566**	**1,214,709**
Depreciation and impairment							
Balance at 1 January 2018	1,890	-	-	-	15,093	772	17,755
Depreciation charge for the year	-	18,401	-	-	6,119	412	24,932
Depreciation on disposals	-	1,288	-	-	2	-	1,290
Impairment	-	9,175	-	-	-	-	9,175
Revaluation	-	(28,864)	-	-	-	-	(28,864)
Balance at 31 December 2018	1,890	-	-	-	21,214	1,184	24,288
Balance at 1 January 2019	1,890	-	-	-	21,214	1,184	24,288
Depreciation charge for the year	-	19,738	227	1,570	7,977	1,120	30,632
Depreciation on disposals	-	-	-	-	(11,268)	(596)	(11,864)
Impairment	-	28,805	795	-	-	-	29,600
Reversal of previous impairment	-	(17,343)	(80)	-	-	-	(17,423)
Transfer from cost	-	205,355	22,012	-	-	-	227,367
Balance at 31 December 2019	**1,890**	**236,555**	**22,954**	**1,570**	**17,923**	**1,708**	**233,035**
Net book value							
At 31 December 2018	8,761	776,027	14,170	-	27,863	1,658	828,479
At 31 December 2019	**21,461**	**848,673**	**13,671**	**7,876**	**36,570**	**3,858**	**932,109**

Notes *(continued)*

7 Property, plant and equipment – Group *(continued)*

Revaluation

Freehold and leasehold land and buildings are measured using the revaluation model.

The fair value of the Cygnet freehold and leasehold land and buildings has been determined at period end using a valuation conducted by Knight Frank LLP.

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

At 31 December 2019, 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 £565,802,000 *(2018: £568,305,000).*

At 31 December 2019, had the leasehold land and building been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £7,064,000 *(2018: £2,892,000).*

Leased land and buildings

The net book value of leasehold land and buildings comprises long leasehold of £2,333,000 *(2018: £2,330,000)* and short leasehold of £11,338,000 *(2018: £11,840,000).*

During the year £nil (2018: £nil) of finance costs were capitalised within assets in the course of construction. The total interest capitalised within tangible fixed assets at 31 December 2019 is £1,253,000 *(2018: £1,253,000).*

Land

Freehold land and buildings includes £83,257,000 *(2018: £83,257,000)* in respect of land which is not depreciated.

Notes *(continued)*

8 Intangible assets – Group

	Software	Goodwill	Customer contracts, and trademarks	Total
	£'000	£'000	£'000	£'000
Cost				
Balance at 1 January 2018	2,770	88,930	1,030	92,730
Adjustment in respect of prior year acquisition	-	1,695	-	1,695
Additions in the year	-	2,835	-	2,835
Balance at 31 December 2018	2,770	93,460	1,030	97,260
Balance at 1 January 2019	2,770	93,460	1,030	97,260
Balance at 31 December 2019	**2,770**	**93,460**	**1,030**	**97,260**
Amortisation and impairment				
Balance at 1 January 2018	554	6,601	1,030	8,185
Amortisation for the year	300	-	-	300
Balance at 31 December 2018	854	6,601	1,030	8,485
Balance at 1 January 2019	854	6,601	1,030	8,485
Amortisation for the year	300	-	-	300
Balance at 31 December 2019	**1,154**	**6,601**	**1,030**	**8,785**
Net book value				
At 31 December 2018	1,916	86,859	-	88,775
At 31 December 2019	**1,616**	**86,859**	-	**88,475**

Goodwill is considered to have an indefinite useful life. It is tested at least annually for impairment in accordance with IAS 36 'Impairment of assets' and IAS 38 'Intangible assets'. Software is amortised over 5 years.

Impairment

In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of cash generating units (CGUs), which is determined based on value in use calculations. These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management. In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the behavioural health service industry in which the CGUs operate. A discount rate of 8% *(2018: 4.6%)*has been used to calculate the present value. An annual growth rate of 2% *(2018: 0%)* was assumed. Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount.

The Group views the business as having three CGUs which are the two most recent acquistions by the Group and the core business. All three CGUs hold goodwill balances.

