

Cygnnet Health Care Limited

Annual Report

Registered number - 02141256

Year ended 31 October 2013

SATURDAY



A2NPP12Y

A44

21/12/2013

#248

COMPANIES HOUSE

Contents

Chief Executive's review	1
Chief Operating Officer's review	3
Chief Financial Officer's review	4
Strategic Report	6
Directors' report	8
Statement of directors' responsibilities in respect of the Strategic Report and Directors' Report and the financial statements	10
Independent auditor's report to the members of Cygnat Health Care Limited	11
Income Statement	13
Statement of Comprehensive Income	13
Statement of Financial Position	14
Statement of Cash Flows	15
Notes	16

Chief Executive's review

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

The Cygnnet Health Care Group ("Cygnnet") is a leading provider of psychiatric care services

During the year Cygnnet has continued to develop its service offering and further adapt the services it provides to meet its customers' needs. Cygnnet continued to refresh the services it provides and to deliver more for less, striving to provide excellent value for money. During the year ended 31 October 2013 ("FY 2013") Cygnnet retooled 5 (around 10%) of its wards across the Group to respond to customer needs.

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

A major feature of 2013 was the reorganisation of the NHS commissioning arrangements which led to a change of some 75% of Cygnnet's NHS customers. Cygnnet successfully navigated the change, despite a temporary slowdown in referrals following the changeover. Today, Cygnnet has built successful working relationships with the vast majority of NHS commissioners and further progress is being made.

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

Our business continues to be supported by strong relationships with customers – Cygnnet did business with 163 NHS purchasing bodies FY2013. Formal arrangements in place with 84 of these bodies accounted for 84% of Cygnnet's Revenue.

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

Corporate and Clinical Governance

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

Our Governance plan is designed to enhance Quality Assurance. This plan is monitored regularly by local board and governance meetings. We continue to work with the Care Quality Commission ("CQC"), the English regulating authority, aiming to be the market leader in our sector in delivery of clinical quality. We are pleased to report the 100% compliance with CQUIN in 2012/13 - all 150 out of 150 quality improvements were met on the 32 submissions made in 2012/13.

Our People

I believe we have a first class team of management and staff in our organisation that combines a unique set of skills to drive our business forward. It is the expertise of our people 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. I would like to take this opportunity to thank all our staff for their tremendous commitment and skill.

I am also pleased to welcome the appointment of our Chief Operating Officer, Nicky McLeod, and our Chief Financial Officer, Mark Ground, to the holding company Board as evidence of our commitment to the best standards of corporate governance.

Chief Executive's review *(continued)*

Process to find a new strategic partner

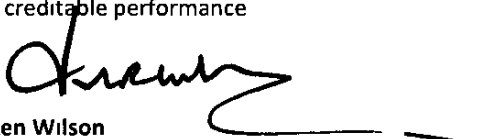
During FY2014 Cygnat will conduct a process to find a new strategic partner with whom it can continue to invest and grow the business to continue its journey as a leading health care service provider

Our Network

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

Results and Outlook

The group's results for FY2013, showing a profit for the year (before significant items) of £2.0m (2012: £3.4m), are a creditable performance.



Ken Wilson
Chief Executive Officer

Chief Operating Officer's review

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

Our vision of service users being at the heart of our business maintains our focus on delivering high quality, value for money services tailored to meet customer needs

As the NHS has moved into a new era following its restructuring in April, we have successfully adapted to a new customer group with new requirements and making new demands. By continuing to listen to our customers' needs we have successfully re-tooled several services to respond to changes in demand

The delivery of Mental Health care has been a key focus of the Care Quality Commission (CQC) in 2013 and has resulted in stringent inspections across the whole group. Where required, action plans are produced to ensure that standards are delivered. Our working relationship with the CQC has resulted in continued improvement in our services also reaping the rewards of constructive and positive feedback from service users and Commissioners alike

Our staff are the key to making our vision and aspirations materialise and we have taken the opportunity to bring in a new Operational Resources Director this year to ensure that there is an emphasis on recruitment, retention and reward of staff. We have continued to strengthen our IT structure through the year, focussing on staff governance which is having a hugely positive impact on our recruitment and retention programme

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

The coming year brings with it the usual financial challenges as well as the opportunity to demonstrate our ability to adapt and improve to meet market demands, providing quality services that offer value as well as positive outcomes

