

8

Company Registration No. 02141256 (England and Wales)

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



CYGNET HEALTH CARE LIMITED

COMPANY INFORMATION

Directors

Dr Antonio Romero
Mr Mark Ground
Mr Michael McQuaid
Mr Gerald Corbett

Secretary

Mr Anthony Coleman

Company number

02141256

Registered office

Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent
TN15 7RS

Auditor

KPMG LLP
Plym House
3 Longbridge Road
Plymouth
PL6 8LT

CYGNET HEALTH CARE LIMITED

CONTENTS

	Page
Strategic report	1 - 5
Directors' report	6 - 7
Directors' responsibilities in respect of the Directors' Report and Financial Statements	8
Independent auditor's report to the members of Cygnet Health Care Limited	9 - 11
Income statement	12
Statement of comprehensive income	13
Statement of financial position	14 - 15
Statement of changes in equity	16 - 17
Notes to the financial statements	18 - 40

CYGNET HEALTH CARE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Business review

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

Cygnet is a leading UK provider of mental health services. Cygnet is able to deliver a diverse range of services to optimise the service user experience through its network of sites. Cygnet provides a broad coverage of the mental health spectrum from Acute, Secure, Non-secure rehabilitation, and Out-patient services to Adolescent, Autism, Learning Disability and Elderly care.

Cygnet is supported by its long term strategic partner Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA, who help Cygnet to focus on investing in the delivery of more high quality value for money services.

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

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

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

Our business continues to be supported by strong relationships with customers – in 2018 Cygnet did business with 228 (2017: 220) NHS purchasing bodies. We are pleased to be partnering with the NHS on working together in new innovative ways that are mutually beneficial to us both clinically and from an efficiency point of view but also in a way that puts service users first.

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

Corporate and Clinical Delivery and Governance

Cygnet has continued to focus on striving for the highest quality corporate and clinical governance throughout everything we do – clinical excellence and governance are the foundation of our business.

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

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

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

CYGNET HEALTH CARE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Our People

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

We would like to take this opportunity to thank all of our staff for their dedication to the business and service users.

Key performance measures

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

Service user experience and involvement;

- 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.

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.

CYGNET HEALTH CARE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Reputational risk

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

Competition

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

Brexit impact on Cygnet

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

We take business continuity very seriously and our priority is to mitigate the risks to continuity and safety of patient care, alongside critical issues related to other stakeholders be they employees, customers or consultants.

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

- **Suppliers**

The Group buys from UK suppliers but the source of their products can be from or via the EU.

- **Employees**

Whilst a relatively small portion of our employees are EU citizens we are keeping a watching brief over this area and continue to strive to recruit the highest calibre of candidates.

- **Increased Costs**

It is reasonable to anticipate that EU imports could be subject to customs charges and tariffs. We do not yet know what duties will be levied so cannot quantify the impact, but it is not expected to have a material impact.

- **Mitigation**

We have been working closely with our key suppliers over recent months to understand their Brexit plans. We have also been undertaking detailed contingency planning for some time to mitigate the impact of a no-deal Brexit in accordance with Government guidance.

We believe we are taking the reasonable steps to ensure that disruption to our patients and other stakeholders is minimised. However, given the uncertainties around the impact of a no-deal Brexit, we cannot rule out some disruption to the business as there may be some circumstances outside of our reasonable control.

CYGNET HEALTH CARE LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Acquisition

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

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

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

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

Financial Review

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

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

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

Cygnet Health Care Limited made an operating loss for the year of £5.9m (2017: loss of £9.4m) on revenue of £133.9m (2017: £120.9m). The loss has been generated as Cygnet Health Care Limited also covers costs of the wider group and head office costs.

Operating expenses in Cygnet Health Care Limited (the company) included central costs relating to the provision of support services to the wider Cygnet portfolio.

