

Company Registration No. 04590303 (England and Wales)

CYGNET SURREY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017



CYGNET SURREY LIMITED

COMPANY INFORMATION

Directors	Dr Antonio Romero (Appointed 27 December 2017) Mr Laurence Harrod Mr Mark Ground
Secretary	Mr Anthony Coleman
Company number	04590303
Registered office	Nepicar House London Road Wrotham Heath Sevenoaks Kent TN15 7RS
Auditor	KPMG LLP Plym House 3 Longbridge Road Plymouth PL6 8LT

CYGNET SURREY LIMITED

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CYGNET SURREY LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the strategic report and financial statements for the year ended 31 December 2017.

Review of the business

Cygnnet Surrey Limited is part of the Cygnnet Health UK Limited Group ("Cygnnet"), a leading UK provider of mental health services. Cygnnet Surrey is able to deliver a diverse range of services through its two sites in Woking.

Cygnnet is a leading UK provider of mental health services. Cygnnet is able to deliver a diverse range of services to attend to the needs of service users through its network of sites. Cygnnet is different to many other providers with nearly 30 years' experience partnering with the NHS and has a broad coverage of the mental health spectrum from Acute, Secure, Non-secure rehabilitation, Out-patient services to Adolescent, Autism, Learning Disability, and Elderly care.

Cygnnet is supported by its long term strategic partner, and ultimate parent, Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA, who help Cygnnet to focus more on investing in the delivery of the highest quality service.

On 28th December 2016, Cygnnet was pleased to announce the acquisition of the adult services division of Cambian Group. 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. The acquisition provides services to deliver a lower acuity care pathway which will ensure that Cygnnet is well positioned to meet the needs of its service users, customers and communities with a broad range of innovative treatment services and products. The acquired business has a reputation as a quality provider and brings expertise in services geared towards adults with a variety of mental health needs and challenging behaviour.

In June 2017 the trading name of the former Cambian facilities were changed to CAS Behavioural Health and subsequently to Cygnnet Behavioural Health.

Given the size of the acquisition it was referred to the Competition and Markets Authority ('CMA') who reviewed the arrangement and as a result the Cygnnet group and acquired companies were kept 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. Consequently, The Limes, an 18 bed facility was disposed of in April 2018. Following the phase two decision the respective sides of the businesses' senior management were able to integrate together.

The enlarged Cygnnet business operated 2,404 beds at 31st December 2017 (31/12/16: 1,112 beds prior to operation of CAS beds) spread through a portfolio of over 100 quality facilities and employs over 6,000 people.

In 2017, Cygnnet has also been able to extend its delivery of health care services through organic development with various extensions and the opening of a 56 bed hospital in Coventry which completed in spring 2017 and the construction of a new 65 bed hospital in Maidstone, expected to be open in summer 2018. In addition a further 81 beds came on stream across the rest of the portfolio.

In 2017 Cygnnet worked with customers to invest in services to be able to cope with the increased acuity in the market. Cygnnet also worked with customers to change and enhance services. In particular in the South East, Cygnnet services at our facilities in Woking and Godden Green were re-provisioned and upgraded and are now fully open again.

The Group remains focussed on enhancing services to deliver high quality and 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 2017 Cygnnet did business with 220 (2016: 176) 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.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

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 foundations of our business.

Our governance plan is designed to monitor quality assurance. This plan is monitored regularly by local board and governance meetings. Our approach to governance is designed to enhance quality assurance. We have a number of corporate structures which monitor performance locally and enable strong links from board to ward. We have developed a corporate Quality Improvement Group to ensure we have a comprehensive oversight of quality across our services.

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 2016/17 (measured 1st April 2016 to 31st March 2017 in line with the relevant NHS financial year) – all 121 out of 121 quality targets were met on the quarterly submissions made in 2016/17.

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 Executive 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.

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 service users.

Following the release of the CMA restriction, in October 2017 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.

Since his appointment as Chief Executive and the ability of the two businesses to integrate, Dr Romero has combined the businesses and formed his senior management team.

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;
- 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.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Future prospects

Cygnets strategy is to continue to grow both through mergers, acquisitions and organically 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 Cygnets 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.

Cygnets 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 help prevent this occurring and manage any challenges arising.

Competition and markets

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. Cygnets monitors prices charged both internally and externally to ensure that its services are appropriately priced to compete and provide value for customers.

NHS new models of care and future mental health funding may impact demand and supply of mental health services.

CYGNET SURREY LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

Financial Review

Cygnnet made solid progress in the year to 31 December 2017, with good occupancy levels. The results include the full effect of the acquisition made in 2016. Included in the asset value of £892m, £442m relates to the Cambian Adult acquisition entities.