Nicky McLeod
Chief Operating Officer

Chief Financial Officer's review

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

Cygnnet made solid progress in FY2013, with much improved occupancy and consequently improved revenue, EBITDA and operating cash flow

The financial highlights for the group are as follows

- Revenue of £90.9 million (2012: £81.4 million)
- Group EBITDA of £23.1 million (2012: £22.0 million)
- Net cash inflow from operating activities before interest and taxation of £24.3 million (2012: £20.6 million)
- Capital expenditure of £2.0 million (2012: £1.8 million)
- Repayment of debt of £6.6 million (2012: £4.1 million)
- Cash at bank and in hand of £4.7 million (2012: £4.2 million)

Group revenue was £90.9 million, up 11.7% on FY2012 reflecting improved occupancy averaging 73% during the course of the year (FY2012: 70%) but therefore still with spare capacity

Group EBITDA of £23.1 million was up 5% on FY2012. The split below between the first and second half EBITDA demonstrates the progress to date in the recovery of earnings following the intense period of retooling in prior periods

	FY2013 £m	FY2012 £m
First half	11.0	10.3
Second half	12.1	11.7
Total	23.1	22.0

The consolidated profit before taxation (after significant items) was £9.1m (2012: loss £6.6 million). The profit is predominantly as a result of the positive change by £9.1 million in the fair value of the interest rate swap, £1.9 million charge in respect of impairments to freehold land and buildings and non-trading costs of £0.9 million incurred in connection with the process to find a new strategic partner.

Financing and Cash Flow

Net cash inflow from operating activities, before interest and taxation was £24.3 million. During the year the group paid £13.0 million in bank interest and £6.6 million repaying loans.

The business also continued to invest its cash flow to fund capital to maintain our existing sites and to prepare for development of further capacity. During the year the business spent £2.0 million on Capital Expenditure.

Financing costs were £3.9m (2012: £18.0 million). £9.1m income (2012: £5.7 million cost) of the financing costs was due to an accounting adjustment, which arose from the recognition of the change in the fair value of the Group's 25-year interest rate swap contracts on a mark-to-market basis. The interest rate swaps will amortise over the term of the swap contracts as payments are made in line with the originally agreed payment profile up to any early termination of the swap contract.

Cygnnet's bank credit agreements require compliance with financial covenants including maintenance of certain ratios and security. Cygnnet believes it has adequate levels of headroom on its ratios moving forward.

Mark Ground
Chief Financial Officer

Cygnnet 2008 Limited Directors

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

Michael O'Donnell, Non Executive Chairman

Michael was appointed Non Executive Chairman in May 2013. Michael holds a number of other Directorships including Park Resorts and Helical Bar plc. Michael spent his early career with investment banks BZW and Morgan Grenfell and subsequently with the private equity firm LGV Capital.

Ken Wilson, Chief Executive Officer

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

Nicky McLeod, Chief Operating Officer

Nicky comes from a clinical background having initially completed training as a RGN in 1980. After developing her management career with a pharmaceutical company, Nicky joined Cygnnet in 1998 as a Hospital Director. After two years, Nicky was promoted to Regional Director with responsibility for three Cygnnet hospitals. Nicky became the Managing Director of five Cygnnet hospitals before being appointed Chief Operating Officer with responsibility for operations at all Cygnnet units. Nicky was formally appointed to the Cygnnet 2008 Limited Board as a Director on 31 October 2013.

Mark Ground, Chief Financial Officer

Mark is an FCA and comes from a strong professional background, having spent eight years with Arthur Andersen, the last four as a management consultant, before moving on to work for a listed professional services business for six years, where he held the position of Group Finance Director and Company Secretary. Mark joined Cygnnet in 2008 as Chief Financial Officer. Mark was formally appointed to the Cygnnet 2008 Limited Board as a Director on 31 October 2013. He is also Company Secretary of Cygnnet 2008 Limited.

John Hughes, Non Executive Director

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

Craig Hughes, Non Executive Director

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

Strategic Report

This strategic report set out below is the Group strategic report as due to the inter-related nature of the group's activities it is felt that items relevant to the group will be directly or indirectly relevant to the individual entity

Business review

Cygnnet now operates 755 (2012 745 beds) spread through a portfolio of 19 quality facilities. The key performance measures that the Board of Directors ("The Board") uses to monitor progress of the Company and its subsidiaries ("The Group") against its objectives are

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

Future prospects

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

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

Key risks and uncertainties

Interest rate fluctuations

The Board considers that a key risk and uncertainty facing the Group is fluctuations in interest rates. However, the Group has hedged 99% of its term debt borrowings which mitigates the risk of any increase in interest rates but also prevents the Group benefiting from any reduction in rates. In the short term the Group is required to recognise the mark to market value of the SWAP through the Income Statement. This hedging fixes the cost of funds allowing the Group to plan the long term cash flow with certainty.