CYGNET HEALTH CARE LIMITED

STRATEGIC REPORT (CONTINUED)

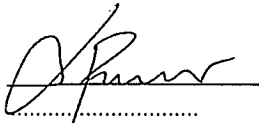
FOR THE YEAR ENDED 31 DECEMBER 2018

Financing and Cash Flow

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

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

On behalf of the board

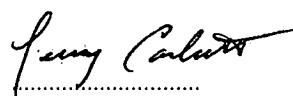


Dr Antonio Romero

Director

30th September 2019

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



Mr Gerald Corbett

Director

30th September 2019

CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Principal activities

The principal activity of Cygnet Health Care Limited ("the Company") is the operation of psychiatric and elderly healthcare facilities. The company 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 Cygnet 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.

Results and dividends

The results for the year are set out on page 12.

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

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Dr Antonio Romero	
Mr Laurence Harrod	(Resigned 7 August 2019)
Mr Mark Ground	
Mr Michael McQuaid	
Ms Nicola McLeod	(Resigned 5 October 2018)
Mr Gerald Corbett	(Appointed 7 August 2019)

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company's continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The directors recognise the importance of human resources. The Cygnet 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.

Auditor

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

CYGNET HEALTH CARE LIMITED

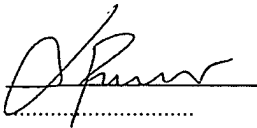
DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of disclosure to auditor

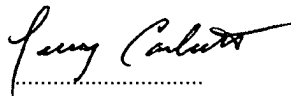
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board



Dr Antonio Romero
Director

Date: 30th September 2019



Mr Gerald Corbett
Director

Date: 30th September 2019

Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent
TN15 7RS

CYGNET HEALTH CARE LIMITED

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

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Strategic Report, 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGET HEALTH CARE LIMITED

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

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

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

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

Going concern

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGET HEALTH CARE LIMITED

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CYGET HEALTH CARE LIMITED

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

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

Andrew Gordon

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

30th September 2019

Chartered Accountants
Statutory Auditor

Plym House
3 Longbridge Road
Plymouth
PL6 8LT

CYGNET HEALTH CARE LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	31 December 2018			31 December 2017		
		Before significant items	Significant items*	Total	Before significant items	Significant items*	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Revenue		133,902	-	133,902	120,902	-	120,902
Operating expenses		(138,357)	(1,465)	(139,822)	(123,915)	(6,421)	(130,336)
Operating loss	2	(4,455)	(1,465)	(5,920)	(3,013)	(6,421)	(9,434)
Finance income	7	15,181	-	15,181	13,031	-	13,031
Other investment income	7	-	-	-	3	-	3
Finance expense	4	(29,452)	-	(29,452)	(24,978)	-	(24,978)
Loss before taxation		(18,726)	(1,465)	(20,191)	(14,957)	(6,421)	(21,378)
Tax on loss	8	678	53	731	(540)	-	(540)
Loss for the financial year		(18,048)	(1,412)	(19,460)	(15,497)	(6,421)	(21,918)

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

*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 Danshell Health Care Group of £513,000 (2017: £Nil)
- Impairment of land and buildings of £2,000 (2017: £530,000)
- Impairment of investment in Orchard Portman House Limited of £950,000 (2017: £5,891,000)

Operating expenses include central costs relating to the provision of support services to the wider Cygnet portfolio.

The accompanying notes on pages 18 to 40 form part of the financial statements.

CYGNET HEALTH CARE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £'000	2017 £'000
Loss for the year	(19,460)	(21,918)
	<u> </u>	<u> </u>
Other comprehensive income:		
Revaluation of property, plant and equipment	6,517	11,671
Deferred tax movement on revaluation	(1,260)	(1,702)
Share based payment adjustment	-	713
	<u> </u>	<u> </u>
Total other comprehensive income	5,257	10,682
	<u> </u>	<u> </u>
Total comprehensive income for the year	(14,203)	(11,236)
	<u> </u>	<u> </u>

The accompanying notes on pages 18 to 40 form part of the financial statements.

