

Cygnnet Health Care Limited

Annual Report and Financial Statements

Registered number - 02141256

Year ended 31 December 2015

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Strategic Report

The strategic report set out below is the Cygnnet Health UK Limited Group ("Group") strategic report.

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 individual entities.

Business review

The Cygnnet Health UK Limited Group ("Cygnnet" or "Group") is a leading UK provider of mental health services. Cygnnet is able to deliver a diverse range of services to optimise the service user experience through its network of sites.

Cygnnet is different to many other providers with a broad coverage of the mental health spectrum from Acute, Secure, Non-secure rehabilitation, and Out-patient services to Adolescent, Autism, Learning Disability and Elderly care.

In September 2014 Cygnnet found a long term strategic partner in Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA. Under new ownership and with the consequent change in capital structure, Cygnnet has been able to focus more on investing in the delivery of more high quality value for money services.

In 2015, Cygnnet has been able to extend its delivery of healthcare services through both organic development and acquisition to complement the business.

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

On 19th August 2015, Cygnnet was pleased to announce the acquisition of Alpha Hospitals Holdings Limited and subsidiaries- four hospitals across the UK with 305 mental health beds located in Bury, Sheffield, and Woking, providing a range of specialist services to adolescents and adults with a mental illness. This acquisition broadened and strengthened Cygnnet's service offering and geographical reach. The Alpha sites have been renamed with appropriate Cygnnet names.

Since the date of acquisition of these facilities Cygnnet's management team have been working closely with the local management and staff to further best practice and service excellence, whilst realising appropriate synergies and efficiencies.

In addition, in 2015 Cygnnet accelerated its organic development plans, with various extensions and the start of construction of a new 56 bed hospital in Coventry, expected to be open in early 2017.

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

Our business continues to be supported by strong relationships with customers – in 2015 Cygnnet did business with 168 NHS purchasing bodies. During this time, formal arrangements were in place with 113 of these bodies accounting for 88% 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 clinically and from an efficiency point of view but also in a way that puts service users first.

During the year Cygnnet closed its underperforming 12 bed service at Stockport and its 10 beds of supported living services in Harrow and Devon to focus on core activities

Cygnnet now operates 1,046 beds (2014: 765 beds) spread through a portfolio of 21 quality facilities (2014: 18 facilities).

Strategic Report *(continued)*

Corporate and Clinical Delivery and Governance

Cygnnet has continued to focus on striving for the highest quality corporate and clinical governance throughout everything we do – clinical excellence and governance are the foundation of our business. As part of our journey to further enhance our clinical service delivery capability, in 2015 we were pleased to welcome Julie Kerry to a newly created Board level post as Director of Nursing & Patient Experience. Furthermore, we also are pleased to have identified a Group Medical Director who will become a full time member of the executive management team from April 2016.

Our Governance plan is designed to enhance Quality Assurance. This plan is monitored regularly by local board and governance meetings, and twice-yearly Board to Ward meetings.

We continue to work with the Care Quality Commission (“CQC”), the English regulatory authority, aiming to be the market leader in our sector in delivery of clinical quality. We are pleased to report 100% compliance with Commissioning for Quality and Innovation (“CQUIN”) in 2014/15 (measured 1st April 2014 to 31st March 2015 in line with the relevant NHS financial year) – all 23 out of 23 quality targets were met on the quarterly submissions made in 2014/15.

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

Our People

We are very proud to have a first class team of management and staff in our organisation who combine a unique set of skills to drive our business forward. It is the expertise of our people and the culture of passion and commitment that enables us to do such a fantastic job of caring for our service users and improving their lives day by day. We believe in our core values of being Helpful, Responsible, Respectful, Honest and Empathetic.