Management EBITDA forecasts in relation to the related CGUs support the Goodwill carrying value and therefore management are comfortable that no impairment is required.

Notes *(continued)*

9 Investments in subsidiaries - Group

The Group has the following investments in subsidiaries:

	Class of shares held	Ownership		Principal activity
		2019	**2018**	
Cygnet Inter Holdings Limited*	Ordinary	**100%**	100%	Holding company
Cygnet 2002 Limited	Ordinary	**100%**	100%	Holding company
Cygnet Health Care Limited	Ordinary/Preferred	**100%**	100%	Psychiatric and residential healthcare
Stac Healthcare Limited	Ordinary	**100%**	100%	Investment property
Cygnet 2000 Limited	Ordinary/Preferred	**100%**	100%	Non trading
Cygnet PropCo HoldCo Limited	Ordinary	**100%**	100%	Holding company
Cygnet PropCo Limited	Ordinary	**100%**	100%	Investment property
Cygnet PropCo Holdco II Limited	Ordinary	**100%**	100%	Holding company
Cygnet PropCo II Limited	Ordinary	**100%**	100%	Investment property
Cygnet Supported Living Limited	Ordinary	**100%**	100%	Non trading
Cygnet Trustees Limited	Ordinary	**100%**	100%	Non trading, corporate trust
Cygnet Surrey Limited	Ordinary	**100%**	100%	Psychiatric healthcare facilities
Cygnet NW Limited	Ordinary	**100%**	100%	Psychiatric healthcare facilities
Cygnet Hospital Holdings Limited	Ordinary/A Shares	**100%**	100%	Holding company
Orchard Portman Hospital Limited	Ordinary	**100%**	100%	Property holding
Orchard Portman House Limited	Ordinary	**100%**	100%	Holding company
Taunton Hospital Limited	Ordinary	**100%**	100%	Property holding
Cygnet Health Properties Limited*	Ordinary	**100%**	100%	Investment property
Cygnet Health Developments Limited*	Ordinary	**100%**	100%	Investment property
Cygnet Aspirations Developments Limited	Ordinary	**100%**	100%	Holding company
Cygnet Care Services Limited	Ordinary	**100%**	100%	Residential care facilities
Cygnet Behavioural Health Limited	Ordinary	**100%**	100%	Psychiatric healthcare facilities
Safe Spaces Limited	Ordinary	**100%**	100%	Non trading
CAS Aspirations Properties Limited **	Ordinary	**100%**	100%	Investment company
Cygnet Learning Disabilities Limited	Ordinary	**100%**	100%	Residential care facilities
Cygnet Learning Disabilities Midlands Limited	Ordinary	**100%**	100%	Residential care facilities
CAS Learning Disabilities Services Limited	Ordinary	**100%**	100%	Non trading
CAS St Paul's Limited	Ordinary	**100%**	100%	Investment property
CAS Aspirations Properties V Limited**	Ordinary	**100%**	100%	Non trading
CAS Healthcare Properties Limited	Ordinary	**100%**	100%	Investment property
Cygnet Clifton Limited	Ordinary	**100%**	100%	Residential care facilities
CAS Clifton Healthcare Limited	Ordinary	**100%**	100%	Non trading
CAS Properties III Limited **	Ordinary	**100%**	100%	Non trading
Everycorner Limited ^	Ordinary	**100%**	100%	Residential care facilities
Relativeto Limited ^	Ordinary	**100%**	100%	Residential care facilities
Short Ground Limited ^	Ordinary	**100%**	100%	Residential care facilities
Isand (Domiciliary Care) Limited ^	Ordinary	**100%**	100%	Residential care facilities
Caireach Limited ^	Ordinary	**100%**	100%	Residential care facilities
Isand Limited ^	Ordinary	**100%**	100%	Residential care facilities
Cygnet (OE) Limited	Ordinary	**100%**	100%	Residential care facilities
Cygnet (DH) Limited	Ordinary	**100%**	100%	Residential care facilities
Cygnet (DM) LLP	N/A	**100%**	100%	Support Services
Cygnet D Holdings Limited***	Ordinary	**100%**	100%	Holding company
Cygnet DHG Limited***	Ordinary	**100%**	100%	Holding company

Notes *(continued)*

9 Investments in subsidiaries – Group *(continued)*

Unless otherwise stated, all of the companies listed above, are registered and incorporated in England and Wales. All entities have the same registered office as the Company with the exception of the Jersey and Guernsey entities. Those marked ** above have a registered office of 9 Burrard Street, St Helier, Jersey, JE4 5UE and those marked *** above have a registered office of 18-20 Le Pollet, St Peter Port, Guernsey, GY1 1WH.