CYGNET HEALTH CARE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	9	2,687	2,687
Property, plant and equipment	10	101,903	82,420
Investments	11	292,436	250,634
		<u>397,026</u>	<u>335,741</u>
Current assets			
Trade and other receivables	13	31,855	13,956
Corporation tax recoverable		3,721	5,911
Cash and cash equivalents		24,227	10,790
		<u>59,803</u>	<u>30,657</u>
Current liabilities			
Trade and other payables	14	(291,510)	(188,082)
Taxation and social security		(1,766)	(1,621)
		<u>(293,276)</u>	<u>(189,703)</u>
Net current liabilities		<u>(233,473)</u>	<u>(159,046)</u>
Total assets less current liabilities		163,553	176,695
Provisions for liabilities			
Deferred tax liabilities	15	(4,504)	(3,974)
Net assets		<u>159,049</u>	<u>172,721</u>

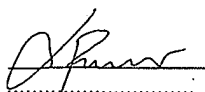
CYGNET HEALTH CARE LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

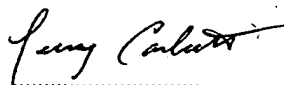
AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Equity			
Called up share capital	17	715	715
Share premium account		178	178
Revaluation reserve		27,815	23,566
Capital redemption reserve		4,839	4,839
Retained earnings		125,502	143,423
Total equity		159,049	172,721

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



Dr Antonio Romero
Director



Mr Gerald Corbett
Director

Company Registration No. 02141256

The accompanying notes on pages 18 to 40 form part of the financial statements.

CYGNET HEALTH CARE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

		Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017		715	178	14,432	4,839	163,793	183,957
Year ended 31 December 2017:							
Loss for the year		-	-	-	-	(21,918)	(21,918)
Other comprehensive income:							
Revaluation of property, plant and equipment		-	-	11,671	-	-	11,671
Tax relating to other comprehensive income		-	-	(1,702)	-	-	(1,702)
Total comprehensive income for the year		-	-	9,969	-	(21,918)	(11,949)
Credit to equity for equity settled share-based payments	16	-	-	-	-	713	713
Other movements*		-	-	(835)	-	835	-
Balance at 31 December 2017		715	178	23,566	4,839	143,423	172,721

* Other movements relate to a transfer from the revaluation reserve to retained earnings to reflect the difference between depreciation on a historic cost basis and revaluation basis.

CYGNET HEALTH CARE LIMITED

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

		Share capital	Share premium account	Revaluation reserve	Capital redemption reserve	Retained earnings	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2018		715	178	23,566	4,839	143,423	172,721
Year ended 31 December 2018:							
Loss for the year		-	-	-	-	(19,460)	(19,460)
Other comprehensive income:							
Revaluation of property, plant and equipment		-	-	6,517	-	-	6,517
Tax relating to other comprehensive income		-	-	(1,260)	-	-	(1,260)
Total comprehensive income for the year		-	-	5,257	-	(19,460)	(14,203)
Credit to equity for equity settled share-based payments	16	-	-	-	-	531	531
Other movements*		-	-	(1,008)	-	1,008	-
Balance at 31 December 2018		715	178	27,815	4,839	125,502	159,049

* Other movements relate to a transfer from the revaluation reserve to retained earnings to reflect the difference between depreciation on a historic cost basis and revaluation basis.

The accompanying notes on pages 18 to 40 form part of the financial statements.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

Company information

Cygnnet Health Care Limited is a private company limited by shares incorporated in England and Wales. The registered office is Nepicar House, London Road, Wrotham Heath, Sevenoaks, Kent, TN15 7RS. The registered number is 02141256.

1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements have been prepared on the historical cost basis, except for the revaluation of property. The principal accounting policies adopted are set out below.