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

Key performance measures

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

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

Strategic Report *(continued)*

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 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

Regulatory risk

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

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

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

Reputational risk

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

Strategic Report (continued)

Financial Review

Cygnnet made very encouraging progress in the year to 31 December 2015, with strong occupancy levels. This combined with the impact of the acquisitions materially increased revenue, EBITDA and operating cash flow. The financial highlights for the Group are as follows (12 months to December 2015 versus 14 Months to December 2014):

	12 months to 31 December 2015/ as at 31 December 2015	14 months to 31 December 2014/ as at 31 December 2014
	£m	£m
Revenue	132.8	118.4
Group EBITDA	32.1	31.3
Net cash inflow from operating activities before interest and taxation	26.4	24.1
Asset value	417.0	272.7
Total liabilities	(44.5)	(31.9)
Net assets	372.5	240.8

In 2015 Cygnnet delivered revenue of £132.8m of which £24.4m related to revenue post acquisition from the businesses acquired. Cygnnet delivered EBITDA of £32.1m of which £2.9m related to the acquired businesses.

The Group has net assets of £372.5m (2014: £240.8m).

Financing and Cash Flow

Net cash inflow from operating activities, before interest and taxation was £26.4m.

The business continued to invest its cash flow to fund capital to maintain its existing sites, to invest in the organisational infrastructure, and to develop further capacity, supported with additional cash flow from its ultimate parent, UHS Inc whose loan provided part funding for both of the aforementioned acquisitions. During the period the business spent £7.6m on capital expenditure, and £100.2m on the acquisition and refinancing of subsidiaries.



DJ Cole
Director



MG Ground
Director

10 March 2016

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

Directors' report

The directors present their report and audited financial statements for the year ended 31st December 2015. The year end for the company was changed in the previous period from 31 October to 31 December and hence the financial statements include a 14 month period to the 31 December 2014.

Directors

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

D J Cole	(Chief Executive Officer)
N J McLeod	(Chief Operating Officer)
M G Ground	(Chief Financial Officer)

A J Coleman held the position of Company Secretary during the year.

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

Principal activities

The principal activity of Cygnnet Health Care Limited ("the Company") is that of an operating company, operating psychiatric and elderly healthcare facilities. Cygnnet Health Care Limited is able to continue to carry out this trade as it operates out of hospitals either directly owned, owned by direct subsidiaries or leased from related undertakings such as Cygnnet Propco Limited, through a master lease agreement, and Stac Healthcare Limited (also a related undertaking) through a lease agreement. Three of the sites are leased from third parties, details of these arrangements are set out in note 16.

Employee involvement

The directors recognise the importance of human resources. The Cygnnet Health UK Limited Group's ("Group") policy is to encourage active involvement of employees in the management of its facilities and in matters affecting employees' interests. Each facility has a Staff Relations Group ('SRG').

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

In order to obtain staff feedback, an annual staff engagement survey is carried out and reported on and exit interviews are collated independently. A new Employee Assistance Programme has been introduced enabling staff to seek support on work or home/life issues, with the aim of the Company offering improved support to staff working in challenging environments. Cygnnet's staff engagement score improved to 77% in 2015 (2014 – 64%).

Disabled persons

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

Political and charitable contributions

The company made no political or charitable contributions during the period (2014: £nil).

Directors' report (*continued*)

Proposed dividend

The directors do not recommend the payment of a dividend (2014: *£nil*).

Creditor payment policy

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

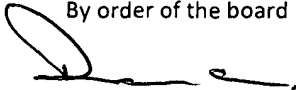
Disclosure of information to auditor

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



DJ Cole
Director



MG Ground
Director

10 March 2016

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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

Arlington Business Park
Theale
Reading
RG7 4SD
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 December 2015 set out on pages 10 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year 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.



James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD

10 March 2016

Income Statement

for the year ended 31 December 2015

	Note	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Revenue	1	113,387	117,847
Operating expenses (including significant items of £2,402,000*)		(106,238)	(117,609)
		<u>7,149</u>	<u>238</u>
Impairment of leasehold land and buildings	8	(204)	(202)
Operating profit before net finance costs		<u>6,945</u>	<u>36</u>
Finance income	6	1,382	40
Finance expenses	6	(2,021)	(126)
Net finance expense		<u>(639)</u>	<u>(86)</u>
Impairment of leasehold land and buildings	8	(204)	(202)
All other net income and expenditure		<u>6,510</u>	<u>152</u>
Profit/(Loss) on ordinary activities before tax	2	6,306	(50)
Taxation	7	(266)	(361)
Profit/(Loss) for the financial period		<u>6,040</u>	<u>(411)</u>
Attributable to equity holders		<u>6,040</u>	<u>(411)</u>

*Significant items relate to:

- Acquisition costs relating to the purchase of Orchard Portman House Limited £457,000 (2014: *Nil*); and
- Acquisition costs relating to the purchase of Alpha Hospitals Holdings Limited £1,945,000 (2014: *Nil*).