All subsidiaries are included in the Group consolidated financial statements.

The year end of the above companies is the same as the parent company.

* Owned directly by Cygnet Health UK Limited. The investment is held at £581,000.

^ Taking an exemption from audit under section 479A of the Companies Act 2006.

10 Investments in subsidiaries - Company

	Investment in subsidiaries £'000
Cost	
At beginning and end of year	581

Notes *(continued)*

11 Deferred tax assets and liabilities – Group

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**	
	31 December 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Property, plant and equipment	**-**	-	**(56,293)**	(45,474)
Other	**-**	-	**(3,525)**	(1,494)
Unutilised trading losses	**1,091**	1,347	**-**	-
Tax assets / (liabilities)	**1,091**	1,347	**(59,818)**	(46,968)
Net of tax assets		(1,347)		1,347
Net tax assets / (liabilities)	**1,091**	-	**(59,818)**	(45,621)

Movement in deferred tax during the year

	1 January 2019 £'000	**On Acquisitions £'000**	**Recognised in income £'000**	**Recognised In equity £'000**	**31 December 2019 £'000**
Property, plant and equipment	(45,474)	-	5,002	(15,821)	**(56,293)**
Other	(1,494)	-	(2,031)	-	**(3,525)**
Utilised trading losses	1,347)	-	(256)	-	**1,091**
	(45,621)	-	2,715	(15,821)	**(58,727)**

Movement in deferred tax during the prior year

	1 January 2018 £'000	On Acquisitions £'000	Recognised in income £'000	Recognised In equity £'000	31 December 2018 £'000
Property, plant and equipment	(37,513)	(8,862)	2,796	(1,895)	(45,474)
Other	494	-	(1,988)	-	(1,494)
Utilised trading losses	917	-	430	-	1,347
	(36,102)	(8,862)	1,238	(1,895)	(45,621)

Notes *(continued)*

12 Trade and other receivables

	Group		Company	
	31 December 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Trade receivables	**57,010**	54,927	**-**	-
Other receivables and prepayments	**10,814**	13,405	**192**	-
	67,824	68,332	**192**	-

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

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

	31 December 2019 £'000	31 December 2018 £'000
Not yet due:		
0-29 days	**22,623**	26,322
Overdue:		
30-59 days	**11,008**	10,860
60+ days	**23,379**	17,745
	57,010	54,927

13 Cash and cash equivalents

	Group		Company	
	31 December 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Cash and cash equivalents per statements of financial position	**24,410**	62,507	**11**	11
Cash and cash equivalents per statements of cash flows	**24,410**	62,507	**11**	11

The Group's exposure to interest rate risk is disclosed in note 22.

14 Amounts owed by group undertakings - Company

The amounts owed by group undertakings are legally repayable on demand (and hence are disclosed as current assets). However it is not expected that a demand for these payments will be made within the next year. These amounts have not been impaired *(2018: no impairment)*.

Interest is charged on this balance at 4.85% plus LIBOR.

Notes *(continued)*

15 Trade and other payables

	Group		Company	
	31 December 2019 £'000	31 December 2018 £'000	**31 December 2019 £'000**	31 December 2018 £'000
Trade payables	**6,120**	6,134	**-**	-
Payroll tax and other statutory liabilities	**5,172**	4,265	**-**	-
Other payables	**36,201**	44,582	**405**	405
	47,493	54,981	**405**	405

The Group's exposure to liquidity risks related to trade and other payables is disclosed in note 22.