Where appropriate, the company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii); B64 (p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations. Equivalent disclosures are included in the consolidated financial statements of UK Acquisitions No.6 Limited in which the entity is consolidated;
- the requirements of paragraph 33 (c) of IFRS 5 Non current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 39 to 40 ,111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Where required, equivalent disclosures are given in the group accounts of UK Acquisitions No.6 Limited. The group accounts of UK Acquisitions No.6 Limited are available to the public and can be obtained as set out in note 21.

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

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

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors believe to be appropriate for the reasons set out below.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has net current liabilities of £233,474k (2017: £159,046k), of which £249,009k (2017: £140,160k) relates to amounts due to related group undertakings.

The Directors have received a letter from the Ultimate parent company indicating their intention to not seek repayment of these amounts for at least the next twelve months from the approval of these financial statements. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

1.3 Revenue

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

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

1.4 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less impairment losses.

The gain on a bargain purchase is recognised in profit or loss in the period of the acquisition.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is subsequently reversed if, and only if, the reasons for the impairment loss have ceased to apply.

1.5 Intangible assets other than goodwill

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.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

1.6 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

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:

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

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

1.7 Non-current investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

1.8 Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is exempt under FRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.11 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

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

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.12 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

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

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

Derecognition of financial liabilities

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

1.13 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

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

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

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

Deferred tax

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

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

1.15 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.16 Retirement benefits

Defined contribution plans

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

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

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 16.

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.

1.17 Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Accounting policies

(Continued)

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

1.18 Leases

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

Assets held under finance leases are recognised as assets at the lower of the fair value of the assets at the date of inception and the present value of the minimum lease payments. The related liability is included in the statement of financial position as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

2 Operating loss

	2018	2017
	£'000	£'000
Operating loss for the year is stated after charging:		
Depreciation of property, plant and equipment	6,178	4,677
Operating lease payments	20,253	19,196
Share-based payment charges	531	713
	<u> </u>	<u> </u>

3 Auditor's remuneration

	2018	2017
	£'000	£'000
Fees payable to the company's auditor:		
Audit of the financial statements of the company	450	233
Tax services	-	40
	<u> </u>	<u> </u>
	450	273
	<u> </u>	<u> </u>

The remuneration of the auditor in the current financial period includes all subsidiary audit charges which are absorbed by Cygnet Health Care Limited.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

4 Finance costs

	2018	2017
	£'000	£'000
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	29,452	24,978
	<u>29,452</u>	<u>24,978</u>

5 Directors' remuneration

	2018	2017
	£'000	£'000
Remuneration for qualifying services	2,155	1,292
Company pension contributions to defined contribution schemes	75	56
	<u>2,230</u>	<u>1,348</u>

Remuneration disclosed above include the following amounts paid to the highest paid director:

	2018	2017
	£'000	£'000
Remuneration for qualifying services	892	488
Company pension contributions to defined contribution schemes	33	20
	<u>925</u>	<u>508</u>

The above directors remuneration relates to remuneration received by UK directors only.

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2018	2017
	Number	Number
Nursing care staff	1,375	1,330
Support staff	326	391
Admin staff	415	235
	<u>2,116</u>	<u>1,956</u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

6 Employees (Continued)

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	68,508	56,525
IFRS 2 Share based payments	531	713
Social security costs	7,255	5,655
Pension costs	1,572	1,045
	<u>77,866</u>	<u>63,938</u>

The non- UK directors did not receive emoluments for their services directly from this company.

7 Finance and other investment income

	2018 £'000	2017 £'000
Interest income		
Interest on bank deposits	-	3
Interest receivable on loans to group companies	15,181	13,031
	<u>15,181</u>	<u>13,034</u>
Total income	<u>15,181</u>	<u>13,034</u>

Interest relates to interest receivable on amounts due from group undertakings. Interest is accrued at a rate of 4.85% per annum above LIBOR.