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

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

The Group's banking facilities expire in February 2015. The Board expect that a refinance will be achieved as a result of the strong improvement in EBITDA that has been achieved in 2013, which is forecast to continue to grow, together with the high quality portfolio of assets that the Group holds.

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

Strategic Report (continued)

Non-financial risks include

Regulatory risk

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

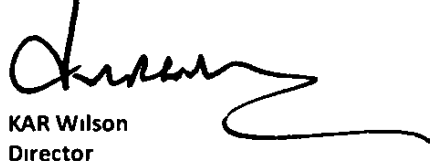
This quality is used proactively to improve services and give individuals an opportunity to raise concerns. CQC results are discussed at all levels of the company units, and analysed in depth by the Governance team. The Board is also sensitive to the need to comply with Health and Safety and other regulations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

Reputational risk

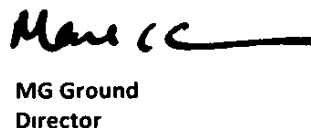
Reputational risk is the risk arising from adverse publicity. The Group believes this is only likely to occur in relation to poor customer and/or service user care and has multilayered systems to prevent this occurring and manage any challenges arising.

Competition

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



KAR Wilson
Director



MG Ground
Director

17/12/2013

Cygnnet Hospital Godden Green
Godden Green
Sevenoaks
Kent
TN15 0JR

Directors' report

The directors present their report and audited financial statements for the year ended 31st October 2013

Directors

The following directors have held office during the year

M K O'Donnell	(Non Executive Chairman) (Appointed 9 October 2013)
K A R Wilson	(Chief Executive Officer)
N J McLeod	(Chief Operating Officer)
M G Ground	(Chief Financial Officer)
J C Hughes	(Non Executive Director)
R C Dinham	(Company Secretary) (Resigned 9 January 2013)
A J Coleman	(Company Secretary) (Appointed 9 January 2013)

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

Principal activities

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

Employee involvement

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

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

Further, Cygnnet 2008 Limited launched a B Ordinary Share Plan in December 2008 whereby managers were invited to purchase B shares for nominal value. As at 31 October 2013 there are 3,223,000 B shares in issue.

Disabled persons

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

Political and charitable contributions

The company made no political or charitable contributions during the year (2012: £nil).

Directors' report *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2012 *£nil*)

Creditor payment policy

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

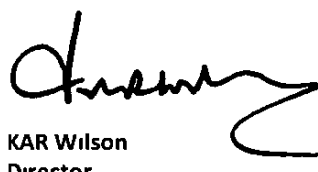
Disclosure of information to auditor

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

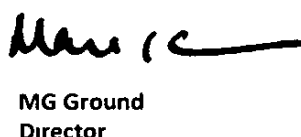
Auditor

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

By order of the board



KAR Wilson
Director



MG Ground
Director

17/12/ 2013

Cygnnet Hospital Godden Green
Godden Green
Sevenoaks
Kent
TN15 0JR

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



KPMG LLP

Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

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

We have audited the financial statements of Cygnet Health Care Limited for the year ended 31 October 2013 set out on pages 13 to 42. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditor.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

TA Brokenshire

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

19/12/ 2013

Income Statement

for the year ended 31 October 2013

	Note	2013 £000	2012 £000
Revenue	1	90,635	81,373
Operating expenses		(87,377)	(79,061)
		<u>3,258</u>	<u>2,312</u>
Impairment of leasehold land and buildings	8	(806)	(1,517)
Operating profit before net finance costs		<u>2,452</u>	<u>795</u>
Finance income	5	24	22
Finance expenses	5	(132)	(153)
Net finance expense		<u>(108)</u>	<u>(131)</u>
Impairment of leasehold land and buildings	8	(806)	(1,517)
All other net income and expenditure		<u>3,150</u>	<u>2,181</u>
Profit on ordinary activities before tax	2	<u>2,344</u>	<u>664</u>
Taxation	6	(116)	493
Profit for the financial year		<u>2,228</u>	<u>1,157</u>
Attributable to equity holders		<u>2,228</u>	<u>1,157</u>