16 Lease liabilities - Group

	31 December 2019 £'000	31 December 2018 £'000
Maturity Analysis		
Within one year	**1,618**	-
In one to two years	**1,571**	-
In two to five years	**3,769**	-
Greater than five years	**1,244**	-
Total undiscounted liabilities	**8,202**	-

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:

	31 December 2019 £'000	31 December 2018 £'000
Current liabilities	**1,618**	-
Non-current liabilities	**6,584**	-
	8,202	-

Amounts recognised in profit or loss include the following:

	31 December 2019 £'000	31 December 2018 £'000
Interest on lease liabilities	**241**	-

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

Notes *(continued)*

16 Lease Liabilities – Group *(continued)*

The Group has adopted a modified retrospective approach of IFRS 16, no restatement of prior comparatives was required. The IFRS 16 asset and liability were recognised as at 1 January 2019. The Group has 12 lease properties.

The lease right of use asset has been identified as £9,446,000 and is included within Property, Plant and Equipment with the credit going to lease liabilitgies. Amortisation of £1,570,000 has subsequently been applied using straight line method, leaving a net book value of £7,876,000.

The amount of £1,484,000 which would have previously been expensed through the P&L for rental charges has been reversed under IFRS16 and is now net off against the lease liability on the balance sheet.

The present value of the remaining lease payments is £1,484,000 discounted using the leases's incremental borrowing rate. Interest charges of £241,000 have been applied. The total lease liability held on the balance sheet at the year end is £8,202,000.

Other leasing information is included in note 23

17 Amounts due to parent undertakings - Group

The amounts due to parent undertakings are legally repayable on demand (and hence are disclosed as current liabilities). However it is not expected that a demand for these payments will be made within the next year.

Interest is not charged on this balance by the parent undertaking.

18 Called up share capital

	Group and Company	
	31 December 2019 £'000	31 December 2018 £'000
Allotted and fully paid and called up		
16,622,710,320 *(2018: 16,622,710,320)* A Ordinary shares of £0.0001 each	**1,662**	1,662
53,265,848,000 *(2018:* 53,265,848,000*)* B Ordinary shares of £0.0001 each	**5,327**	5,327
200 *(2018: nil)* C Ordinary shares of £0.0001 each	**-**	-
	6,989	6,989

Holders of Class A and B 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 Class A and B Ordinary shares are entitled to vote at a meeting of shareholders with each share entitiled to one vote. Holders of Class C Ordinary shares do not have the right to participate in dividends or vote at meetings.

19 Dividends

	Group and Company	
	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Final dividend of 0.0715p per fully paid share (Class A and B)	**50,000**	-
	50,000	-

Notes *(continued)*

20 Net debt reconciliation

	31 December 2019 £'000	31 December 2018 £'000
Cash and cash equivalents	**24,410**	62,507
Lease liabilities	**(8,202)**	-
Net debt	**16,208**	62,507

	Leases £'000	Cash £'000	Total £'000
Net debt as at 1 Janaury 2018	-	35,763	35,763
Cashflow	-	26,744	26,744
Net debt as at 31 December 2018	-	62,507	62,507
Recognised on adoption of IFRS 16	(9,446)	-	(9,446)
Interest	(241)	-	(241)
Cashflow	1,485	(38,097)	(36,612)
Net debt as at 31 December 2019	**(8,202)**	**24,410**	**16,208**

21 Employee benefits

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 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

A share based payment charge of £180,000 *(2018: £531,000)* has been recognised in respect of these options.

Notes *(continued)*

22 Financial instruments

The Group has exposure (or had exposure for at least part of the year) to the following risks from its normal course of business:

- Capital risk management
- Credit risk;
- Liquidity risk.

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

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

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

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

Capital risk management

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

Credit risk

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

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer base, including the default risk of the industry and country in which the customers domicile has less of an influence on credit risk. Cygnet Health Care Limited did business with 257 NHS purchasing bodies. Cygnet maintains an active dialogue with all of its customers in order to meet their needs and reduce individual reliance on them.

Geographically there is no concentration of credit risk. Any potential credit risk arises on UK customers.

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

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

Notes *(continued)*

22 Financial instruments *(continued)*

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group uses financial instruments, comprising bank overdraft and various items including trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility can be achieved by using overdraft facilities.