8 Income tax expense

	2018 £'000	2017 £'000
Current tax		
Adjustments in respect of prior periods	-	1,465
	<u>-</u>	<u>1,465</u>
Deferred tax		
Origination and reversal of temporary differences	(371)	(421)
Adjustment in respect of prior periods	(360)	(504)
	<u>(731)</u>	<u>(925)</u>
Total tax (credit)/charge	<u>(731)</u>	<u>540</u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

8 Income tax expense

(Continued)

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

The deferred tax liability as at 31 December 2018 has been calculated based on these rates:

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

	2018 £'000	2017 £'000
Loss before taxation	(20,191)	(21,378)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(3,836)	(4,115)
Effect of expenses not deductible in determining taxable profit	173	4
Change in unrecognised deferred tax assets	170	137
Adjustment in respect of prior years	(360)	961
Effect of change in UK corporation tax rate	(4)	56
Group relief	2,025	1,372
Permanent capital allowances in excess of depreciation	-	17
Depreciation on assets not qualifying for tax allowances	12	-
Impairment of investment	(123)	1,134
Impairment of buildings	404	102
Transfer pricing adjustments	741	775
Capital allowances not in deferred taxation	(145)	(109)
Interest not deductible	182	206
Other differences	30	-
Taxation (credit)/charge for the year	(731)	540

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2018 £'000	2017 £'000
Deferred tax arising on:		
Revaluation of property	1,260	1,702

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

9 Intangible fixed assets

	Goodwill	Customer contracts and trademarks	Total
	£'000	£'000	£'000
Cost			
At 31 December 2017 and 31 December 2018	6,216	1,030	7,246
Amortisation and impairment			
At 31 December 2017 and 31 December 2018	3,529	1,030	4,559
Carrying amount			
At 31 December 2017 and 31 December 2018	2,687	-	2,687

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

10 Property, plant and equipment

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Assets under construction £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation						
At 31 December 2017	46,823	18,215	6,507	18,531	837	90,913
Additions	8,832	108	3,221	6,878	105	19,144
Revaluation increase	(1,764)	240	5,035	-	-	3,511
Transfers	5,566	-	(5,566)	-	-	-
At 31 December 2018	59,457	18,563	9,197	25,409	942	113,568
Accumulated depreciation and impairment						
At 31 December 2017	-	-	-	7,857	636	8,493
Charge for the year	1,710	1,296	-	3,094	78	6,178
Eliminated on revaluation	(1,710)	(1,296)	-	-	-	(3,006)
At 31 December 2018	-	-	-	10,951	714	11,665
Carrying amount						
At 31 December 2018	59,457	18,563	9,197	14,458	228	101,903
At 31 December 2017	46,823	18,215	6,507	10,674	201	82,420

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

10 Property, plant and equipment

(Continued)

In the current year the Directors carried out an internal valuation, and the valuation is the Directors' best estimate of the fair value of the properties.

A formal valuation is carried out on a periodic basis, with the last desktop valuation being carried out on 9 March 2018, with a valuation date of 31 December 2017. This independent valuation was carried out by Knight Frank LLP, in accordance with the practice statements in the valuation standards (The Red Book) published by the Royal Institution of Chartered Surveyors. This valuation was taken into consideration by the Directors when valuing the properties for the current year.

The valuations are prepared by considering the aggregate of annual rents that would be receivable if the directors chose to charge market rents from letting the properties and, where relevant, associated costs or an EBITDA multiple. A yield which reflects the specific risks in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

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

Leasehold land and buildings

At 31 December 2018, had the leasehold land and buildings been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £3,064,000 (2017: £3,035,000).

At 31 December 2018, had the freehold land and buildings been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £116,557,000 (2017: £103,448,000).

11 Investments

	Current		Non-current	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Investments in subsidiaries	-	-	292,436	250,634

The company has not designated any financial assets that are not classified as held for trading as financial assets at fair value through profit or loss.