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

Statement of Comprehensive Income


for the year ended 31 October 2013


	2013 £000	2012 £000
Profit for the year	<u>2,228</u>	<u>1,157</u>
Revaluation of property (see note 8)	(1,015)	(2,031)
Deferred tax recognised on revaluation - recognised directly in equity (see note 10)	<u>132</u>	<u>398</u>
Net income recognised directly in equity	<u>(883)</u>	<u>(1,633)</u>
Total recognised profit/(loss) attributable to equity holders of the Company	<u>1,345</u>	<u>(476)</u>

Statement of Financial Position
at 31 October 2013

	<i>Note</i>	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	8	19,826	21,594
Intangible assets	9	4,874	4,957
		<u>24,700</u>	<u>26,551</u>
Current assets			
Amounts owed by group undertakings		157,881	150,158
Trade and other receivables	11	10,559	10,785
Cash and cash equivalents	12	3,863	3,563
Tax receivable		1,395	1,657
		<u>173,698</u>	<u>166,163</u>
Total assets		<u>198,398</u>	<u>192,714</u>
Current liabilities			
Trade and other payables	13	31,664	26,693
		<u>31,664</u>	<u>26,693</u>
Non-current liabilities			
Deferred tax liabilities	10	997	1,653
Total liabilities		<u>32,661</u>	<u>28,346</u>
Equity attributable to equity holders of the parent			
Share capital	14	715	715
Share premium	14	178	178
Revaluation reserve	14	1,114	2,627
Other reserve	14	4,839	4,839
Retained earnings	14	158,891	156,009
Total equity		<u>165,737</u>	<u>164,368</u>
Total equity and liabilities		<u>198,398</u>	<u>192,714</u>

These financial statements were approved by the Board of Directors on 17 December 2013 and were signed on its behalf by


KAR Wilson
Director


MG Ground
Director

Registered number 02141256

Statement of Cash Flows
for the year ended 31 October 2013

	<i>Note</i>	2013 £000	2012 £000
Cash flows from operating activities			
Profit for the year		2,228	1,157
<i>Adjustments for</i>			
Depreciation, amortisation and impairment	8,9	2,804	3,428
Financial income	5	(24)	(22)
Financial expense	5	132	153
Gain on sale of property, plant and equipment		-	(7)
Share based payment expense	15	24	36
Taxation	6	116	(493)
		5,280	4,252
Increase in trade and other receivables		(3,727)	(4,483)
Increase in trade and other payables		4,971	5,408
		6,524	5,177
Interest paid		(189)	(276)
Taxation paid		(1,753)	(1,910)
Net cash from operating activities		4,582	2,991
Cash flows from investing activities			
Interest received		24	22
Proceeds on disposal of property, plant and equipment		-	7
Acquisition of property, plant and equipment	8	(1,970)	(1,682)
Net cash from investing activities		(1,946)	(1,653)
Cash flows from financing activities			
Repayment of borrowings		(2,336)	(463)
Net cash flows from financing activities		(2,336)	(463)
Net increase in cash and cash equivalents		300	875
Cash and cash equivalents at 31 October 2012		3,563	2,688
Cash and cash equivalents at 31 October 2013	12	3,863	3,563

Notes

(forming part of the financial statements)

1 Accounting policies

Cygnat Health Care Limited is a company incorporated in the UK

The address of the Company's registered office is,

Cygnat Hospital Godden Green
Godden Green
Sevenoaks
Kent
TN15 0JR

Statement of compliance

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

Basis of preparation

Going Concern

These financial statements have been prepared on the going concern basis. The Group is profitable and generates positive cashflows. The Group does have term borrowings which have financial covenants attached. However, management have performed detailed forecasting for the next twelve months and the foreseeable future, which includes covenant compliance forecasting and the Directors believe the Group have sufficient headroom.

The Group's banking facilities expire in February 2015. The Board expects that a refinance will be achieved as a result of the strong improvement in EBITDA that has been achieved in 2013, which is forecast to continue to grow, together with the high quality portfolio of assets that the Group holds.