Statement of Comprehensive Income
for the year ended 31 December 2015

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Profit/(Loss) for the period	6,040	(411)
Revaluation of property	6,726	6,302
Deferred tax recognised on revaluation - recognised directly in equity	(1,274)	(1,368)
Share based payment adjustment	144	-
Net income recognised directly in equity	5,596	4,934
Total recognised profit attributable to equity holders of the Company	11,636	4,523

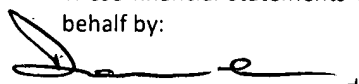
Statement of Financial Position

at 31 December 2015

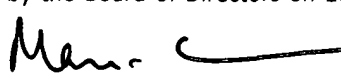
	Note	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Non-current assets			
Property, plant and equipment	8	44,848	32,722
Intangible assets	9	937	937
Investment	3	56,247	-
		<hr/> 102,032 <hr/>	<hr/> 33,659 <hr/>
Current assets			
Amounts owed by group undertakings		103,145	153,473
Trade and other receivables	11	10,324	11,811
Cash and cash equivalents	12	13,756	9,806
Tax receivable		-	1,570
		<hr/> 127,225 <hr/>	<hr/> 176,660 <hr/>
Total assets		<hr/> 229,257 <hr/>	<hr/> 210,319 <hr/>
Current liabilities			
Trade and other payables	13	44,334	37,900
Tax payable		346	-
		<hr/> 44,680 <hr/>	<hr/> 37,900 <hr/>
Non-current liabilities			
Deferred tax liabilities	10	2,681	2,159
Total liabilities		<hr/> 47,361 <hr/>	<hr/> 40,059 <hr/>
Equity attributable to equity holders of the parent			
Share capital	14	715	715
Share premium	14	178	178
Revaluation reserve	14	10,850	5,706
Other reserve	14	4,839	4,839
Retained earnings	14	165,314	158,822
Total equity		<hr/> 181,896 <hr/>	<hr/> 170,260 <hr/>
Total equity and liabilities		<hr/> 229,257 <hr/>	<hr/> 210,319 <hr/>

Notes on pages 14 to 36 form part of the financial statements.

These financial statements were approved by the Board of Directors on 10 March 2016 and were signed on its behalf by:



DJ Cole
Director



MG Ground
Director

10 March 2016

Registered number: 02141256

Statement of Cash Flows

for the year ended 31 December 2015

	Note	Year ended 31 December 2015 £000	14 month Period ended 31 December 2014 £000
Cash flows from operating activities			
Profit/(loss) for the period		6,040	(411)
Adjustments for:			
Depreciation and amortisation	8,9	1,800	5,871
Impairment of fixed assets	8	204	202
Financial income	6	(1,382)	(40)
Financial expense	6	2,021	126
Loss on sale of property, plant and equipment		1	10
Taxation	7	266	361
Share based payment expense		144	-
		9,094	6,119
Decrease in trade and other receivables and amounts due from group undertakings		14,578	4,080
(Increase)/decrease in trade and other payables		(214)	6,264
		23,458	16,463
Interest paid		-	(126)
Taxation received/(paid)		897	(1,700)
Net cash from operating activities		24,355	14,637
Cash flows from investing activities			
Interest received		42	40
Acquisition of property, plant and equipment	8	(7,405)	(8,734)
Acquisition of subsidiary undertakings		(48,702)	-
Loan to subsidiary undertakings		(46,340)	-
Net cash from investing activities		(102,405)	(8,694)
Cash flows from financing activities			
Loans received from parent to facilitate acquisitions		82,000	-
Net cash flows from financing activities		82,000	-
Net increase in cash and cash equivalents		3,950	5,943
Cash and cash equivalents at 31 December 2014		9,806	3,863
Cash and cash equivalents at 31 December 2015	12	13,756	9,806

Notes

(forming part of the financial statements)

1 Accounting policies

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

The address of the Company's registered office is:

Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent
TN15 7RS

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

The Company's ultimate UK parent undertaking, UK Acquisitions No. 6 Limited includes the Company in its consolidated financial statements. The consolidated financial statements of UK Acquisitions No. 6 Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS.

