

**Cygnnet Health Care Limited**

**Annual Report and Financial Statements**

**Registered number 02141256**

**Year ended 31 December 2016**

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## Strategic Report

On 28 December 2016 Cygnnet was pleased to announce the acquisition of the adult services division of Cambian Group plc ("CAS").

The strategic report set out below is the UK Acquisitions No. 6 Limited Group ("Group") strategic report relating to the traditional Cygnnet operations (pre the CAS acquisition) during the year ended 31 December 2016.

### 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 2016, Cygnnet has been able to extend its delivery of healthcare services through both organic development and in undertaking an acquisition to complement the business through the purchase of the adult services division of Cambian Group Plc.

Cygnnet has accelerated its organic development plans with various extensions expecting to bring an additional 37 beds over the next year, the ongoing development of their 65 bed hospital in Coventry which completed in spring 2017 and the start of construction of a new 65 bed hospital in Maidstone, expected to be open in summer 2018.

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 2016 Cygnnet did business with 176 (2015: 168) NHS purchasing bodies. During this time, formal arrangements were in place with 121 (2015: 113) of these bodies accounting for 90% (2015: 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.

The traditional Cygnnet business now operates 1,057 beds (2015: 1,046 beds) spread through a portfolio of 21 quality facilities (2015: 21 facilities). For details of the number of beds on acquired business see CAS acquisition section.

### *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.

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 2015/16 (measured 1st April 2015 to 31st March 2016 in line with the relevant NHS financial year) – all 36 out of 36 quality targets were met on the quarterly submissions made in 2015/16.

## **Strategic Report (continued)**

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 dedication to the business and patients.

### ***Key performance measures:***

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

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

### **Future prospects**

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.

## **Strategic Report (continued)**

### **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.

### **CAS Acquisition**

On 28<sup>th</sup> December 2016, Cygnnet was pleased to announce the acquisition of the adult services division of Cambian Group plc. This comprised of 1,193 beds in 81 units across England and Wales providing care to adults with mental health disorders, intellectual disabilities, autism, personality disorders and acquired brain conditions.

In June 2017 the trading name of the Cambian hospitals was changed to CAS Behavioural Health (CAS).

This acquisition provides services to deliver an enhanced care pathway which will ensure that Cygnnet is well positioned to serve patients, customers and communities with a broad range of innovative treatment services and products. The CAS business has a reputation as a quality provider and brings expertise in services geared towards adults with a variety of mental health needs.

Given the size of the acquisition it was referred to the Competition and Markets Authority (CMA) who have been reviewing the arrangement and as a result the Cygnnet and CAS companies have been operating under a hold separate order. The CMA reached its phase two decision in October 2017, concluding that the acquisition may be expected to reduce competition only in the supply of male long term mental health rehabilitation services in the East Midlands, requiring the divestment of one of the sites in the East Midlands.

Following the phase two decision the CMA issued a revised order restricting the hold separate requirement to only the East Midlands. Following this revised restriction, Cygnnet was able to appoint Dr Antonio Romero as Chief Executive of the Cygnnet Group.

Dr. Romero graduated as a Doctor of Medicine in Spain and went on to complete his psychiatric training within the NHS North London rotations. In 2002, he became Director of Psychiatric Services for NHP plc. In 2004, Dr. Romero co-founded Cambian Group plc as Group Clinical Director, which went on to become one of the largest independent healthcare providers in the U.K. As Clinical Director he created Cambian's unique model of 'Active Care' which was key to Cambian's success. He was assigned Managing Director responsibility for the adult division, before leading a management buyout from Cambian Group plc to UHS in 2016 and becoming CEO of Cambian Adult Services, recently renamed as CAS Behavioural Health.

## Strategic Report (continued)

### Financial Review

Cygnnet made solid progress in the year to 31 December 2016, with good occupancy levels. The results include the full effect of the acquisitions made in 2015. Included in the asset value of £882.0m, £418.6m relates to the CAS entities.

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

	2016	2015
	£m	£m
Revenue	179.3	132.8
Operating profit (before significant items)	29.4	30.1
<i>Net cash inflow from operating activities before interest and taxation</i>		
Asset value	882.0	417.0
Total liabilities	(90.0)	(44.5)
Net assets	<u>792.0</u>	<u>372.5</u>

### Financing and Cash Flow

Net cash inflow from operating activities, before interest and taxation was £18.5m.