Basis of measurement

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

Significant accounting policies

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

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

- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013) – This standard sets out a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 does not determine whether an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). This standard is not expected to have a material impact upon the financial statements

Revenue

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

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

Segmental reporting

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

Expenses

Operating lease payments

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

Net financing costs

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

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

Notes (continued)

1 Accounting policies (continued)

Employee benefits

Defined contribution plans

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

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

Share-based payment transactions

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

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

Taxation

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

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

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

Policy for interest and capitalisation

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

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill

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

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

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

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

Other intangibles

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

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

Amortisation of intangibles

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

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

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

Notes (continued)

1 Accounting policies (continued)

Impairment

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

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

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

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

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

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Company

Objectives and policies

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

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

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

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

Interest-bearing borrowings

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

Provisions

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

Notes (continued)

2 Expenses and Auditor's remuneration

Included in the profit for the year are the following

	2013 £000	2012 £000
Amortisation of intangibles	83	83
Loss/(Profit) on sale of property, plant, and equipment	-	(7)
Depreciation of plant, property and equipment	1,915	1,828
Operating lease payments	19,624	19,518

Auditor's remuneration

	2013 £000	2012 £000
Audit of these financial statements	70	70
Other services relating to taxation	30	30

3 Staff numbers and costs

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

	2013 No	2012 No
Nursing care staff	1,004	946
Support staff	230	216
Admin staff	201	192
	<u>1,435</u>	<u>1,354</u>

The aggregate payroll costs of these persons were as follows

	2013 £000	2012 £000
Wages and salaries	43,020	40,284
IFRS 2 Share based payments (see note 15)	24	36
Social security costs	4,086	3,874
Other pension costs	455	431
	<u>47,585</u>	<u>44,625</u>

Notes (continued)

4 Directors' remuneration

	2013 £000	2012 £000
Directors' emoluments	993	951
Company contributions to money purchase pension plans	32	24
	<u> </u>	<u> </u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £440,000 (2012 £448,000), and company pension contributions of £13,000 (2012 £8,000) were made to a money purchase scheme on their behalf. No share options were exercised (2012 nil)

5 Finance income and expense

	2013 £000	2012 £000
Interest income	24	22
	<u> </u>	<u> </u>
Finance income	24	22
	<u> </u>	<u> </u>
Interest expense		
On bank loans and overdrafts	(132)	(153)
	<u> </u>	<u> </u>
Finance expenses	(132)	(153)
	<u> </u>	<u> </u>
Net finance expense	(108)	(131)
	<u> </u>	<u> </u>

Notes (continued)

6 Taxation

Recognised in the income statement

	2013 £000	2012 £000
<i>Current tax expense/(credit)</i>		
Current year	34	67
Adjustments for prior years	606	(144)
	<u>640</u>	<u>(77)</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(403)	(418)
Current year adjustment for prior years	(121)	2
	<u>(524)</u>	<u>(416)</u>
Total tax expense/(credit) in the income statement	<u>116</u>	<u>(493)</u>

Reconciliation of effective tax rate

	2013 £000	2012 £000
Profit for the period	2,228	1,157
Total tax expense/(credit)	116	(493)
Profit excluding taxation	<u>2,344</u>	<u>664</u>
Tax using the UK corporation tax rate of 23.41% (2012 24.83%)	549	165
Depreciation of assets not eligible for capital allowances	42	28
Impairment	88	394
Transfer pricing	1,551	1,863
Group relief	(2,561)	(2,610)
Other adjustments	(38)	(191)
Adjustment in relation to tax charge in prior years	485	(142)
Total tax expense/(credit)	<u>116</u>	<u>(493)</u>

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The deferred tax balances at 31 October 2013 have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes (continued)

7 Dividend

	2013 £000	2012 £000
Dividend paid	-	-

8 Property, plant and equipment

	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost or valuation				
Balance at 1 November 2011	23,353	3,400	487	27,240
Additions	608	986	88	1,682
Disposals	-	-	(26)	(26)
Revaluation	(4,858)	-	-	(4,858)
Balance at 31 October 2012	19,103	4,386	549	24,038
Balance at 1 November 2012	19,103	4,386	549	24,038
Additions	1,041	891	38	1,970
Disposals	-	-	(9)	(9)
Revaluation	(3,151)	-	-	(3,151)
Balance at 31 October 2013	16,993	5,277	578	22,848
Depreciation and impairment				
Balance at 1 November 2011	-	1,553	399	1,952
Depreciation charge for the year	1,310	447	71	1,828
Disposals	-	-	(26)	(26)
Revaluation	(1,310)	-	-	(1,310)
Balance at 31 October 2012	-	2,000	444	2,444
Balance at 1 November 2012	-	2,000	444	2,444
Depreciation charge for the year	1,328	546	41	1,915
Disposals	-	-	(9)	(9)
Revaluation	(1,328)	-	-	(1,328)
Balance at 31 October 2013	-	2,546	476	3,022
Net book value				
At 1 November 2011	23,353	1,847	88	25,288
At 31 October 2012	19,103	2,386	105	21,594
At 31 October 2013	16,993	2,731	102	19,826