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

- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management, and financial risk management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and

As the consolidated financial statements of Acquisitions No. 6 Limited 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 IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 3 *Business Combinations* in respect of business combinations undertaken by the Company;

Notes (continued)

1 Accounting policies (continued)

- 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 and in preparing an opening FRS 101 IFRS balance sheet at 1 November 2013 for the purposes of the transition to FRS 101.

Basis of preparation

Going Concern

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

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

Basis of measurement

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

Significant accounting policies

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

The preparation of financial statements in conformity with FRS 101 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 FRS 101 that have significant effect on the financial statements are discussed in note 19.

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.

Notes (continued)

1 Accounting policies (continued)

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.

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 in the ultimate parent Universal Health Services Inc., which will be equity settled, are recognised as an expense with a corresponding increase in equity. The fair value of options is measured at grant date. Further details are set out in note 15.

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

Taxation

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

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

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

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

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

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

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

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

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

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

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

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

Policy for interest and capitalisation

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

Notes (continued)

1 Accounting policies (continued)

Intangible assets and goodwill

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

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

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

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

Other intangibles

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

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

Amortisation of intangibles

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

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

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

Notes (continued)

1 Accounting policies (continued)

Impairment

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

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

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

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

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

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Company

Objectives and policies

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

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

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

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

Provisions

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

Notes (continued)

2 Expenses and Auditor's remuneration

Included in the profit/(loss) for the year are the following:

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Amortisation of intangibles	-	97
Depreciation and impairment of plant, property and equipment	2,004	1,933
Operating lease payments	18,940	22,660
	<u> </u>	<u> </u>

In 2014 there was an impairment expense in the income statement of £311,000, relating to customer contracts and trademarks associated with Springs Community. Goodwill associated with Springs Community was also impaired by £3,529,000 in 2014.

Auditor's remuneration:

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Audit of these financial statements	100	118
Other services relating to taxation	40	59
	<u> </u>	<u> </u>

Notes (continued)

3 Investment in subsidiaries

Acquisitions in the current period

On 6 February 2015 the Company acquired the shares of Orchard Portman House Limited and its subsidiaries for a consideration of £7,664,000. The Company also acquired the shares of Cygnet Hospitals Holdings Limited (formerly Alpha Hospitals Holdings Limited) and its subsidiaries on 19 August 2015 for £48,583,000.

The effect of the acquisition can be seen in the consolidated accounts of Cygnet Health UK Limited.

The company has the following investments in subsidiaries:

Company	Class of shares held	Ownership		Principal activity
		2015	2014	
Orchard Portman House Limited*	Ordinary	100%	-	Intermediate holding company
Orchard Portman Hospital Limited	Ordinary	100%	-	Non-trading company
Taunton Hospital Limited	Ordinary	100%	-	Non-trading company
Cygnet Hospitals Holdings Limited (formerly Alpha Hospitals Holdings Limited)*	Ordinary/ A shares	100%	-	Intermediate holding company
Cygnet Surrey Limited (formerly Alpha Hospitals Limited)	Ordinary	100%	-	Healthcare company
Cygnet Hospitals NW Limited (formerly Alpha Hospitals NW Limited)	Ordinary	100%	-	Healthcare company
Safe Spaces Limited	Ordinary	100%	-	Dormant company

*Indicates direct holdings. Remaining subsidiaries acquired through direct acquisitions.

All of the companies listed above, are registered and incorporated in England and Wales. The period end of the above companies is 31 December. Investments in Orchard Portman Hospital Limited and Taunton Hospital Limited are held via Orchard Portman House Limited. Investments in Cygnet Surrey Limited, Cygnet Hospitals NW Limited, and Safe Spaces Limited, are held via Cygnet Hospitals Holdings Limited.