The business continued to invest its cash flow to fund capital expenditure to maintain its existing sites, to invest in the organisational infrastructure, and to develop further capacity, supported with additional cash flow from its ultimate parent, UHS Inc., whose loan provided part funding for the CAS acquisition. During the period the business spent £19.8m on capital expenditure, and £377m on the acquisition and refinancing of subsidiaries.



L Harrod  
Director



M Ground  
Director

8 December 2017

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 31<sup>st</sup> December 2016.

### Directors

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

M Ground	
L Harrod	(Appointed 28 <sup>th</sup> September 2016)
N McLeod	
V McNally	(Appointed 24 <sup>th</sup> March 2016)
A Romero	(Appointed 24 <sup>th</sup> October 2017)
D Cole	(Resigned 25 <sup>th</sup> October 2016)

A J Coleman (Company Secretary)

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 84% in 2016 (2015: 77%).

### Disabled persons

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

### Political and charitable contributions

The Group made charitable contributions during the year of £4,390 (2015: £nil).

**Directors' report (continued)**

**Proposed dividend**

The directors do not recommend the payment of a dividend (2015: *£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



**L Harrod**  
Director



**M Ground**  
Director

8 December 2017

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 2016 set out on pages 10 to 38. 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](http://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 2016 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.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

## **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

13 December 2017

**Income Statement**  
*for the year ended 31 December 2016*

	Note	Year ended 31 December 2016			Year ended 31 December 2015		
		Before significant items £'000	Significant Items* £'000	Total £'000	Before significant items £'000	Significant Items* £'000	Total £'000
Revenue	1	117,755	-	117,755	113,387	-	113,387
Operating expense		(112,489)	(6,797)	(119,286)	(103,832)	(2,610)	(106,442)
<b>Operating profit before net finance costs</b>	2	5,266	(6,797)	(1,531)	9,555	(2,610)	6,945
Finance income	6	3,268	-	3,268	1,382	-	1,382
Finance expense	6	(5,154)	-	(5,154)	(2,021)	-	(2,021)
<b>Net Finance costs</b>		(1,886)	-	(1,886)	(639)	-	(639)
<b>Profit before tax</b>		3,380	(6,797)	(3,417)	8,916	(2,610)	6,306
Taxation	7	801	-	801	(266)	-	(266)
<b>Profit/(Loss) for the financial period</b>		4,181	(6,797)	(2,616)	8,650	(2,610)	6,040
<b>Attributable to:</b>		4,181	(6,797)	(2,616)	8,650	(2,610)	6,040
Equity holders of the company							

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

- Deal costs relating to the purchase of CAS Behavioural Health Limited of £5,726,000 (2015: £Nil).
- Deal costs relating to the purchase of Orchard Portman House Limited and Alpha Hospitals Holdings Limited of £nil (2015: £2,402,000).
- Impairment of freehold land and buildings of £1,071,000 (2015: £208,000).

The notes to the financial statements are given on pages 15 to 38.

**Statement of Comprehensive Income**  
*for the year ended 31 December 2016*

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
<b>(Loss) / profit for the period</b>	<b>(2,616)</b>	<b>6,040</b>
Revaluation of property	5,268	6,726
Deferred tax recognised on revaluation - recognised directly in equity	(1,096)	(1,274)
Share based payment adjustment	501	144
<b>Net income recognised directly in equity</b>	<b>4,673</b>	<b>5,596</b>
<b>Total recognised profit attributable to equity holders of the Company</b>	<b>2,057</b>	<b>11,636</b>

## Statement of Changes in Equity

### For the year ended 31 December 2015

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Retained Earnings £000	Total equity £000
Balance at 1 January 2015	715	178	5,706	4,839	158,822	170,260
Profit for the period	-	-	-	-	6,040	6,040
Other comprehensive income for the period	-	-	5,452	-	144	5,596
Transfer from revaluation reserve	-	-	(308)	-	308	-
<b>Balance at 31 December 2015</b>	<b>715</b>	<b>178</b>	<b>10,850</b>	<b>4,839</b>	<b>165,314</b>	<b>181,896</b>

