

Circle Nottingham Limited
Annual Report and Financial Statements
for the year ended 31 December 2018

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Circle Nottingham Limited

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Circle Nottingham Limited

Company Information

Directors

Paul Manning
Benjamin Lloyd

Company Secretary

Shane Cobb

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountant and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Bankers

Barclays Bank Plc
Level 27
1 Churchill Place
London
E14 5HP

Registered Office

32 Welbeck Street
London
W1G 8EU

Circle Nottingham Limited

Strategic Report for the year ended 31 December 2018

The Directors present the Strategic Report and audited financial statements for Circle Nottingham Limited (the 'Company') for the year ended 31 December 2018.

Principal activities and review of business

The principal activity of the Company during the year was the provision of medical services. The Company operated a Treatment Centre in Nottingham which opened in July 2008 and provided services including orthopaedic surgery, general surgery, endoscopy, digestive diseases, gynaecology and dermatology.

The year ended 31 December 2018 was the fifth full year of operations under its Payment by Results contract with local Clinical Commissioning Groups. Patient volumes were maintained at similar levels to last year and inpatients and patient satisfaction averaged 97.8% across the year. (2017: 98.0%).

Revenue remained steady compared to the previous year at £54,893k (2017: £55,144k), however profit on ordinary activities before taxation was £3,576k (2017: £2,900k) representing a 23% increase over the previous year, mainly due to improved cost control.

The contract to operate the Nottingham NHS Treatment Centre ended on 28 July 2019.

Key performance indicators (KPIs)

The Directors of the Company manage Circle's Nottingham NHS Treatment Centre's operations based on KPIs such as patient volumes and feedback ratings, revenues and profit for the year, which are summarised above.

Results and dividends

The profit for the financial year amounted to £1,937k (2017: £2,949k). The Directors do not recommend the payment of any dividends (2017: £nil).

The Company has net assets of £22,061k as at 31 December 2018 (2017: £20,124k).

Financial risks

Working capital and funding risk

Working capital and funding risk is the risk that the Company will encounter in the event of difficulty in meeting obligations associated with financial liabilities or will be unable to obtain sufficient funding to pursue its growth plans and expansion opportunities. The Company aims to mitigate this risk by robustly managing cash generation across its operations through detailed budgeting and tight cost control, as well as applying cash collection targets.

Circle Nottingham Limited

Strategic Report for the year ended 31 December 2018 (continued)

Principal risks and uncertainties

Medical service risk

As with all medical providers, clinical risk is a major consideration due to the consequences to the individuals concerned where processes break down or procedures are found to be negligent. The Circle Health Holdings Limited Group, of which the Company is a subsidiary, has an Integrated Governance Committee (IGC) structure which is managed by the Group Medical Director, Massoud Fouladi. The IGC includes senior staff across the operational, clinical and central support teams. Each facility in the Group maintains its own local governance structure, whilst a team of clinical care quality specialists is dedicated to developing and monitoring consistent policies and practice across all sites.

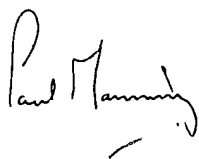
Local governance committees work to a rigorous assurance framework, manage day to day clinical risks, provide appropriate training to staff and consultants, and report their findings to the IGC. A quarterly report is in turn presented to the Directors of Circle Health Holdings Limited.

Risk to reputation

Reputational risk is the risk that the Company provides medical care that is not of a sufficiently high quality, resulting in patient or customer dissatisfaction and negative publicity. This is mitigated by the fact that the Company provides high quality medical care that is backed up by clinical governance.

This strategic report has been approved by the board.

On behalf of the board:



Paul Manning
Director
24 October 2019

Circle Nottingham Limited

Directors' Report for the year ended 31 December 2018

The Directors present the Annual Report and the audited financial statements for the year ended 31 December 2018 for Circle Nottingham Limited (the 'Company'). The Company forms part of a group whose ultimate parent company is Circle Health Holdings Ltd (the 'Group').

Future developments

The contract to operate the Nottingham NHS Treatment Centre ended on 28 July 2019.

Dividends

The Directors do not recommend the payment of any dividends (2017: £nil).