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

As at 31 December 2019:

	Total	**Less than 1 year**	**1-2 years**	**2-5 years**	**5 years+**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	**24,410**	**24,410**	**-**	**-**	**-**
Trade and other receivables	**66,288**	**66,288**	**-**	**-**	**-**
Trade and other payables	**(47,493)**	**(47,493)**	**-**	**-**	**-**
Lease liabilities	**(8,202)**	**(1,618)**	**(1,571)**	**(3,769)**	**(1,244)**
Amounts owed to group undertakings	**(251)**	**(251)**	**-**	**-**	**-**

As at 31 December 2018:

	Total	Less than 1 year	1-2 years	2-5 years	5 years+
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	62,507	62,507	-	-	-
Trade and other receivables	66,950	66,950	-	-	-
Trade and other payables	(54,981)	(54,981)	-	-	-
Amounts owed to group undertakings	(287)	(287)	-	-	-

Fair value

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

Financial Assets

	31 December 2019		31 December 2018	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£'000	**£'000**	£'000	£'000
Trade and other receivables	**66,288**	**66,288**	66,950	66,950
Cash at bank	**24,410**	**24,410**	62,507	62,508
	90,698	**90,698**	129,457	129,457

Notes *(continued)*

22 Financial instruments *(continued)*

Financial liabilities

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Trade and other payables	**(47,493)**	**(47,493)**	(54,981)	(54,981)
Amounts owed to group undertakings	**(251)**	**(251)**	(287)	(287)
	(47,744)	**(47,744)**	(55,268)	(55,268)

23 Operating lease commitments - Group

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:

	31 December 2019	31 December 2018
	£'000	£'000
Within one year	**39**	2,104
Between one and five years	**-**	8,119
More than five years	**-**	9,260
	39	19,483

Operating lease commitments as at 31 December 2018	19,483
Remeasurement under IFRS16	(10,340)
Operating leases transferred to right of use assets	(9,143)
Revised operating lease commitments as at 1 January 2019	-

During the year £461,000 was recognised as an expense in the income statement in respect of operating leases *(2018: £nil).*

24 Capital commitments - Group

	Year ended 31 December 2019	Year ended 31 December 2018
	£'000	£'000
Contracted but not provided in the financial statements	**7,081**	6,717

Notes *(continued)*

25 Related parties - Group

Identity of related parties with which the Group has transacted

The ultimate controlling party of the Group is Universal Health Services Inc. Transactions between the Cygnet Health UK Limited and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key management personnel

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

	31 December 2019 £'000	31 December 2018 £'000
Key management emoluments including social security costs	**1,526**	2,325
Company contributions to money purchased pension plans	**23**	75
	1,549	2,400

26 Accounting estimates and judgements

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

Key sources of estimation uncertainty

Note 7 gives detailed analysis about the useful economic lives of depreciable assets.

Note 8 gives an analysis about intangibles. Following a review of the Danshell acquisition no other intangibles other than recognised goodwill were identified.

In determining the value of the properties the Directors have relied on external valuations carried out by professionally qualified valuers in accordance with the appraisal and valuation standards of the Royal Institution of Chartered Surveyors. The properties consist entirely of independent private hospital and nursing care home facilities which, having due regard to the Red Book, are to be treated as i) Land and buildings fully equipped as an operational entity and valued having regard to trading potential and; ii) Land and buildings owner-occupied for the purposes of the undertaking.

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

In recognising the tax losses an assumption has been made about the future profit of the Group. It has been assumed that there will be sufficient profit to offset the prior losses.

<u>Intangible Assets 'IAS 38'</u>

The recoverability of is assessed in comparison to the cash generating units to which it is associated.

The impairment tests at 31 December 2019 using value in use resulted in a £nil *(2018: £nil)* charge to goodwill impairment expense within the income statement. In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of cash generating units (CGUs), which is determined based on value in use calculations. These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management. In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate. Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount.

Notes *(continued)*

26 Accounting estimates and judgements *(Continued)*

Critical accounting judgements in applying the Group's accounting policies

There have been no critical accounting judgements in applying the Group's accounting policies.

27 Parent and ultimate parent company

The Company is a subsidiary undertaking of Universal Health Services Inc. The registered office is 367 South Gulph Road, King of Prussia, PA 19406.

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 consolidated financial statements of the group are available to the public and may be obtained from the below website.

http://www.uhsinc.com/