### For the year ended 31 December 2016

	Called up Share Capital £000	Share Premium £000	Revaluation Reserve £000	Other Reserve £000	Retained Earnings £000	Total equity £000
Balance at 1 January 2016	715	178	10,850	4,839	165,314	181,896
Profit for the period	-	-	-	-	(2,616)	(2,616)
Other comprehensive income for the period	-	-	4,172	-	501	4,673
Transfer from revaluation reserve	-	-	(591)	-	591	-
<b>Balance at 31 December 2016</b>	<b>715</b>	<b>178</b>	<b>14,431</b>	<b>4,839</b>	<b>163,793</b>	<b>183,957</b>

**Statement of Financial Position**  
*at 31 December 2016*

		2016 £000	2015 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	61,317	44,848
Intangible assets	9	2,687	937
Investment	3	255,542	56,247
		<hr/> 319,546	<hr/> 102,032
<b>Current assets</b>			
Amounts owed by group undertakings		-	103,145
Trade and other receivables	11	24,090	10,324
Cash and cash equivalents	12	10,211	13,756
Tax receivable		2,435	-
		<hr/> 36,736	<hr/> 127,225
<b>Total assets</b>		<hr/> <hr/> 356,282	<hr/> <hr/> 229,257
<b>Current liabilities</b>			
Trade and other payables	13	48,718	44,334
Tax payable		-	346
Amounts owed to group undertakings		120,409	-
		<hr/> 169,127	<hr/> 44,680
<b>Non-current liabilities</b>			
Deferred tax liabilities	10	3,198	2,681
<b>Total liabilities</b>		<hr/> <hr/> 172,325	<hr/> <hr/> 47,361
<b>Equity attributable to equity holders of the parent</b>			
Share capital	14	715	715
Share premium	14	178	178
Revaluation reserve	14	14,432	10,850
Other reserve	14	4,839	4,839
Retained earnings	14	163,793	165,314
<b>Total equity</b>		<hr/> 183,957	<hr/> 181,896
<b>Total equity and liabilities</b>		<hr/> <hr/> 356,282	<hr/> <hr/> 229,257

Notes on pages 15 to 38 form part of the financial statements.

These financial statements were approved by the Board of Directors on 8 December 2017 and were signed on its behalf by:



**L Harrod**  
Director



**M Ground**  
Director

Registered number: 02141256

**Statement of Cash Flows**  
*for the year ended 31 December 2016*

	<i>Note</i>	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
<b>Cash flows from operating activities</b>			
(Loss)/profit for the period		(2,616)	6,040
<i>Adjustments for:</i>			
Depreciation and amortisation	8,9	2,757	1,800
Impairment of fixed assets	8	1,071	204
Financial income	6	(3,268)	(1,382)
Financial expense	6	5,154	2,021
Loss on sale of property, plant and equipment		-	1
Taxation	7	(801)	266
Share based payment expense		501	144
		<hr/> 2,798	<hr/> 9,094
Decrease in trade and other receivables and amounts due from group undertakings		11,171	14,578
Increase/(decrease) in trade and other payables and amounts due from group undertakings		2,443	(214)
		<hr/> 16,412	<hr/> 23,458
Interest paid		-	-
Taxation (paid)/received		(2,559)	897
<b>Net cash from operating activities</b>		<hr/> 13,853	<hr/> 24,355
<b>Cash flows from investing activities</b>			
Interest received		59	42
Acquisition of property, plant and equipment	8	(15,030)	(7,405)
Acquisition of subsidiary undertakings		(201,045)	(48,702)
Loan to subsidiary undertakings		-	(46,340)
<b>Net cash from investing activities</b>		<hr/> (216,016)	<hr/> (102,405)
<b>Cash flows from financing activities</b>			
Loans received from parent to facilitate acquisitions		375,000	82,000
Loans to subsidiary undertakings		(176,381)	-
<b>Net cash flows from financing activities</b>		<hr/> 198,619	<hr/> 82,000
Net increase in cash and cash equivalents		(3,545)	3,950
Cash and cash equivalents at 31 December 2015		13,756	9,806
<b>Cash and cash equivalents at 31 December 2016</b>	12	<hr/> <hr/> 10,211	<hr/> <hr/> 13,756



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Cygnnet Health Care Limited is a company incorporated and domiciled in the UK. The Company's registered number is 2141256 and is a private company limited by shares.

The address of the Company's registered office is:

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent  
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 (2015/16 Cycle) issued in July 2016 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.

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.