Financial risk management

The Company's operations expose it to a variety of financial risks. The ultimate parent undertaking of the Company, Circle Health Holdings Limited, maintains a group risk management programme that seeks to mitigate any adverse effects on the financial performance of the Circle Health Holdings Group by managing levels of debt finance and the related finance costs. Details of the risk management policy are included on pages 4 to 5 of the Circle Health Holdings Group financial statements.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Company is a member of the group of companies whose ultimate parent is Circle Health Holdings Limited ('CHHL'). The Directors have assessed whether the going concern basis of preparation is appropriate by reference to the position of the Group, as the Company is reliant on financial support from CHHL, as well as an agreement that intercompany balances are only repayable in the event it does not impact the Company's ability to meet its third party liabilities as they fall due. CHHL has provided a letter to the Company confirming its intention to provide financial support should it be required, as well as confirming the arrangements regarding intercompany liabilities.

The Directors of CHHL have prepared cash flow forecasts for a period of not less than 12 months from the date of signing the Company financial statements for the year ended 31 December 2018. The Directors believe that the Group has sufficient funding to carry out its current business plans, and in particular to enable each of its businesses, including Circle Hospital (Nottingham) Limited, to continue its operations and meet third party liabilities as they fall due.

Accordingly, the Directors of Circle Hospital (Nottingham) Limited have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and conclude that it is appropriate for these financial statements to be prepared on a going concern basis.

Events after balance sheet date

During 2018, a tender process was undertaken for a new five-year contract to operate the Nottingham NHS Treatment Centre from the date that the contract expired on 28 July 2019. Rushcliffe Clinical Commissioning Group announced in December 2018 that it planned to award the contract to Nottingham University Hospitals NHS Trust (NUH). Circle challenged this award on the basis that the procurement process was flawed and the award decision unfairly determined. During this challenge the award was stayed.

On 21 May 2019 the stay was lifted, and it was confirmed that Circle would stop operating the Nottingham NHS Treatment Centre when the contract expired at the end of July 2019.

Agreements were reached to transfer the tangible fixed assets and inventories for at least the balance sheet amounts at the date of termination of the contract.

Circle have an ongoing legal challenge against the contract award which is expected to be heard at trial in July 2020.

Circle Nottingham Limited

Directors' Report for the year ended 31 December 2018 (continued)

Indemnity Insurance

The Company has purchased Public Liability Insurance. The Company also grants an indemnity to every present and former officer in respect of proceedings brought by third parties. The Company has procured liability insurance for all Directors and Officers of the Company and all Group companies. The indemnity was in force during the financial year and also at the date of approval of the financial statements.

There are no outstanding claims or provisions as at the balance sheet date.

Directors

The Directors who served during the year and up to the date of approval of these financial statements were as follows:

Helen Tait (resigned 26 July 2018)

Paul Manning

Ben Gooding (resigned 19 July 2019)

Paul Sillandy (appointed 27 July 2018, resigned 27 July 2019)

Benjamin Lloyd (appointed 25 September 2019)

In its Articles, the Company has granted an indemnity to its Directors in respect of proceedings brought by third parties. The Company has procured third party liability insurance for all directors and officers of the Company during the financial year and as at the date of approval of the financial statements. There are no outstanding claims or provisions as at the balance sheet date.

Donations

The Company made charitable donations totalling £nil (2017: £254) during the year to charitable organisations within the UK.

The Company did not make any donations in either year to any political party registered in the UK under the Political Parties, Elections and Referendums Act 2000.

Disabled employees

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employee involvement

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial, operational and clinical factors affecting the Company is considered to be of the utmost importance. The ultimate parent company, Circle Health Holdings Limited, also encourages the involvement of all employees within the Group, further details of which can be found in the Circle Health Holdings Limited Annual Report.

Circle Nottingham Limited

Directors' Report for the year ended 31 December 2018 (continued)

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

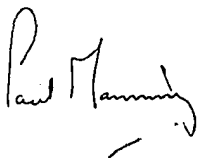
In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. A resolution concerning their reappointment will be proposed at the board meeting.

On behalf of the board



Paul Manning
Director
24 October 2019

Circle Nottingham Limited

Independent Auditors' Report to the Members of Circle Hospital (Nottingham) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Circle Nottingham Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Circle Nottingham Limited

Independent Auditors' Report to the Members of Circle Hospital (Nottingham) Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Circle Nottingham Limited

Independent Auditors' Report to the Members of Circle Hospital (Nottingham) Limited (continued)

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 October 2019

Circle Nottingham Limited

Statement of Comprehensive Income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	4	54,893	55,144
Cost of sales		(36,813)	(36,858)
Gross profit		18,080	18,286
Administrative expenses		(14,495)	(14,986)
Exceptional items	6	-	(347)
Operating profit	5	3,585	2,953
Finance income	9	1	1
Finance costs	10	(10)	(54)
Profit before taxation		3,576	2,900
Tax on profit	11	(1,639)	49
Profit and total comprehensive income for the financial year		1,937	2,949

The activities of the Company are all derived from continuing operations.