	<i>Investment in subsidiaries £000</i>
Cost	
At beginning of year	-
Additions	56,247
	<hr/>
At end of year	56,247
	<hr/>
Provisions for impairment	
At beginning and end of year	-
	<hr/>
Net book value	
At 31 December 2015	56,247
	<hr/>
At 31 December 2014	-
	<hr/>

Notes (continued)

3 Investment in subsidiaries (continued)

The subsidiary results and distributable reserves per their latest financial statements are as follows:

	Profit/(loss) for period ended	Capital and reserves	Profit/(loss) for period ended	Share of capital and reserves
	31 December 2015 £000	31 December 2015 £000	31 March/ 30 April 2015 £000	31 March/ 30 April 2015 £000
<i>Orchard Portman House Limited</i>	(158)	175	(408)	333
<i>Orchard Portman Hospital Limited</i>	(10)	1,468	(574)	1,478
<i>Taunton Hospital Limited</i>	167	4,635	124	4,468
<i>Cynet Hospitals Holdings Limited (formerly Alpha Hospitals Holdings Limited)</i>	39	5,043	-	5,004
<i>Cynet Surrey Limited (formerly Alpha Hospitals Limited)</i>	(4,887)	3,572	(3,718)	2,882
<i>Cynet NW Limited (formerly Alpha Hospitals NW Limited)</i>	5,193	55,251	1,099	59,561
<i>Safe Spaces Limited</i>	-	1	-	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

4 Staff numbers and costs

	Year ended 31 December 2015 No.	14 month period ended 31 December 2014 No.
Nursing care staff	1,135	1,079
Support staff	311	278
Admin staff	220	209
	<u>1,666</u>	<u>1,566</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Wages and salaries	50,792	56,725
IFRS 2 Share based payments (note 15)	144	-
Social security costs	4,912	5,615
Other pension costs	821	1,015
	<u>56,669</u>	<u>63,355</u>

5 Directors' remuneration

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Directors' emoluments	1,160	3,023
Company contributions to money purchase pension plans	54	215
	<u>1,214</u>	<u>3,238</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £469,000 (2014: £789,000), excluding company pension contributions of £22,000 (2014: £157,000) which were made to a money purchase scheme on their behalf. No share options were exercised (2014: nil). Directors' emoluments in the 14 month period include one-off payments in relation to the sale of Cygnet Health UK Limited to UHS, Inc.

Notes (continued)

6 Finance income and expense

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Interest income	1,382	40
<i>Finance income</i>	<u>1,382</u>	<u>40</u>
<i>Interest expense</i>		
On loans and overdrafts	(2,021)	(126)
<i>Finance expenses</i>	<u>(2,021)</u>	<u>(126)</u>
<i>Net finance expense</i>	<u>(639)</u>	<u>(86)</u>

Interest relates to interest payable on amounts owed to group undertakings. Interest is accrued at a rate of 4.85% per annum above LIBOR. The amounts are legally repayable on demand (and hence are disclosed as current liabilities), however, it is not expected that a demand for these amounts will be made within the next year.

7 Taxation

Recognised in the income statement

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
<i>Current tax expense</i>		
Current period	1,018	-
Adjustments for prior periods	-	567
	<u>1,018</u>	<u>567</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(465)	(114)
Current year adjustment for prior periods	(287)	(92)
	<u>(752)</u>	<u>(206)</u>
Total tax expense in the income statement	<u>266</u>	<u>361</u>

Notes (continued)

7 Taxation (continued)

Reconciliation of effective tax rate

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Profit/(loss) for the period	6,040	(411)
Total tax expense	266	361
	<hr/>	<hr/>
Profit/(loss) excluding taxation	6,306	(50)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 20.25 % (2014: 21.71%)	1,277	(11)
Depreciation of assets not eligible for capital allowances	10	38
Impairment	42	44
Transfer pricing	1,185	1,695
Group relief	(2,045)	(2,849)
Other adjustments	(389)	131
Adjustment in relation to tax charge in prior periods	(289)	475
Expenses not deductible for tax purposes	475	838
	<hr/>	<hr/>
Total tax expense	266	361
	<hr/>	<hr/>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015.

The deferred tax balances at 31 December 2015 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.