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

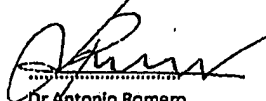
	2017	2016
	£m	£m
Revenue	334.3	179.3
Operating profit (before significant items)	40.4	29.4
Total assets	892	865
Total liabilities	(498)	(487)
Net assets	394	378


Financing and Cash Flow

Net increase in cash and cash equivalents was £20m.

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 £36m on capital expenditure.

On behalf of the board


Dr Antonio Romero
Director
5th September 2018


Mr Laurence Harrod
Director
5th September 2018

CYGNET SURREY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and financial statements for the year ended 31 December 2017.

Principal activities

Cygnat Surrey Limited provides specialist secure psychiatric care for adults and adolescents at hospital facilities at Cygnat Hospital Woking and Cygnat Lodge Woking. All hospital facilities are registered with the Care Quality Commission in accordance with the requirements of the Health and Social Care Act 2008.

Results and dividends

The results for the year are set out on page 9.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend (2016: £nil).

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

(Appointed 27 December 2017)

Mr Laurence Harrod

Mr Mark Ground

Ms Nicola McLeod

(Resigned 27 December 2017)

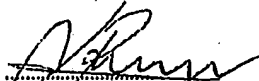
Auditor

In accordance with the section 487 of the Companies Act 2006, a resolution proposing that KPMG LLP be reappointed as auditor of the company will be put at the next Annual General Meeting.

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: 5th September 2018



Mr Laurence Harrod

Director

Date: 5th September 2018

Nepicar House
London Road
Wrotham Heath
Sevenoaks
Kent
TN15 7RS

CYGNET SURREY LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Annual 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 the directors 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 CYGNET SURREY LIMITED

Opinion

We have audited the financial statements of Cygnet Surrey Limited ("the company") for the year ended 31 December 2017 which comprise the Income Statement, 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 2017 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 sufficient and appropriate basis for our opinion.

Going concern

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

We have nothing to report in those respects.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CYGNET SURREY LIMITED

Directors' responsibilities

As explained more fully in their statement set out on page 6, 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>.

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.



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

11 September 2018

Chartered Accountants
Statutory Auditor

Plym House
3 Longbridge Road
Plymouth
PL6 8LT

CYGNET SURREY LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Revenue		9,732	14,476
Operating expenses		(11,770)	(14,068)
Operating (loss)/profit	2	(2,038)	408
Finance income	5	388	376
Finance expense	6	(2,917)	(2,796)
Other gains and losses	7	(5,762)	-
Loss before taxation		(10,329)	(2,012)
Tax on loss	8	179	58
Loss for the financial year		(10,150)	(1,954)

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

Included in other gains and losses is impairment of freehold land and buildings of 2017: £5,762,000 (2016: £Nil).

The accompanying notes on pages 14 to 28 form part of the financial statements.

CYGNET SURREY LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £'000	2016 £'000
Loss for the year	(10,150)	(1,954)
	<u> </u>	<u> </u>
Other comprehensive income:		
Revaluation of property, plant and equipment	(7,135)	853
Deferred tax movement on revaluation	-	(134)
	<u> </u>	<u> </u>
Total other comprehensive income	(7,135)	719
	<u> </u>	<u> </u>
 Total comprehensive income for the year	 (17,285)	 (1,235)
	<u> </u>	<u> </u>

The accompanying notes on pages 14 to 28 form part of the financial statements.

CYGNET SURREY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Property, plant and equipment	10	13,137	25,496
Investments	11	12,899	12,899
		<u>26,036</u>	<u>38,395</u>
Current assets			
Deferred tax asset	15	826	707
Other receivables	13	989	1,847
Cash and cash equivalents		531	511
		<u>2,346</u>	<u>3,065</u>
Current liabilities			
Trade and other payables	14	43,330	39,063
Net current liabilities		<u>(40,984)</u>	<u>(35,998)</u>
Total assets less current liabilities		<u>(14,948)</u>	<u>2,397</u>
Provisions for liabilities			
Deferred tax liabilities	15	-	60
Net assets		<u>(14,948)</u>	<u>2,337</u>
Equity			
Called up share capital	17	4,739	4,739
Share premium account		13,776	13,776
Revaluation reserve		-	7,135
Retained earnings		<u>(33,463)</u>	<u>(23,313)</u>
Total equity		<u>(14,948)</u>	<u>2,337</u>


CYGNET SURREY LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2017

	2017	2016
Notes	£'000	£'000

The financial statements were approved by the board of directors and authorised for issue on 5/9/18 and are signed on its behalf by:


Dr Antonio Romero
Director


Mr Laurence Harrod
Director

Company Registration No. 04590303

The accompanying notes on pages 14 to 28 form part of the financial statements.