Notes (continued)

8 Property, plant & equipment (continued)

Revaluation

Leasehold land and buildings are measured using the revaluation model

The fair value of the Company's freehold land and buildings has been determined at year end using values consistent with the formal desktop valuation conducted by Knight Frank LLP in October 2013

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

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

Leasehold land and buildings

At 31 October 2013, had the leasehold land and building been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £3,624,000 (2012 £3,566,000)

The net book value of leasehold land and buildings (including certain leasehold improvements) comprises long leasehold of £4,710,000 (2012 £5,180,000) and short leasehold of £6,280,000 (2012 £8,380,000)

9 Intangible assets

	Goodwill £000	Customer contracts and trademarks £000	Total £000
Cost			
Balance at 1 November 2011, 31 October 2012, and 31 October 2013	4,466	1,030	5,496
Amortisation and impairment			
Balance at 1 November 2011	-	456	456
Amortisation for the year	-	83	83
Balance at 31 October 2012	-	539	539
Balance at 1 November 2012	-	539	539
Amortisation for the year	-	83	83
Balance at 31 October 2013	-	622	622
Net book value			
At 1 November 2011	4,466	574	5,040
At 31 October 2012	4,466	491	4,957
At 31 October 2013	4,466	408	4,874

Notes (continued)

9 Intangible assets (continued)

Amortisation and impairment charge

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

	2013 £000	2012 £000
Operating costs	83	83

Patents and trademarks are amortised over their useful economic life of 10 years. As at 31 October 2013 the remaining amortisation period for patents and trademarks is 2 year 6 months.

Customer contracts are amortised over their useful life of 15 years. As at 31 October 2013 the remaining amortisation period for customer contracts is 7 years and 6 months.

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

Impairment

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

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

The impairment tests at 31 October 2013 using value in use resulted in no charge to goodwill impairment expense within the income statement. In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of cash generating units (CGUs), which is determined based on value in use calculations. These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management. In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate. Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount.

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

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

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

For customer contracts

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

Trade names

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

Notes (continued)

9 Intangible assets (continued)

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

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

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

In developing the discount rates, the following factors were considered

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

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

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

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

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities	
	2013 £000	2012 £000	2013 £000	2012 £000
Property, plant and equipment	-	-		1,553
Intangible assets	-	-	82	113
Other	(11)	(13)	926	-
	<hr/>	<hr/>	<hr/>	<hr/>
Tax (assets) / liabilities	(11)	(13)	1,008	1,666
Net off tax liabilities/(assets)	11	13	(11)	(13)
	<hr/>	<hr/>	<hr/>	<hr/>
Net tax (assets) / liabilities	-	-	997	1,653
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

10 Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

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

Movement in deferred tax during the prior year

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

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The deferred tax balances at 31 October 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

11 Trade and other receivables

	2013 £000	2012 £000
Trade receivables	8,321	8,921
Other receivables and prepayments	2,238	1,864
	<u>10,559</u>	<u>10,785</u>

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

Notes (continued)

11 Trade and other receivables (continued)

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

	2013 £000	2012 £000
<i>Not yet due</i>		
<i>0-29 days</i>	5,145	6,173
<i>Overdue</i>		
<i>30-59 days</i>	2,095	1,843
<i>60+ days</i>	1,081	905
	<u>8,321</u>	<u>8,921</u>

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

12 Cash and cash equivalents

	2013 £000	2012 £000
Cash and cash equivalents per statement of financial position	3,863	3,563
Cash and cash equivalents per statement of cash flows	<u>3,863</u>	<u>3,563</u>

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

13 Trade and other payables

	2013 £000	2012 £000
Trade payables	2,064	1,941
Non-trade payables and accrued expenses	29,600	24,752
	<u>31,664</u>	<u>26,693</u>

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

Notes (continued)