Fair value of financial assets carried at amortised cost

The directors consider that the carrying amounts of financial assets carried at amortised cost in the financial statements approximate to their fair values.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

11 Investments

(Continued)

Movements in non-current investments

Shares in group
undertakings
£'000

Cost or valuation

At 1 January 2018

255,542

Additions

42,752

At 31 December 2018

298,294

Impairment

At 1 January 2018

(4,908)

Impairment losses

(950)

At 31 December 2018

(5,858)

Carrying amount

At 31 December 2018

292,436

At 31 December 2017

250,634

During the year, investments was increased due to the acquisition of the Danshell group.

The £950,000 impairment relates to the impairment of Cygnet Health Care's investment in Orchard Portman House.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Subsidiaries

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

Name of undertaking	Registered office	Ownership interest (%)	Voting power held (%)	Nature of business
Orchard Portman House Limited*	United Kingdom	100	100	Intermediate holding company
Orchard Portman Hospital Limited	United Kingdom	100	100	Non-trading company
Taunton Hospital Limited	United Kingdom	100	100	Non-trading company
Cygnnet Hospital Holdings Limited*	United Kingdom	100	100	Intermediate holding company
Cygnnet Surrey Limited	United Kingdom	100	100	Healthcare company
Cygnnet NW Limited	United Kingdom	100	100	Healthcare company
Cygnnet Aspirations Developments Limited* (formerly CAS Aspirations Developments Limited)	United Kingdom	100	100	Healthcare company
Safe Spaces Limited	United Kingdom	100	100	Dormant company
Cygnnet Care Services Limited* (formerly CAS Care Services Limited)	United Kingdom	100	100	Healthcare company
Cygnnet Behavioural Health Limited* (formerly CAS Behavioural Health Limited)	United Kingdom	100	100	Healthcare company
Cygnnet Learning Disabilities Midlands Limited (formerly CAS Learning Disabilities Limited)	United Kingdom	100	100	Healthcare company
CAS Learning Disabilities Services Limited	United Kingdom	100	100	Healthcare company
Isand Limited	United Kingdom	100	100	Healthcare company
Isand (Domiciliary Care) Limited	United Kingdom	100	100	Healthcare company
Cygnnet Learning Disabilities Limited (formerly CAS Learning Disabilities Limited)	United Kingdom	100	100	Healthcare company
CAS Aspirations Properties Limited	United Kingdom	100	100	Healthcare company
CAS St Paul's Limited	United Kingdom	100	100	Healthcare company
CAS Aspirations Properties V Limited	Jersey	100	100	Dormant company
Short Ground	United Kingdom	100	100	Healthcare company
Relativeto Limited	United Kingdom	100	100	Healthcare company
Caireach Limited	United Kingdom	100	100	Healthcare company
Cygnnet Clifton Limited (formerly CAS Clifton Limited)	United Kingdom	100	100	Healthcare company
CAS Clifton Healthcare Limited	United Kingdom	100	100	Dormant company

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12	Subsidiaries				(Continued)
	CAS Healthcare Properties Limited	United Kingdom	100	100	Healthcare company
	CAS Aspirations Properties Limited	Jersey	100	100	Dormant company
	CAS Aspirations Properties III Limited	Jersey	100	100	Dormant company
	Cygnnet D Holdings Limited* (formerly Danshell Holdings Limited)	Guernsey	100	100	Intermediate holding company
	Cygnnet DHG Limited (formerly Danshell Healthcare Group Limited)	Guernsey	100	100	Holding company
	Cygnnet (DM) LLP* (formerly Danshell Management LLP)	United Kingdom	98	98	Healthcare company
	Cygnnet (OE) Limited (formerly Oakview Estates Limited)	United Kingdom	100	100	Healthcare company
	Cygnnet (DH) Limited (formerly Danshell Healthcare Limited)	United Kingdom	100	100	Healthcare company
	Everycorner	United Kingdom	100	100	Healthcare company