The notes on pages 15 to 31 form part of these financial statements.

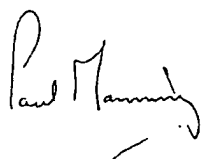
Circle Nottingham Limited

Statement of Financial Position as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Property, plant and equipment	12	1,298	1,551
		<u>1,298</u>	<u>1,551</u>
Current assets			
Inventories	13	444	470
Trade and other receivables	14	24,442	21,083
Cash and cash equivalents		2,284	1,671
		<u>27,170</u>	<u>23,224</u>
Non-current assets			
Deferred tax asset	15	-	1,639
Creditors: amounts falling due within one year	16	(6,407)	(6,290)
Net current assets		<u>20,763</u>	<u>16,934</u>
Net assets		<u>22,061</u>	<u>20,124</u>
Equity			
Called up share capital	18	500	500
Retained earnings		20,459	18,522
Capital contribution reserve		1,102	1,102
Total shareholders' funds		<u>22,061</u>	<u>20,124</u>

The notes on pages 15 to 31 form part of these financial statements.

The financial statements of Circle Nottingham Limited (company registration no: 05153608) on pages 12 to 31 were approved by the board of Directors and authorised for issue on 24 October 2019. They were signed on its behalf by:



Paul Manning, Director
Circle Nottingham Limited

Circle Nottingham Limited

Statement of Changes in Equity For the year ended 31 December 2018

	Called up share capital £'000	Retained earnings £'000	Capital contribution reserve £'000	Total shareholders' funds £'000
At 1 January 2017	500	15,573	564	16,637
Profit and total comprehensive income for the financial year	-	2,949	-	2,949
Share-based payments charge (note 19)	-	-	538	538
At 31 December 2017 and 1 January 2018	500	18,522	1,102	20,124
Profit and total comprehensive income for the financial year	-	1,937	-	1,937
At 31 December 2018	500	20,459	1,102	22,061

The notes on pages 15 to 31 form part of these financial statements.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018

1. General information

Circle Nottingham Limited (the Company) is a private company limited by shares that is incorporated, registered and domiciled in the England and Wales under The Companies Act 2006. The address of the registered office is 32 Welbeck Street, London, W1G 8EU. The principal activity of the Company during the year was the provision of medical services. The Company operated a Treatment Centre in Nottingham which opened in July 2008 and provided services including orthopaedic surgery, general surgery, endoscopy, digestive diseases, gynaecology and dermatology. The Company is a private company limited by shares.

2. Significant accounting policies

The principal accounting policies have been applied consistently in the years presented with the exception of:

IFRS 9 Financial instruments, which superseded IAS 39 Financial Instruments: Recognition and Measurement

IFRS 15 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition, which superseded the Company's (the Group)

Basis of preparation

These financial statements are prepared for Circle Nottingham Limited (the 'Company') for the year ended 31 December 2018. The financial statements have been prepared in accordance with The Companies Act as applicable to companies using FRS 101, 'Reduced Disclosure Framework'. These financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods and services received was determined).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1 and paragraph 73 (e) of IAS 16 Property, Plant and equipment.
- IAS 7, 'Statement of cash flows' and paragraph 10(d) of IAS 1 (statement of cash flows).
- The requirement in paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' to disclose information when an entity has not applied a new IFRS that has been issued but is not yet effective.
- The requirement in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- The requirements of IFRS 7 Financial Instruments: Disclosures.

The principal accounting policies are set out below.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Company is a member of the group of companies whose ultimate parent is Circle Health Holdings Limited ('CHHL'). The Directors have assessed whether the going concern basis of preparation is appropriate by reference to the position of the Group, as the Company is reliant on financial support from CHHL, as well as an agreement that intercompany balances are only repayable in the event it does not impact the Company's ability to meet its third party liabilities as they fall due. CHHL has provided a letter to the Company confirming its intention to provide financial support should it be required, as well as confirming the arrangements regarding intercompany liabilities.