CYGNET SURREY LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium account	Revaluation reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016	4,739	13,776	6,436	(21,379)	3,572
Year ended 31 December 2016:					
Loss for the year	-	-	-	(1,954)	(1,954)
Other comprehensive income:					
Revaluation of property, plant and equipment	-	-	853	-	853
Tax relating to other comprehensive income	-	-	(134)	-	(134)
Total comprehensive income for the year	-	-	719	(1,954)	(1,235)
Other movements	-	-	(20)	20	-
Balance at 31 December 2016	4,739	13,776	7,135	(23,313)	2,337
Year ended 31 December 2017:					
Loss for the year	-	-	-	(10,150)	(10,150)
Other comprehensive income:					
Revaluation of property, plant and equipment	-	-	(7,135)	-	(7,135)
Total comprehensive income for the year	-	-	(7,135)	(10,150)	(17,285)
Balance at 31 December 2017	4,739	13,776	-	(33,463)	(14,948)

The accompanying notes on pages 14 to 28 form part of the financial statements.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

Company information

Cygnets Surrey 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 04590303.

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 Freehold land and buildings. 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.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

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 20.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

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.

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

1.2 Going concern

The financial statements have been prepared on a going concern basis as the Company has long-term support from the Group.

Group have confirmed that they will provide support and amounts due from group undertakings will not be demanded within the next year. Based on this understanding the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

1.3 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.

1.4 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.

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
Plant and equipment	5-10 years

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

Properties whose fair value can be measured reliably are held under the revaluation model and are carried at a revalued amount, being their fair value at the date of valuation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of the land and buildings is usually considered to be their market value.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in equity, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in equity; such gains and losses are recognised in profit or loss.

1.5 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.

1.6 Impairment of tangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible 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.

1.7 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.

1.8 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 SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.9 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.

1.10 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.

1.11 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.

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.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Accounting policies

(Continued)

1.12 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.

1.13 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.

1.14 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.

Rentals payable under operating leases, less any lease incentives received, are charged to income 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 lease asset are consumed.

1.15 Significant accounting policies

The preparation of financial statements in conformity with FRS101 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.

The directors do not believe there are any judgements or estimates made by management in the application of Adopted IFRS that have a significant effect on the financial statements.

2 Operating (loss)/profit

	2017	2016
	£'000	£'000
Operating (loss)/profit for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	718	574
Operating lease payments	104	66
	<u> </u>	<u> </u>

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3 Auditor's remuneration

	2017	2016
	£'000	£'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	14	14
Other services relating to taxation	4	4
	<u>18</u>	<u>18</u>

The remuneration of the auditor in the current and previous financial period was borne by another group company. The amount disclosed above is management's best estimate of the proportion relating to this company.

4 Employees

The average monthly number of persons employed by the company during the year was:

	2017	2016
	Number	Number
Nursing Staff	143	134
Administrative	71	66
	<u>214</u>	<u>200</u>

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£'000	£'000
Wages and salaries	6,905	6,435
Social security costs	643	540
Pension costs	141	129
	<u>7,689</u>	<u>7,104</u>

The directors received remuneration for services to Cygnet Health Care Limited of which Cygnet Surrey Limited is a fellow subsidiary undertaking, however, the directors do not receive emoluments for their services to this company.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5 Investment income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	1	-
Interest receivable from group companies	387	376
	<u> </u>	<u> </u>
Total income	388	376
	<u> </u>	<u> </u>

Interest in the period relates to interest payable and receivable on amounts owed to and from group undertakings.
Interest has accrued at a rate of 4.85% per annum above LIBOR.

6 Finance costs

	2017 £'000	2016 £'000
Interest on financial liabilities measured at amortised cost:		
Interest payable to group undertakings	2,917	2,796
	<u> </u>	<u> </u>

7 Other gains and losses

	2017 £'000	2016 £'000
Impairment of freehold land and buildings	(5,762)	-
	<u> </u>	<u> </u>

8 Income tax expense

	2017 £'000	2016 £'000
Current tax		
	<u> </u>	<u> </u>
Deferred tax		
Origination and reversal of temporary differences	(166)	(48)
Adjustment in respect of prior periods	(13)	(10)
	<u> </u>	<u> </u>
	(179)	(58)
	<u> </u>	<u> </u>

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

8 Income tax expense

(Continued)

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

	2017 £'000	2016 £'000
Loss before taxation	(10,329)	(2,012)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(1,988)	(402)
Effect of expenses not deductible in determining taxable profit	-	1
Adjustment in respect of prior years	(13)	(10)
Effect of change in UK corporation tax rate	22	30
Group relief	788	323
Revaluation of fixed assets	(1,373)	-
Indexation	178	-
Restriction/Wasting of base cost	2,219	-
Capital allowances not in deferred tax	(12)	-
Taxation credit for the year	(179)	(58)

	2017 £'000	2016 £'000
Deferred tax arising on:		
Revaluation of property	-	134

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 credit accordingly.