#### **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 for the year are the following:*

	Year ended 31 December 2016 £000	Year ended 31 December 2015 £000
Depreciation and impairment of plant, property and equipment	3,828	2,004
Operating lease payments	18,989	18,940
	<hr/>	<hr/>

*Auditor's remuneration:*

	2016 £000	2015 £000
Audit of these financial statements	100	100
Other services relating to taxation	40	40
	<hr/>	<hr/>



## Notes (continued)

### 3 Investment in subsidiaries

#### Acquisitions in the current period

On 28<sup>th</sup> December 2016 the company acquired the shares of CAS Aspirations Development Ltd (formerly Care Aspirations Developments Limited), CAS Care Services Ltd (formerly Cambian Care Services Limited) and CAS Behavioural Health Ltd (formerly Cambian Healthcare Limited), including their related subsidiaries, for £201,045,000.

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
		2016	2015	
Orchard Portman House Limited*	Ordinary	100%	100%	Intermediate holding company
Orchard Portman Hospital Limited	Ordinary	100%	100%	Non-trading company
Taunton Hospital Limited	Ordinary	100%	100%	Non-trading company
Cygnet Hospitals Holdings Limited*	Ordinary/ A shares	100%	100%	Intermediate holding company
Cygnet Surrey Limited (formerly Alpha Hospitals Limited)	Ordinary	100%	100%	Healthcare company
Cygnet Hospitals NW Limited	Ordinary	100%	100%	Healthcare company
Safe Spaces Limited	Ordinary	100%	100%	Dormant company
CAS Aspirations Development Limited* (formerly Care Aspirations Developments Limited)	Ordinary	100%	0%	Healthcare company
CAS Care Services Limited* (formerly Cambian Care Services Limited)	Ordinary	100%	0%	Healthcare company
CAS Behavioural Health Limited* (formerly Cambian Healthcare Limited)	Ordinary	100%	0%	Healthcare company
CAS Learning Disabilities Midlands Limited (formerly Cambian Learning Disabilities Midlands Limited)	Ordinary	100%	0%	Healthcare company
CAS Learning Disabilities Services Limited (formerly Cambian Learning Disabilities Services Limited)	Ordinary	100%	0%	Healthcare company
Isand Limited	Ordinary	100%	0%	Healthcare company
Isand (Domiciliary Care) Limited	Ordinary	100%	0%	Healthcare company
CAS Learning Disabilities Limited (formerly Cambian Learning Disabilities Limited)	Ordinary	100%	0%	Healthcare company
CAS Aspirations Properties Limited (formerly Care Aspirations Properties Limited)	Ordinary	100%	0%	Healthcare company
CAS St Paul's Limited (formerly Cambian St Paul's Limited)	Ordinary	100%	0%	Healthcare company
CAS Aspirations Properties V Limited (formerly Care Aspirations Properties V Limited)	Ordinary	100%	0%	Dormant
Short Ground Limited	Ordinary	100%	0%	Healthcare company
Relativeto Limited	Ordinary	100%	0%	Healthcare company
Everycorner Limited	Ordinary	100%	0%	Healthcare company
Caireach Limited	Ordinary	100%	0%	Healthcare company
CAS Clifton Limited (formerly Cambian Ansel Limited)	Ordinary	100%	0%	Healthcare company
CAS Clifton Healthcare Limited (formerly Cambian Ansel Healthcare Limited)	Ordinary	100%	0%	Dormant
CAS Healthcare Properties Limited (formerly Cambian Healthcare Properties Limited)	Ordinary	100%	0%	Healthcare company
CAS Aspirations Properties Limited (formerly Cambian Properties Limited)	Ordinary	100%	0%	Dormant
CAS Aspirations Properties III Limited (formerly Cambian Properties III Limited)	Ordinary	100%	0%	Dormant

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

## Notes (continued)

### 3 Investment in subsidiaries (continued)

All of the companies listed above, are registered and incorporated in England and Wales. All entities have the same registered office as this company. 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.

Investment in CAS Learning Disabilities Midlands Limited, CAS Learning Disabilities Services Limited, Isand Limited; Isand (Domiciliary Care) Limited, CAS Learning Disabilities Limited, CAS Aspirations Properties Limited, CAS St Paul's Limited, CAS Aspirations Properties V Limited, Short Ground Limited, Relativeto Limited, Everycorner Limited and Caireach Limited are held via CAS Aspirations Development Limited.