The Directors of CHHL have prepared cash flow forecasts for a period of not less than 12 months from the date of signing the Company financial statements for the year ended 31 December 2018. The Directors believe that the Group has sufficient funding to carry out its current business plans, and in particular to enable each of its businesses, including Circle Hospital (Nottingham) Limited, to continue its operations and meet third party liabilities as they fall due.

Accordingly, the Directors of Circle Hospital (Nottingham) Limited have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and conclude that it is appropriate for these financial statements to be prepared on a going concern basis.

New standards, amendments and IFRIC interpretations

Both the standard IFRS 9 'Financial Instruments' and the standard IFRS 15 'Revenue from contracts with customer' were effective from the 1 January 2018.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The financial asset impairment model under IFRS 9 requires assessment of expected credit losses across all financial assets even where no adverse credit event has occurred.

The Company has applied IFRS 9 retrospectively, but has chosen not to restate prior year comparative figures. Any differences between the carrying amounts of financial instruments and those determined under IFRS 9 at the initial date of application are not deemed to be material, and therefore have not been adjusted for or included in opening retained earnings.

As permitted by IFRS 9, the Company applies the simplified approach to expected credit losses on trade receivables, and has determined that there is no material impact on the carrying value of trade receivables both as at 31 December 2018 and as at 31 December 2017. Therefore, no restatement of the prior accounting period comparative numbers is required.

Amounts owed by Group undertakings are repayable on demand, and so expected credit losses are based on the assumption that repayment of the outstanding balance is demanded at the reporting date. As at 31 December 2018, the expected credit loss on amounts owed by Group undertakings is not material and therefore, no adjustment is required. There are no material adjustments required for the 2017 reporting year, relating to IFRS 9.

IFRS 15 establishes principles for determining when and how revenue arising from contracts with customers should be recognised. An entity should recognise revenue when it transfers goods or services to a customer based on the amount of consideration to which the entity expects to be entitled from a customer in exchange for fulfilling its performance obligations.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

New standards, amendments and IFRIC interpretations (continued)

Management has undertaken a detailed assessment of all revenue streams and a sample of contracts using the five-step approach specified by IFRS 15:

- Identify the contract(s) with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) a performance obligation is satisfied

A detailed assessment and documentation exercise of contracts and performance obligations was carried out.

The Company generates revenue from the provision of medical services to privately insured, self-pay and NHS-funded patients at their facility located in the city of Nottingham. Management is required to take all relevant factors and circumstances into account when determining the revenue recognition methods that appropriately depict the transfer of control of goods or services to the customer for each performance obligation. This requires management to make certain judgements, including: the determination of the performance obligations in the contract; the estimate of any variable consideration in determining the contract price; the allocation of the price to the performance obligations inherent in the contract; and an appropriate method of recognising revenue.

In determining the appropriate method of recognising revenue, management is required to make judgements as to whether performance obligations are satisfied over a period of time or at a point in time. For performance obligations that are satisfied over a period of time, judgements are made as to whether the output method or the input method is more appropriate to measure progress towards complete satisfaction of the performance obligation. If performance obligations are not satisfied over time, the Company recognises revenue at a point in time.

Management have decided to adopt the modified approach to IFRS 15 and it has been assessed that its adoption will not have a material impact on the financial statements for neither the year ended 31 December 2018 nor for the prior year ended 31 December 2017. Therefore, no restatement of the prior accounting year comparative numbers is required.

IFRS 16 'Leases' replaces IAS 17 and will apply to annual reporting periods beginning on or after 1 January 2019. A key change arising from this new standard is that most operating leases will be accounted for on the balance sheet for lessees. The Company will apply IFRS 16 from 1 January 2019. Management has assessed that there will be a material impact on the 31 December 2018 Company balance sheet figures. The Company has applied the disclosure exemption for new but not effective IFRSs, available under the Financial Reporting Standards (FRS) 101 Reduced Disclosure Framework as set out in the Basis of preparation policy.

Property, plant and equipment and depreciation

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost comprises all amounts directly attributable to making assets capable of operating as intended, including development costs and borrowing costs where relevant.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is provided on all categories of property, plant and equipment with the exception of freehold land and assets under construction. Depreciation is based on cost less estimated residual value and is provided on a straight line basis over the estimated useful life of the asset as follows:

Leasehold improvements	– shorter of lease life or expected useful life (5 - 10 years)
Clinical equipment	– 3 to 5 years straight line
Fixtures, fittings and office equipment	– 3 to 5 years straight line

Residual values and useful lives are reviewed at the end of each reporting period. The expected useful lives of the assets to the business are reassessed periodically in the light of experience. The carrying values of property, plant and equipment are reviewed for impairment when events or changes of circumstances indicate the carrying value may not be recoverable.