The deferred tax asset as at 31 December 2017 has been calculated based on these rates.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	2017 £'000	2016 £'000
In respect of:		
Freehold land and buildings	(5,762)	-
	<u> </u>	<u> </u>

In addition, £7,135,000 (2016: £719,000) has been recognised in other comprehensive income in respect of impairment losses on previously revalued assets.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

10 Property, plant and equipment

	Freehold land and buildings £'000	Assets under construction £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 31 December 2016	25,352	-	1,776	27,128
Additions	550	196	510	1,256
Impairment loss	(13,906)	-	-	(13,906)
At 31 December 2017	11,996	196	2,286	14,478
Accumulated depreciation and impairment				
At 31 December 2016	493	-	1,139	1,632
Charge for the year	516	-	202	718
Eliminated on revaluation	(1,009)	-	-	(1,009)
At 31 December 2017	-	-	1,341	1,341
Carrying amount				
At 31 December 2017	11,996	196	945	13,137
At 31 December 2016	24,859	-	637	25,496

Freehold land and buildings are measured using the revaluation model.

The freehold land and buildings are measured based on a desktop valuation dated 9 March 2018 with a valuation date of 31 December 2017 by independent external valuers, Knight Frank LLP, following the principles of 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 directors of the Group are not aware of any material change in the value between the date of the report and 31 December 2017.

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.

Freehold land and buildings

At 31 December 2017, had the freehold land and building been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would be £11,996,355 (2016: £24,168,735).

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

11 Investments

Movements in non-current investments

	Shares in group undertakings £'000
Cost or valuation	
At 1 January 2017 & 31 December 2017	12,899
Carrying amount	
At 31 December 2017	12,899
At 31 December 2016	12,899

12 Subsidiaries

Details of the company's subsidiaries at 31 December 2017 are as follows:

Name of undertaking	Registered office	Ownership interest (%)	Voting power held (%)	Nature of business
Cygnnet NW Limited	United Kingdom	100	100	Healthcare
Safe Spaces Limited*	United Kingdom	100	100	Dormant

*Owed via shareholding in Cygnnet NW Limited.

The above undertakings are registered and incorporated in England and Wales, and share the same registered office as Cygnnet Surrey Limited.

The year end of the above companies is December.

The Company's share of income for the period and distributable reserves of its direct subsidiary is 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
	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Cygnnet NW Limited	9,675	85,213	10,669	72,023

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	793	1,707
Provision for bad and doubtful debts	(84)	(94)
	<u>709</u>	<u>1,613</u>
Prepayments and other debtors	280	234
	<u>989</u>	<u>1,847</u>

14 Trade and other payables

	2017 £'000	2016 £'000
Trade payables	1,246	798
Amounts due to fellow group undertakings	41,503	37,466
Accruals	432	639
Social security and other taxation	149	160
	<u>43,330</u>	<u>39,063</u>

The amounts owed to Group undertakings 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. These amounts do not attract interest.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

15 Deferred taxation

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Property, plant and equipment £'000	Other £'000	Total £'000
Deferred tax liability at 1 January 2016	20	-	20
Deferred tax asset at 1 January 2016	-	(743)	(743)
Deferred tax movements in prior year			
Credit to profit or loss	(94)	36	(58)
Debit direct to equity	134	-	134
Deferred tax liability at 1 January 2017	60	-	60
Deferred tax asset at 1 January 2017	-	(707)	(707)
Deferred tax movements in current year			
Credit to profit or loss	(175)	(4)	(179)
Deferred tax liability at 31 December 2017	-	-	-
Deferred tax asset at 31 December 2017	(115)	(711)	(826)

	2017 £'000	2016 £'000
Deferred tax liabilities	-	60
Deferred tax assets	(826)	(707)
	(826)	(647)

16 Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £141,000 (2016: £129,000).

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

17	Share capital	2017	2016
		£'000	£'000
	Ordinary share capital		
	<i>Issued and fully paid</i>		
	4,738,617 Ordinary shares of £1 each	4,739	4,739
		<u> </u>	<u> </u>

18 Operating lease commitments

Lessee

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:

	2017	2016
	£'000	£'000
Within one year	9	13
Between two and five years	17	19
In over five years	-	1
	<u> </u>	<u> </u>
	26	33
	<u> </u>	<u> </u>

19 Related party transactions

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 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.

CYGNET SURREY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

20 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