Investment in CAS Clifton Limited, CAS Clifton Healthcare Limited, CAS Healthcare Properties Limited, CAS Properties Limited and CAS Aspirations Properties III Limited are held via CAS Behavioural Health Limited.

	<i>Investment in subsidiaries £000</i>
<b>Cost</b>	
At beginning of year	56,247
Additions	201,045
Transfer to goodwill	(1,750)
	<hr/>
At end of year	255,542
	<hr/>
<b>Provisions for impairment</b>	
At beginning and end of year	<hr/>
	<hr/>
<b>Net book value</b>	
At 31 December 2016	255,542
	<hr/>
At 31 December 2015	56,247
	<hr/>

As part of a simplification of group entities the trade of the Orchard Portman entities was transferred to Cygnet Health Care Limited. The directors have considered the investment carrying value for indicators of impairment but do not believe it is correct to impair the asset as a result of the transfer of trade as there has been no loss in value to the group. As such they have followed the true and fair override principle and transferred the investment carrying value, over and above the remaining net assets to goodwill. The value of the transfer was £1,750,000.

## 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 at	Profit/(loss) for period ended	Capital and reserves at
	31 December 2016 £000	31 December 2016 £000	31 December 2015 £000	31 December 2015 £000
<i>Orchard Portman House Limited</i>	(243)	(68)	(158)	175
<i>Orchard Portman Hospital Limited</i>	(113)	1,355	(10)	1,468
<i>Taunton Hospital Limited</i>	57	4,692	167	4,635
<i>Cygnnet Hospitals Holdings Limited (formerly Alpha Hospitals Holdings Limited)</i>	126	5,170	39	5,044
<i>Cygnnet Surrey Limited (formerly Alpha Hospitals Limited)</i>	(1,955)	2,337	(4,887)	3,572
<i>Cygnnet NW Limited (formerly Alpha Hospitals NW Limited)</i>	10,699	72,023	5,193	55,252
<i>Safe Spaces Limited</i>	-	1	-	1
<i>CAS Aspirations Development Limited* (formerly Care Aspirations Developments Limited)</i>	(2,101)	60,105	389	62,206
<i>CAS Core Services Limited* (formerly Cambian Care Services Limited)</i>	947	11,150	1,658	10,202
<i>CAS Behavioural Health Limited* (formerly Cambian Healthcare Limited)</i>	(24,936)	33,164	(23,633)	58,100
<i>CAS Learning Disabilities Midlands Limited (formerly Cambian Learning Disabilities Midlands Limited)</i>	(236)	5,846	1,728	6,082
<i>CAS Learning Disabilities Services Limited (formerly Cambian Learning Disabilities Services Limited)</i>	(38)	(837)	(467)	(799)
<i>Isand Limited</i>	1,238	5,204	2,044	3,965
<i>Isand (Domiciliary Care) Limited</i>	417	2,211	485	1,795
<i>CAS Learning Disabilities Limited (formerly Cambian Learning Disabilities Limited)</i>	(1,873)	16,029	(2,978)	17,902
<i>CAS Aspirations Properties Limited (formerly Care Aspirations Properties Limited)</i>	(1,445)	2,728	394	4,173
<i>CAS St Paul's Limited (formerly Cambian St Paul's Limited)</i>	4,276	40,699	2,795	36,423
<i>CAS Aspirations Properties V Limited (formerly Care Aspirations Properties V Limited)</i>	-	18	-	-
<i>Short Ground Limited</i>	943	3,518	945	2,575
<i>Relativeto Limited</i>	803	3,796	608	2,994
<i>Everycorner Limited</i>	(119)	(183)	(56)	(64)
<i>Caireach Limited</i>	1,361	4,885	1,659	3,524
<i>CAS Clifton Limited (formerly Cambian Ansel Limited)</i>	2,318	2,784	(217)	465
<i>CAS Clifton Healthcare Limited (formerly Cambian Ansel Healthcare Limited)</i>	-	-	-	-
<i>CAS Healthcare Properties Limited (formerly Cambian Healthcare Properties Limited)</i>	15,411	131,890	23,209	116,478
<i>CAS Aspirations Properties Limited (formerly Cambian Properties Limited)</i>	-	(1,418)	-	-
<i>CAS Aspirations Properties III Limited (formerly Cambian Properties III Limited)</i>	-	239	-	-