Notes (continued)

8 Property, plant and equipment

	Assets under construction £000	Freehold land and buildings £000	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Balance at 1 January 2015	-	15,501	13,906	6,492	586	36,485
Additions	3,294	232	2,065	1,771	43	7,405
Disposals	-	-	-	-	(3)	(3)
Revaluation	-	4,228	1,307	-	-	5,535
Balance at 31 December 2015	3,294	19,961	17,278	8,263	626	49,422
<i>Depreciation and impairment</i>						
Balance at 1 January 2015	-	-	-	3,262	501	3,763
Depreciation in the year	-	234	753	769	44	1,800
Disposals	-	-	-	-	(2)	(2)
Revaluation	-	(234)	(957)	-	-	(1,191)
Impairment	-	-	204	-	-	204
Balance at 31 December 2015	-	-	-	4,031	543	4,574
<i>Net book value</i>						
At 31 December 2014	-	15,501	13,906	3,230	85	32,722
At 31 December 2015	3,294	19,961	17,278	4,232	83	44,848

Revaluation

Leasehold land and buildings are measured using the revaluation model.

The fair value of the Company's freehold land and buildings has been determined at period end using values consistent with the formal desktop valuation conducted by Knight Frank LLP on 8 January 2016.

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 December 2015, 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 £3,277,000 (2014: £3,333,000).

The net book value of leasehold land and buildings (including certain leasehold improvements) comprises long leasehold of £ 4,210,000 (2014: £4,400,000) and short leasehold of £5,130,000 (2014: £3,000,000).

Notes (continued)

9 Intangible assets

	Goodwill £000	Customer contracts and trademarks £000	Total £000
Cost			
Balance at 1 January 2015 and 31 December 2015	4,466	1,030	5,496
	<u> </u>	<u> </u>	<u> </u>
Amortisation and impairment			
Balance at 1 January 2015 and 31 December 2015	3,529	1,030	4,559
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 31 December 2014	937	-	937
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015	937	-	937
	<u> </u>	<u> </u>	<u> </u>

Notes (continued)

9 Intangible assets (continued)

Amortisation and impairment charge

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

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Operating costs	-	97

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

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

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

Impairment

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

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

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

The Directors have reviewed the portfolio for impairment and consider that:

The Directors took the decision to cease operations from the cash generating unit of the Springs Community. Therefore the goodwill, customer contracts and trademarks relating to this unit were written down to £nil at 31 December 2014 resulting in a total impairment charge of £3.84m.

Notes (continued)

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	£000	£000	£000	£000
Property, plant and equipment	-	-	3,050	2,186
Other	(369)	(27)	-	-
	<u>(369)</u>	<u>(27)</u>	<u>3,050</u>	<u>2,186</u>
Tax (assets) / liabilities	(369)	(27)	3,050	2,186
Net off tax liabilities/(assets)	369	27	(369)	(27)
	<u>369</u>	<u>27</u>	<u>(369)</u>	<u>(27)</u>
Net tax liabilities	-	-	2,681	2,159
	<u>-</u>	<u>-</u>	<u>2,681</u>	<u>2,159</u>

Movement in deferred tax during the year:

	31 December 2014	Recognised in income	Recognised in equity	31 December 2015
	£000	£000	£000	£000
Property, plant and equipment	2,186	(410)	1,274	3,050
Other	(27)	(342)	-	(369)
	<u>2,159</u>	<u>(752)</u>	<u>1,274</u>	<u>2,681</u>

Movement in deferred tax during the prior period:

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

Notes (continued)

11 Trade and other receivables

	31 December 2015 £000	31 December 2014 £000
Trade receivables	8,180	10,042
Other receivables and prepayments	2,144	1,769
	<u>10,324</u>	<u>11,811</u>

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

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

	31 December 2015 £000	31 December 2014 £000
<i>Not yet due:</i>		
<i>0-29 days</i>	5,603	6,229
<i>Overdue:</i>		
<i>30-59 days</i>	2,138	2,850
<i>60+ days</i>	439	963
	<u>8,180</u>	<u>10,042</u>

12 Cash and cash equivalents

	31 December 2015 £000	31 December 2014 £000
Cash and cash equivalents per statement of financial position	13,756	9,806
Cash and cash equivalents per statement of cash flows	<u>13,756</u>	<u>9,806</u>