Leases

Where substantially all the risks and rewards of ownership of the leased item are transferred to the Company, the lease is classified as a finance lease and capitalised at the fair value of the leased asset or, if lower, at the present value of the minimum future lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. Leased assets are depreciated over the useful life of the asset.

Where the Company does not retain substantially all the risks and rewards of ownership of the asset, leases are classified as operating leases. Operating lease rental payments are recognised as an expense in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term.

Inventories

Inventories, primarily medical consumables, are stated at the lower of cost and net realisable value. Cost comprises purchase price less trade discounts, and is determined on a first-in, first-out basis. Net realisable value means estimated selling price, less all costs incurred in marketing, selling and distribution. Obsolete stock is provided for in the income statement.

Trade receivables

Trade receivables represent amounts due from customers arising from the performance of services or sale of goods in the ordinary course of business. If collection is expected in one year or less they are classified as current assets. Likewise, if collection is expected in over one year then they are classified as non-current assets.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less provision for impairment. The movement in the allowance for impairment is taken to administrative expenses.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Each hospital site uses a formula to calculate the expected credit loss. Trade receivables have been grouped based on shared characteristics (e.g. payer type). Different credit risk ratings have been applied to each grouping, including to reflect that credit risk increases as the aging of debt increases.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

Trade receivables (continued)

A different percentage allowance is used for each purchaser type (e.g. NHS, PMI, SP) to reflect the varying credit risk. This percentage allowance reflects the likelihood of default, and the anticipated shortfall of cash if default occurs.

Cash and cash equivalents

Cash and cash equivalent includes cash in hand, deposits held at call with banks and restricted cash balances.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are initially recognised at fair value and subsequently measured at amortised cost. If payment is contractually not due for more than one year, they are classified as non-current liabilities.

Deferred taxation

Deferred tax is provided in full (without discounting) based on current tax rates and law, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax in the future, except as otherwise required by FRS101.

Provisions for liabilities

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Pensions

The Company operates personal defined contribution pension schemes. Contributions are charged to the income statement as they become payable, in accordance with the rules of the scheme. The Company has no further payment obligation once the contributions have been paid.

Revenue

Revenue, which is measured as the fair value of consideration received for the activity performed, represents the total amounts derived primarily from the provision of healthcare services in the UK, after deducting value added tax (where services provided are not exempt).

Management has undertaken a detailed assessment of all revenue streams using the five-step approach specified by IFRS 15:

- Identify the contract(s) with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) a performance obligation is satisfied

The introduction of IFRS15 has had nil financial impact.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

Revenue (continued)

The Nottingham contract offers guaranteed payments. The Company receives guaranteed payments each month from the contracted Clinical Commissioning Groups ('CCGs'), which amount to 1/12th of the overall annual activity plan. There is a three month period after each month where any queries are resolved, and following on from this the activity and revenue for that month is frozen. Revenue is recognised when the appointment or procedure takes place. Revenue is recognised for a bundle consisting of an initial appointment and follow ups, at completion of the first appointment with any uplifts for outpatient procedures recognised at the time of the procedure. Revenue is accrued or deferred where treatment takes place ahead or behind contractual activity levels.

Expenses

All costs that are directly attributable to any single service provided to patients are categorised as costs of sale. All other costs that are incurred to provide services to patients but which cannot wholly be allocated to any single service provided to patients are categorised as administrative expenses.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. The exceptional expense relates to the write off of irrecoverable intercompany debtors.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired as well as through the amortisation process.

Share-based payments

Shares, and in some cases share warrants, were issued to employees and consultants in the prior year. The fair value of the employee services was received in exchange for the grant of the shares or share warrants is recognised as an expense, with a corresponding credit to equity. The total amount expensed was recognised in the prior year by reference to the fair value of the warrants granted, including:

- Any market performance conditions such as an entity's share price;
- Non-market performance conditions and service conditions included in assumptions about the number of options that are expected to vest; and
- The impact of any non-vesting conditions

And excluding:

- Impact of any service and non-market performance vesting conditions (profitability, sales growth targets and remaining an employee for a specified period of time).