**Notes (continued)**

**4 Staff numbers and costs**

	31 December 2016 No.	31 December 2015 No.
Nursing care staff	995	1,135
Support staff	378	311
Admin staff	444	220
	<u>1,817</u>	<u>1,666</u>

The aggregate payroll costs of these persons were as follows:

	31 December 2016 £000	31 December 2015 £000
Wages and salaries	53,447	50,792
IFRS 2 Share based payments (note 15)	501	144
Social security costs	5,190	4,912
Other pension costs	911	821
	<u>60,049</u>	<u>56,669</u>

**5 Directors' remuneration**

	31 December 2016 £000	31 December 2015 £000
Directors' emoluments	1,123	1,160
Company contributions to money purchase pension plans	33	54
	<u>1,156</u>	<u>1,214</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £338,000 (2015: £469,000), excluding company pension contributions of £8,000 (2015: £22,000) which were made to a money purchase scheme on their behalf. No share options were exercised (2015: nil).

**Notes (continued)**

**6 Finance income and expense**

	31 December 2016 £000	31 December 2015 £000
Interest income	3,268	1,382
<i>Finance income</i>	<u>3,268</u>	<u>1,382</u>
<i>Interest expense</i>		
On loans and overdrafts	(5,154)	(2,021)
Finance expenses	<u>(5,154)</u>	<u>(2,021)</u>
<i>Net finance expense</i>	<u>(1,886)</u>	<u>(639)</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**

	31 December 2016 £000	31 December 2015 £000
<i>Current tax expense</i>		
Current period	-	1,018
Adjustments for prior periods	(222)	-
	<u>(222)</u>	<u>1,018</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(269)	(465)
Current year adjustment for prior periods	(310)	(287)
	<u>(579)</u>	<u>(752)</u>
<b>Total tax (credit)/expense in the income statement</b>	<u>(801)</u>	<u>266</u>

## Notes (continued)

### 7 Taxation (continued)

#### Reconciliation of effective tax rate

	31 December 2016 £000	31 December 2015 £000
(Loss) / profit for the period	(2,616)	6,040
Total tax expense	-	266
	<hr/>	<hr/>
(Loss) / profit excluding taxation	(2,616)	6,306
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(523)	1,277
Depreciation of assets not eligible for capital allowances	9	10
Impairment	214	42
Transfer pricing	897	1,185
Group relief	(1,763)	(2,045)
Other adjustments	1,442	(389)
Adjustment in relation to tax charge in prior periods	(762)	(289)
Expenses not deductible for tax purposes	12	475
Difference In Tax Rates	(327)	-
	<hr/>	<hr/>
Total tax expense	(801)	266
	<hr/>	<hr/>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2015) and 20% (effective from 1 April 2016) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

The deferred tax balances at 31 December 2016 has been calculated based on the rate of 17% (2015: 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 2016	3,294	19,961	17,278	8,263	626	49,422
Additions	9,613	2,783	224	2,346	64	15,030
Transfers	(143)	143	-	-	-	-
Disposal	-	-	-	-	(22)	(22)
Revaluation	-	5,268	-	-	-	5,268
<b>Balance at 31 December 2016</b>	<b>12,764</b>	<b>28,155</b>	<b>17,502</b>	<b>10,609</b>	<b>668</b>	<b>69,698</b>
<b>Depreciation and impairment</b>						
Balance at 1 January 2016	-	-	-	4,031	543	4,574
Depreciation in the year	-	860	541	1,313	43	2,757
Disposals	-	-	-	-	(21)	(21)
Revaluation	-	-	-	-	-	-
Impairment	-	1,071	-	-	-	1,071
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>1,931</b>	<b>541</b>	<b>5,344</b>	<b>565</b>	<b>8,381</b>
<b>Net book value</b>						
At 31 December 2015	3,294	19,961	17,278	4,232	83	44,848
<b>At 31 December 2016</b>	<b>12,764</b>	<b>26,224</b>	<b>16,961</b>	<b>5,265</b>	<b>103</b>	<b>61,317</b>

#### 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 21 December 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 2016, 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 £3,177,000 (2015: £3,277,000).

The net book value of leasehold land and buildings (including certain leasehold improvements) comprises long leasehold of £3,130,000 (2015: £4,210,000) and short leasehold of £6,600,000 (2015: £5,130,000).