14 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 November 2011	715	178	5,018	4,839	154,058	164,808
Total recognised income and expense	-	-	-	-	1,157	1,157
Transfer from revaluation reserve	-	-	(758)	-	758	-
Revaluation	-	-	(1,633)	-	-	(1,633)
IFRS 2 adjustment	-	-	-	-	36	36
Balance at 31 October 2012	715	178	2,627	4,839	156,009	164,368
Balance at 1 November 2012	715	178	2,627	4,839	156,009	164,368
Total recognised income and expense	-	-	-	-	2,228	2,228
Transfer from revaluation reserve	-	-	(630)	-	630	-
Revaluation*	-	-	(883)	-	-	(883)
IFRS 2 adjustment	-	-	-	-	24	24
Balance at 31 October 2013	715	178	1,114	4,839	158,891	165,737

*Revaluation reserve

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

Notes (continued)

14 Capital and reserves (continued)

Share capital	2013 £'000	2012 £'000
Authorised		
2,787,125,000 Ordinary shares of 1p each	27,871	27,871
800,000 redeemable preference shares of £1 each	800	800
	<hr/>	<hr/>
	28,671	28,671
	<hr/>	<hr/>
Allotted and fully paid and called up		
11,499,359 Ordinary shares of 1p each	115	115
600,000 redeemable preference shares of £1 each	600	600
	<hr/>	<hr/>
	715	715
	<hr/>	<hr/>

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

15 Employee benefits

Share-based payments

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

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

CSOP scheme

The CSOP scheme awards options over ordinary A shares in the Company to employees. During the year there were no shares awarded (2012: nil).

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

Grant date / employees entitled	Number of instruments granted	Vesting conditions	Contractual life of options
Award date			
6 May 2004	25,000	No performance conditions attach	5 May 2014
18 May 2004	15,000	No performance conditions attach	17 May 2014
22 April 2005	244,000	No performance conditions attach	21 April 2015
16 September 2005	10,000	No performance conditions attach	15 September 2015
12 December 2005	60,500	No performance conditions attach	11 December 2015
22 May 2006	221,300	No performance conditions attach	21 May 2016
7 November 2006	20,000	No performance conditions attach	6 November 2016
14 June 2007	241,330	No performance conditions attach	13 June 2017
1 December 2008	278,550	No performance conditions attach	30 November 2018
11 November 2010	111,575	No performance conditions attach	10 November 2020

Notes (continued)

15 Employee benefits (continued)

Share-based payments (continued)

SIP scheme

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

B share scheme

In 2008 a B share scheme was launched which invited employees to purchase "growth shares" – B ordinary shares with a nominal value of 0.01p and thereby a share in the return in growth of the business over a certain preset value (over £2.75 per A ordinary share).

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

	Weighted average exercise price 2013 £	Number of options 2013	Weighted average exercise price 2012 £	Number of options 2012
Outstanding at the beginning of the year	1.82	626,375	1.81	724,075
Forfeited during the year	1.83	(50,650)	2.08	(86,200)
Granted during the year	-	-	-	-
Vested during the year	-	-	0.75	(11,500)
Outstanding at the end of the year	1.82	575,725	1.82	626,375
Exercisable at the end of the year	1.70	499,350	1.69	532,500

The options outstanding at the year end have an exercise price in the range of £1.05 to £2.75 and a weighted average contractual life of 3.56 years.

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

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

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

Notes (continued)

15 Employee benefits (continued)

Share-based payments (continued)

	<i>Exercise price</i>	<i>Market price at grant date</i>	<i>Volatility of share return</i>	<i>Risk free discount rate</i>	<i>Fair value per award</i>
Award date					
22 April 2005	105p	105p	50% pa	4.6% pa	66p
16 September 2005	105p	105p	50% pa	4.2% pa	65p
12 December 2005	115p	115p	50% pa	4.4% pa	71p
22 May 2006	125p	125p	50% pa	5.8% pa	97p
7 November 2006	135p	135p	50% pa	4.9% pa	85p
14 June 2007	150p	150p	50% pa	5.8% pa	97p
1 December 2008	275p	275p	60% pa	4.0% pa	146p
11 November 2010	275p	275p	60% pa	2.1% pa	142p

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

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

	<i>Expense</i>	
	<i>2013 £000</i>	<i>2012 £000</i>
Award date		
1 December 2008	-	(1)
11 November 2010	24	37
	<hr/>	<hr/>
Total CSOP	24	36
SIP (various dates)	-	-
	<hr/>	<hr/>
Total all awards	24	36
	<hr/>	<hr/>
	<i>2013 £000</i>	<i>2012 £000</i>
Total intrinsic carrying amount of liabilities in respect of vested benefits	533	626
	<hr/>	<hr/>

Notes (continued)

16 Financial instruments

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

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

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

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

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

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

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

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

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

Capital risk management

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

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

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

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

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

Notes (continued)

16 Financial instruments (continued)

Interest rate swap

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

All interest rate swaps are remeasured to fair value at the statement of financial position date. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss. The gain for the year is recognised in financing income. The remaining balance of the swap will amortise over the period of the agreement unless it is terminated early.

Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customers domicile, has less of an influence on credit risk. The Group did business with 163 NHS purchasing bodies. Cygnat maintains an active dialogue with all of its customers in order to meet their needs and reduce individual reliance on them.

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

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

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

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

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group uses financial instruments, comprising bank overdraft and various items including trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by overdraft facilities. The Group has a Revolving Credit Facility that is unsecured. Interest is payable at the rate of LIBOR plus 3.25%.

Notes (continued)

16 Financial instruments (continued)

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

As at 31 October 2013

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

As at 31 October 2012

	<i>Total</i>	<i>Less than 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>5years+</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash and cash equivalent	3,563	3,563	-	-	-

Interest rate risk

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

Sensitivity analysis

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

Interest rate profile of financial instruments at the year end

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

Fair value

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

Financial assets

	2013		2012	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other receivables	10,559	10,559	10,785	10,785
Cash at bank	3,863	3,863	3,563	3,563
	14,422	14,422	14,348	14,348

Financial liabilities

	2013		2012	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade and other payables	31,664	31,664	26,693	26,693
	31,664	31,664	26,693	26,693

Notes (continued)

16 Financial instruments (continued)

Repricing analysis

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

Note	2013					2012				
	Total	Less than one year £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000	Total £000	Less than one year £000	1 to 2 years £000	2 to 5 years £000	5 years and over £000
Cash and cash equivalents	3,863	3,863	-	-	-	3,563	3,563	-	-	-
	<u>3,863</u>	<u>3,863</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,563</u>	<u>3,563</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes (continued)

17 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2013 £000	2012 £000
Less than one year	19,460	19,449
Between one and five years	78,149	77,967
More than five years	348,969	368,246
	<hr/>	<hr/>
	446,578	465,662
	<hr/>	<hr/>

Land and buildings have been considered separately for lease classification

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

During the year £19,624,000 was recognised as an expense in the income statement in respect of operating leases (2012 £19,518,000)

18 Capital commitments

The Company had capital contracted commitments of £nil (2012 £nil)

19 Related parties

Identity of related parties with which the Company has transacted

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

Transactions with key management personnel

The compensation of directors has been disclosed in note 4

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

	Group 2013 £000	2012 £000
Key management emoluments including social security costs	1,606	1,550
Company contributions to money purchase pension plans	50	41
	<hr/>	<hr/>
	1,656	1,591
	<hr/>	<hr/>

Notes (continued)

19 Related parties (continued)

Identity of related parties

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

During the year the Company recognised a charge of £17,865,000 (2012 £17,865,000) in respect of its property lease arrangement with Cygnnet PropCo Limited. At 31 October 2013 £23,211,000 (2012 £19,848,000) is outstanding in relation to the rental charge, this is due to the timing difference between cash paid and the rental charge recognised under lease accounting

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

During the year Stac Healthcare Limited, a related undertaking, charged rental income of £150,000 (2012 £150,000) to the Company. There was no outstanding balance at year end (2012 £nil) in relation to the rental income

20 Accounting estimates and adjustments

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

Key sources of estimation uncertainty

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

Critical accounting judgements in applying the Company's accounting policies

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

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

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

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

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Properties held by Cygnnet PropCo Limited would not be held on the statement of financial position of Cygnnet PropCo Limited but instead would be held by the Company. This would increase the Property, plant and equipment balance by £168.8 million and would impact the statement of financial position of the Company

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

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Property held by Stac Healthcare Limited would not be held on the statement of financial position of Stac Healthcare Limited but instead would be held by the Company. This would increase the Property, plant and equipment balance by £1.8 million and would impact the statement of financial position of the Company

Notes (continued)

20 Accounting estimates and adjustments (continued)

Intangible Assets 'IAS 38'

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

IFRS 2 'Share-based payments'

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

The valuation of properties

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

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

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

21 Ultimate parent company

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

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

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

179 Kings Road
Kingston Upon Thames
Surrey
KT2 5JH

22 Guarantees

The Company has guaranteed the overdraft of its fellow Group Company - Cygnnet 2002 Limited, the amount outstanding at the year end was £nil (2012 £476,516)

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