The total expense was recognised over the vesting period, which is the period over which all of the specified vesting conditions are expected to be satisfied. Where modifications to existing share options occur, the difference between the revised charge and the existing charge will be recognised in the income statement. In the prior year, this was disclosed as an exceptional item in the income statement because the scheme was accelerated.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

2. Significant accounting policies (continued)

Called up share capital

Ordinary shares are classified as equity. Proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium for any proceeds that exceed nominal value.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company has not made any critical accounting estimates or assumptions in applying the accounting policies.

Critical judgements in applying the entity's accounting policies

(a) Taxation

The recognition of deferred tax assets is dependent upon management judgement of the level of future taxable profits that will be available against which deductible temporary differences can be utilised. Such a judgement is based on cash flow forecasts that have been generated, along with their expectations of future market performance. In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future years.

4. Revenue

All revenue arises from the same principal activity in the United Kingdom.

£158k of the revenue recognised in the current reporting period was included in the deferred income balance at the beginning of the period.

5. Operating profit

Operating profit is stated after charging:

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment (note 12)	639	825
Movement in bad debt provision	53	50
Operating lease charges (note 22):		
- plant and machinery	175	327
- land and buildings	2,083	1,918
Inventory expense	5,739	6,055
Staff costs (note 7)	17,306	17,645

The auditors' remuneration of £46k payable to PricewaterhouseCoopers LLP (2017: £43k) in relation to the provision of audit services was borne by Circle Health Holdings Limited, and then recharged to the Company. No non-audit services were provided during the year (2017: none).

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

6. Exceptional items

Exceptional items include:

	2018 £'000	2017 £'000
Share based payments (note 19)	-	347

7. Employees

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

	2018 Number	2017 Number
Clinical staff	322	317
Administrative staff	261	260
	<u>583</u>	<u>577</u>

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	15,047	15,359
Social security costs	1,370	1,377
Other pension costs (note 21)	889	909
	<u>17,306</u>	<u>17,645</u>

Included in wages and salaries is a total expense of share based payments of £nil (2017: £538k) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

8. Directors' emoluments

The Directors' emoluments were as follows:

	2018 £'000	2017 £'000
Total salary and other benefits	506	491
Share-based payment charge	-	298
Company pension contributions to defined contribution scheme	11	11
Aggregate emoluments	<u>517</u>	<u>800</u>

Post-employment benefits are accruing for nil (2017: two) directors under a defined contribution scheme.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

8. Directors' emoluments (continued)

Remuneration disclosed above includes the following amounts paid to the highest paid Director:

	2018 £'000	2017 £'000
Total salary and other benefits	202	200
Share-based payment charge	-	155
Company pension contributions to defined contribution scheme	-	-
Highest Director aggregate emoluments	<u>202</u>	<u>355</u>

No share options were exercised during the year. Three Directors (including the highest paid Director) exercised share options during the prior year and received shares under the Group's share scheme.

The amounts disclosed above are the Directors' total emoluments as per their employment contracts.

Of the four directors (2017: three) within the Company, three (2017: two) were remunerated through the Company.

One Director (2017: one) was a Director of a number of other companies within the Group and is remunerated through Circle Health Holdings Limited in respect of services provided to the Group. The Directors do not consider their time spent on dealing with the Company's matters to be material and therefore have not separated out their costs or made a recharge in respect of services provided to Nottingham.

Of the total aggregate Directors' emoluments £304k was paid and expensed in Circle Hospital (Nottingham) Limited (2017: £267k).

9. Finance income

	2018 £'000	2017 £'000
Bank interest receivable	<u>1</u>	<u>1</u>

10. Finance costs

	2018 £'000	2017 £'000
Finance lease interest	<u>10</u>	<u>54</u>

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

11. Tax on profit

Tax charge/(credit) included in profit or loss:

	2018 £'000	2017 £'000
Current tax		
UK Corporation tax on profit for the year	-	-
Deferred tax		
Current year	1,832	(56)
Effect of changes in tax rate	(193)	7
Income tax charge/(credit) on profit for the year	1,639	(49)