*indicates direct holdings. Remaining subsidiaries acquired through direct acquisitions

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Subsidiaries

(Continued)

The Company's share of income for the period and distributable reserves of its subsidiaries are as follows:

	Share of Profit/(loss) for year ended	Share of capital and reserves	Share of Profit/(loss) for year ended	Share of capital and reserves
	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Orchard Portman House Limited	(846)	(1,167)	(253)	(321)
Orchard Portman Hospital Limited	(1,010)	(1,994)	(2,339)	(983)
Taunton Hospital Limited	(799)	1,820	(2,072)	2,619
Cygnnet Hospitals Holdings Limited	153	5,458	136	5,305
Cygnnet Surrey Limited	(4,001)	(18,949)	(9,246)	(14,948)
Cygnnet NW Limited	13,275	103,136	9,675	85,213
Safe Spaces Limited	-	1	-	1
Cygnnet Aspirations Development Limited (formerly CAS Aspirations Developments Limited)	(3,317)	52,890	(3,899)	56,207
Cygnnet Care Services Limited (formerly CAS Care Services Limited)	3,090	17,355	1,638	12,788
Cygnnet Behavioural Health Limited (formerly CAS Behavioural Health Limited)	(23,625)	(21,740)	(30,644)	2,520
Cygnnet Learning Disabilities Midlands Limited (formerly CAS Learning Disabilities Midlands Limited)	5,130	14,709	3,882	9,728
CAS Learning Disabilities Services Limited	-	(856)	(18)	(856)

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

12 Subsidiaries

(Continued)

	Share of Profit/(loss) for year ended	Share of capital and reserves	Share of Profit/(loss) for year ended	Share of capital and reserves
	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Isand Limited	2,732	9,814	2,076	7,280
Isand (Domiciliary Care) Limited	618	3,170	347	2,558
Cygnnet Learning Disabilities Limited (formerly CAS Learning Disabilities Limited)	(3,717)	10,167	(2,185)	13,844
CAS Aspirations Properties Limited	(4,400)	(2,033)	(361)	2,367
CAS St Paul's Limited	5,589	53,050	6,762	47,461
CAS Aspirations Properties V Limited*	-	17	-	17
Short Ground Limited	984	5,310	893	4,412
Relativeto Limited	808	5,778	1,247	5,043
Everycorner Limited	439	(2)	(370)	(552)
Caireach Limited	1,616	7,506	938	5,823
Cygnnet Clifton Limited (formerly CAS Clifton Limited)	3,640	8,754	2,281	5,065
CAS Clifton Healthcare Limited	-	-	-	-
CAS Healthcare Properties Limited	21,068	178,581	25,509	157,399
CAS Aspirations Properties Limited*	-	(1,414)	-	(1,418)
CAS Aspirations Properties III Limited*	-	239	-	238
Cygnnet D Holdings Limited^ (formerly Danshell Holdings Limited)	(7,930)	7,880	(15)	(50)
Cygnnet DHG Limited^ (formerly Danshell Healthcare Group Limited)	(1,170)	(2,198)	(46)	(1,028)
Cygnnet (DM) LLP (formerly Danshell Management LLP)	161	16	150	2,482
Cygnnet (OE) Limited (formerly Oakview Estates Limited)	(3,230)	16,001	(361)	19,231
Cygnnet (DH) Limited (formerly Danshell Healthcare Limited)	3,069	(4,831)	2,165	(7,900)

All entities have the same registered office as Cygnnet Health Care Limited with the exception of the Jersey and Guernsey entities. Those marked * above have a registered office of 9 Burrard Street, St Helier, Jersey, JE4 5UE and those marked ^ above have a registered office of 18-20 Le Pollet, St Peter Port, Guernsey, GY1 1WH.