## Notes (continued)

### 9 Intangible assets

	Goodwill £000	Customer contracts and trademarks £000	Total £000
<b>Cost</b>			
Balance at 1 January 2016	4,466	1,030	5,496
Transfer from investments	1,750	-	1,750
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	6,216	1,030	7,246
	<hr/>	<hr/>	<hr/>
<b>Amortisation and impairment</b>			
Balance at 1 January 2016 and 31 December 2016	3,529	1,030	4,559
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2015	937	-	937
	<hr/>	<hr/>	<hr/>
At 31 December 2016	2,687	-	2,687
	<hr/>	<hr/>	<hr/>

As part of a simplification of group entities the trade of the Orchard Portman entities was transferred to Cygnet Health Care Limited. The directors have considered the investment carrying value for indicators of impairment but do not believe it is correct to impair the asset as a result of the transfer of trade as there has been no loss in value to the group. As such they have followed the true and fair override principle and transferred the investment carrying value, over and above the remaining net assets to goodwill. The value of the transfer was £1,750,000.



## Notes (continued)

### 9 Intangible assets (continued)

#### Amortisation and impairment charge

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

	2016 £000	2015 £000
Operating costs	-	-

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

Customer contracts (which were fully amortised 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 no impairment was required.

## 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 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000
Property, plant and equipment	-	-	3,468	3,050
Other	(270)	(369)	-	-
<b>Tax (assets) / liabilities</b>	<b>(270)</b>	<b>(369)</b>	<b>3,468</b>	<b>3,050</b>
<b>Net off tax liabilities/(assets)</b>	<b>270</b>	<b>369</b>	<b>(270)</b>	<b>(369)</b>
<b>Net tax liabilities</b>	<b>-</b>	<b>-</b>	<b>3,198</b>	<b>2,681</b>

#### Movement in deferred tax during the year:

	1 January 2016 £000	Recognised in income £000	Recognised in equity £000	31 December 2016 £000
Property, plant and equipment	3,050	(678)	1,096	3,468
Other	(369)	99	-	(270)
	<b>2,681</b>	<b>(579)</b>	<b>1,096</b>	<b>3,198</b>

#### Movement in deferred tax during the prior period:

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

## Notes (continued)

### 11 Trade and other receivables

	31 December 2016 £000	31 December 2015 £000
Trade receivables	16,737	8,180
Other receivables and prepayments	7,353	2,144
	<u>24,090</u>	<u>10,324</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 2016 £000	31 December 2015 £000
<i>Not yet due:</i>		
0-29 days	9,755	5,603
<i>Overdue:</i>		
30-59 days	4,151	2,138
60+ days	2,831	439
	<u>16,737</u>	<u>8,180</u>

### 12 Cash and cash equivalents

	31 December 2016 £000	31 December 2015 £000
Cash and cash equivalents per statement of financial position	10,211	13,756
Cash and cash equivalents per statement of cash flows	<u>10,211</u>	<u>13,756</u>

### 13 Trade and other payables

	31 December 2016 £000	31 December 2015 £000
Trade payables	3,228	2,811
Non-trade payables and accrued expenses	45,490	41,523
	<u>48,718</u>	<u>44,334</u>

**Notes (continued)**

**14 Share capital**

Share capital	2016 £000	2015 £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
	<hr/> 28,671	<hr/> 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
	<hr/> 715	<hr/> 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 Cygnnet 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 Cygnnet Health Care Limited, and so the charge was borne by Cygnnet Health Care Limited.

The schemes ceased following the change of ownership in 2015.

#### 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	(8,000)	(2,250)	44,750
23 March 2016	23 March 2021	\$118.62	\$23.770	71,000	(10,500)	-	60,500

A share based payment expense of £501,000 (2015: £144,000) 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 2016	Year ended 31 December 2015
	£000	£000
Less than one year	19,054	19,020
Between one and five years	76,108	76,901
More than five years	291,397	311,016
	<hr/>	<hr/>
	386,559	406,937
	<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
- 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 £18,989,194 was recognised as an expense in the income statement in respect of operating leases (2015: £19,046,000).

### 17 Capital commitments

The Company had contracted capital commitments of £4,604,000 (2015: £8,262,000).

### 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. The registered office is 367 South Gulph Road, Kind of Prussia, PA 19406.

#### *Identity of related parties*

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

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

#### *Transactions with key management personnel*

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

## 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 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 £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:

Nepicar House  
London Road  
Wrotham Heath  
Sevenoaks  
Kent  
TN15 7RS