13 Trade and other payables

	31 December 2015 £000	31 December 2014 £000
Trade payables	2,811	1,929
Non-trade payables and accrued expenses	41,523	35,971
	<u>44,334</u>	<u>37,900</u>

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 January 2015	715	178	5,706	4,839	158,822	170,260
Total recognised income and expense	-	-	-	-	6,040	6,040
Transfer from revaluation reserve	-	-	(308)	-	308	-
Revaluation*	-	-	5,452	-	-	5,452
IFRS 2 share based payment adjustment	-	-	-	-	144	144
Balance at 31 December 2015	715	178	10,850	4,839	165,314	181,896

**Revaluation reserve*

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

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

Share capital	2015 £000	2014 £000
<i>Authorised</i>		
2,787,125,000 Ordinary shares of 1p each	27,871	27,871
800,000 redeemable preference shares of £1 each	800	800
	28,671	28,671
<i>Allotted and fully paid and called up</i>		
11,499,359 Ordinary shares of 1p each	115	115
600,000 redeemable preference shares of £1 each	600	600
	715	715

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

Notes (continued)

15 Employee benefits

Share-based payments

The Cygnet Health UK Group ("Group") previously operated three share schemes, the Company Share Option Plan ("CSOP"), the Share Incentive Plan ("SIP") and the B share scheme. These allowed employees to acquire shares in the ultimate parent company.

All employees were employed by Cygnet Health Care Limited, and so the charge was borne by Cygnet Health Care Limited.

The schemes ceased following the change of ownership in 2014.

CSOP scheme

The CSOP scheme awarded options over ordinary A shares in the Company to employees.

SIP scheme

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

B share scheme

In 2009 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 pre-set value (over £2.75 per A ordinary share).

Universal Health Services Inc. scheme

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

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

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

Grant date	Expiry date	Exercise price	Fair value of option	Granted	Cancelled / forfeit	Exercised	Outstanding
18 March 2015	18 March 2020	\$117.29	\$21.277	55,000	(2,000)	-	53,000

A share based payment expense of £144,000 (2014: £nil) has been recognised in respect of these options.

Notes (continued)

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2015 £000	14 month period ended 31 December 2014 £000
Less than one year	19,020	18,926
Between one and five years	76,901	75,904
More than five years	311,016	329,810
	<hr/> 406,937 <hr/>	<hr/> 424,640 <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
- The internal lease arrangement between the Company and Cygnet PropCo Limited, is treated as an operating lease. The lease is a 30 year lease which allows the Company to operate the psychiatric hospital trade from the properties owned by Cygnet PropCo Limited.

During the period £19,046,000 was recognised as an expense in the income statement in respect of operating leases (2014: £22,660,000).

17 Capital commitments

The Company had contracted capital commitments of £8,262,000 (2014: £nil).

18 Related parties

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

Identity of related parties

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

The Company has applied the exemption available under FRS101 in respect of transactions with wholly owned subsidiaries.

Transactions with key management personnel

The Company has applied the exemption available under FRS101 in respect of disclosure of the compensation of key management personnel.

Other related party transactions

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

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

Notes (continued)

19 Accounting estimates and adjustments

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

Key sources of estimation uncertainty

Note 1 gives detailed analysis about the useful economic lives of depreciable assets. Note 8 gives an analysis about goodwill.

Critical accounting judgements in applying the Company's accounting policies

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

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

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

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

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Properties held by Cygnnet PropCo Limited would not be held on the statement of financial position of Cygnnet PropCo Limited but instead would be held by the Company. This would increase the Property, plant and equipment balance by £180.9 million and would impact the statement of financial position of the Company.

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

If the lease was not deemed to be an operating lease under IAS 17 'leases', and was classified as a finance lease, the investment Property held by Stac Healthcare Limited would not be held on the statement of financial position of Stac Healthcare Limited but instead would be held by the Company. This would increase the Property, plant and equipment balance by £0.7 million and would impact the statement of financial position of the Company.

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.

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.

Notes *(continued)*

20 Ultimate parent company

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

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

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