Factors affecting the current tax charge/(credit) for the year

The tax assessed in 2018 is higher (2017: lower) than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before taxation	3,576	2,900
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	679	558
Effects of:		
Expenses not deductible for tax purposes	12	13
Share options	-	(53)
Tax rate changes	(193)	7
Effects of group relief claimed for nil payment	(470)	(574)
Temporary difference for which no deferred tax recognised	1,611	-
Tax charge/(credit) for the year	1,639	(49)

Factors that may affect future tax charges

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20.00% to 19.00% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17.00% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

12. Property, plant and equipment

	Leasehold improvements £'000	Clinical equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost				
At 1 January 2018	1,649	2,919	1,456	6,024
Additions	6	347	33	386
Disposals	(6)	(6)	(87)	(99)
At 31 December 2018	1,649	3,260	1,402	6,311
Accumulated Depreciation				
At 1 January 2018	597	2,585	1,291	4,473
Depreciation charge for the year	165	384	90	639
Disposals	(6)	(6)	(87)	(99)
At 31 December 2018	756	2,963	1,294	5,013
Net book amount				
At 31 December 2018	893	297	108	1,298
At 31 December 2017	1,052	334	165	1,551

13. Inventories

	2018 £'000	2017 £'000
Consumables	444	470

There is no significant difference between the replacement cost of consumables and their carrying amount.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

14. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	1,028	1,440
Amounts owed by Group undertakings	22,340	19,018
Other debtors	168	32
Prepayments and accrued income	906	593
	<u>24,442</u>	<u>21,083</u>

Trade receivables are stated after provisions for impairment of £105k (2017: £52k).

Amounts owed by Group undertakings are unsecured, interest-free, have no fixed date of repayment and are repayable on demand.

15. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	777	1,370
Amounts owed to Group undertakings	739	290
Other creditors	100	561
Finance lease creditor	135	249
Accruals and deferred income	4,656	3,820
	<u>6,407</u>	<u>6,290</u>

Amounts owed to Group undertakings are unsecured, interest-free, have no fixed date of repayment and are repayable on demand.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

16. Deferred tax asset

The following are the major deferred tax assets recognised by the Company in the prior reporting period, and movements thereon during the current reporting period.

	£'000
Deferred tax asset at 1 January 2018	1,639
Charge to the statement of comprehensive income	(1,639)
Deferred tax asset at 31 December 2018	-

The deferred tax asset comprises of:

	2018 £'000	2017 £'000
Fixed assets	-	1,639
Deferred tax asset	-	1,639

Movement in Deferred tax assets:

	Fixed Assets £'000	Total £'000
Opening balance 1 January 2018	1,639	1,639
Charge to the statement of comprehensive income	(1,639)	(1,639)
Closing balance 31 December 2018	-	-

A deferred tax asset has not been recognised in the financial statements due to uncertainty over the availability of suitable future profits against which the asset will reverse.

The deferred tax asset not recognised in the financial statements is as follows:

	2018 Tax value £'000	2018 Gross Value £'000	2017 Tax value £'000	2017 Gross Value £'000
Deductible temporary differences – fixed assets	1,441	8,476	-	-

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

17. Finance Leases

The future minimum lease payments are as follows:

	2018 £'000	2017 £'000
No later than 1 year	135	262
Later than 1 year and no later than 5 years	-	-
Total gross payments	135	262
Impact of finance charges	-	(13)
Carrying value of finance lease liability	135	249

18. Called up share capital

	2018 £'000	2017 £'000
Ordinary share capital		
Authorised		
500,000 (2017: 500,000) ordinary shares of £1 each	500	500
Issued and fully paid		
500,000 (2017: 500,000) ordinary shares of £1 each	500	500

19. Share-based payments

In April 2017, the entire share capital of Circle Holdings plc, a parent entity of the Company, was acquired by Circle Health Holdings Limited, a private limited company. Shares, shares options and share warrants of Circle Holdings plc had previously been issued by the Group to Directors, employees, clinicians and external investors who contributed to the success and growth in value of the Group. The issuance of these warrants and shares, including the issue of shares to scheme participants and employees, qualified as equity-settled share-based payment transactions and fell within the scope of IFRS 2 'Share-based payments'. Note there was no charge associated with the transaction where the employees subscribed for the shares at full market value.

All share options that were outstanding at the time of the acquisition by Circle Health Holdings Ltd became exercisable. A further distribution of shares that were held in trust on behalf of employees was made to employees in April 2017.