The year end of the above companies is 31 December.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

13 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	20,312	4,478
Provision for bad and doubtful debts	(852)	(280)
	<u>19,460</u>	<u>4,198</u>
Other receivables	1,422	7,863
Prepayments	10,973	1,895
	<u>31,855</u>	<u>13,956</u>

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

14 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	3,749	4,127
Amounts owed to fellow group undertakings	249,009	140,160
Accruals	38,588	30,770
Other payables	164	13,025
	<u>291,510</u>	<u>188,082</u>

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.

Interest relates to interest payable on amounts due to group undertakings. Interest is accrued at a rate of 4.85% per annum above LIBOR.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

15 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	Other £'000	Property, plant and equipment £'000	Total £'000
Deferred tax liability at 1 January 2017	-	3,468	3,468
Deferred tax asset at 1 January 2017	(270)	-	(270)
Deferred tax movements in prior year			
Debit / (credit) to profit or loss	(52)	(875)	(927)
Debit to other comprehensive income	-	1,703	1,703
	<u> </u>	<u> </u>	<u> </u>
Deferred tax liability at 1 January 2018	-	4,296	4,296
Deferred tax asset at 1 January 2018	(322)	-	(322)
Deferred tax movements in current year			
Debit/(Credit) to profit or loss	941	(1,671)	(730)
Debit to other comprehensive income	-	1,260	1,260
	<u> </u>	<u> </u>	<u> </u>
Deferred tax (asset)/ liability at 31 December 2018	<u>619</u>	<u>3,885</u>	<u>4,504</u>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	2017 £'000
Deferred tax liabilities	4,504	4,296
Deferred tax assets	-	(322)
	<u>4,504</u>	<u>3,974</u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

16 Share-based payment transactions

Universal Health Services Inc. scheme

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

The fair value of the option at the date of 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	(17,500)	(23,000)	14,500
23 March 2016	23 March 2021	\$118.62	\$23.770	71,000	(30,500)	(15,000)	25,500
29 March 2017	28 March 2022	\$124.56	\$27.029	145,500	(40,750)	(4,500)	100,250
20 March 2018	20 March 2023	\$119.64	\$28.169	93,750	(12,000)	-	81,750

Total expenses of £531,000 related to equity settled share based payment transactions were recognised in the year. (2017: £713,000).

17 Share capital

	2018 £'000	2017 £'000
Ordinary share capital		
<i>Authorised</i>		
2,787,125,000 Ordinary shares of 1p each	27,871	27,871
<i>Issued and fully paid</i>		
11,499,359 Ordinary shares of 1p each	115	115
Preference share capital		
<i>Authorised</i>		
800,000 Redeemable preference shares of £1 each	800,000	800,000
<i>Issued and fully paid</i>		
600 Redeemable preference shares of £1 each	600	600

The rights held by the preference shares have been waived.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

18 Capital commitments	2018	2017
	£'000	£'000

At 31 December 2018 the company had capital commitments as follows:

Contracted for but not provided in the financial statements:

Acquisition of property, plant and equipment

2,238

9,676

19 Operating lease commitments

Lessee

Amounts recognised in profit or loss as an expense during the period in respect of operating lease arrangements are as follows:

	2018	2017
	£'000	£'000
Minimum lease payments under operating leases relating to buildings	20,253	19,196

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

	2018	2017
	£'000	£'000
Within one year	19,859	19,906
Between two and five years	79,055	79,404
In over five years	257,720	277,230
	356,634	376,540

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 £20,253,000 was recognised as an expense in the income statement in respect of operating leases (2017: £19,177,000).

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

20 Related party transactions

The ultimate controlling party of the Company is Universal Health Services Inc., and the UK ultimate parent is UK Acquisitions No.6 Limited. The registered office of the ultimate controlling party is 367 South Gulph Road, King of Prussia, PA 19406.

Identity of related parties

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

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

Transactions with key management personnel

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

Other related party transactions

There were no other related party transactions during the current or preceding period.

21 Controlling party

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

Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent, TN15.7RS