The Company has recognised a share-based payment expense based on the fair value of the awards granted, and an equivalent credit directly in equity as a capital contribution. During 2018, £nil was the IFRS 2 share based payment charge for share options issued to Circle Nottingham Limited Directors, employees and partners (2017: £451k). £nil of this charge has been classified as an exceptional cost (2017: £347k).

There were no share options outstanding at the end of either the current or prior year.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

20. Capital commitments

At 31 December 2018, the Company had capital commitments of £nil (2017: £nil).

21. Pension commitments

The Company participates in a Group personal defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. The contributions for the year were £889k (2017: £909k). There were £60k of outstanding contributions as at 31 December 2018 (2017: £84k).

22. Operating lease commitments

At 31 December 2018, the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	Land and buildings		Other	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Not later than one year	1,236	1,276	154	208
Later than one year and not later than five years	288	288	-	-
Later than five years	150	222	-	-
	<u>1,674</u>	<u>1,786</u>	<u>154</u>	<u>208</u>

Land and buildings

On 28 July 2013, the Company entered into a 5-year operating lease in respect of the Circle Nottingham Treatment Centre. The lease was extended for a further year for an annual rent of £2,033k and expired on 27 July 2019.

Other

The Company entered into an operating lease agreement with GE to lease equipment for the purpose of providing healthcare services contracted with the NHS on commencement of the initial contract. The lease was for a minimum period of 5 years from June 2008. New leases were entered into in July 2013 for the provision of clinical equipment for a period of five years until July 2018 and were further extended until July 2019.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

23. Related party transactions

The Company has taken advantage of the exemption allowed under FRS 101, not to disclose the transactions entered into between Group members as required by IAS 24 Related Party Disclosures.

The Company has transactions with Circle Rehabilitation Services Limited, a joint venture between Circle Health Limited and VAMED Management Und Service Gmb.

	Sales to related party £'000	Purchases from related party £'000	Amounts owed from related party £'000	Amounts owed to related party £'000
Circle Rehabilitation Services Limited	9	-	3	-

Sales to Circle Rehabilitation Services Limited relate to hospital services provided. The payment terms are standard payment terms. There were no related party transactions requiring disclosure in 2017.

24. Events after the balance sheet date

During 2018, a tender process was undertaken for a new five-year contract to operate the Nottingham NHS Treatment Centre from the date that the contract expired on 28 July 2019. Rushcliffe Clinical Commissioning Group announced in December 2018 that it planned to award the contract to Nottingham University Hospitals NHS Trust (NUH). Circle challenged this award on the basis that the procurement process was flawed and the award decision unfairly determined. During this challenge the award was stayed.

On 21 May 2019 the stay was lifted, and it was confirmed that Circle would stop operating the Nottingham NHS Treatment Centre when the contract expired on 28 July 2019.

Agreements were reached to transfer the tangible fixed assets and inventories for at least the balance sheet amounts at the date of termination of the contract.

Circle have an ongoing legal challenge against the contract award which is expected to be heard at trial in July 2020.

25. Changes in accounting policy

The following standards have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2018:

IFRS 9 Financial instruments, which superseded IAS 39 Financial Instruments: Recognition and Measurement

IFRS 15 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition.

The following standard will be first adopted by the Company for the financial year ended 31 December 2019:

IFRS 16 'Leases' replaces IAS 17 and will apply to annual reporting periods beginning on or after 1 January 2019. A key change arising from this new standard is that most operating leases will be accounted for on the balance sheet for lessees. The Company will apply IFRS 16 from 1 January 2019. Management has assessed that there will be a material impact on the 31 December 2018 Company balance sheet figures. The Company has applied the disclosure exemption for new but not effective IFRSs, available under the Financial Reporting Standards (FRS) 101 Reduced Disclosure Framework as set out in the Basis of preparation policy.

Circle Nottingham Limited

Notes to the Financial Statements for the year ended 31 December 2018 (continued)

25. Changes in accounting policy (continued)

For further details, see the 'New standards, amendments and IFRIC interpretations' section within note 2.

26. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Nations Healthcare Limited, a company registered in England and Wales.

The Directors regard Circle Health Holdings Limited, a company registered in England and Wales, as the Company's ultimate parent undertaking and controlling party.

Circle Health Holdings Limited is the parent undertaking of the smallest and largest group for which consolidated financial statements are prepared that include the financial statements of the Company. Copies of the group financial statements for Circle Health Holdings Limited may be obtained from 32 Welbeck Street, London, W1G 8EU.