

Circle Health Holdings Limited
Annual Report and Financial Statements
for the year to 31 December 2018

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Circle Health Holdings Limited

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Circle Health Holdings Limited

Company Information

Directors

Massoud Fouladi
Lord Hutton of Furness
Ashley Lewis
Torquil Macnaughton
Paolo Pieri
Peter Sullivan
Benjamin Lloyd
Brent Layton

Company Secretary

Shane Cobb

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
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Bankers

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Circle Health Holdings Limited

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

The Directors present the Strategic Report and Annual Report and the audited financial statements for the Group for the year to 31 December 2018.

The Group financial statements consolidate the financial statements of Circle Health Holdings Limited (the 'Company') and its subsidiary undertakings ('subsidiaries') drawn up to 31 December 2018. Together these make up 'Circle' or the 'Group'.

Principal activities

The Group is a provider of healthcare services in the UK, treating privately insured, self-pay and NHS-funded patients at hospitals in Bath, Reading and Nottingham. The Group also runs Integrated Care services, including fully integrated care systems in Bedfordshire and Greenwich. The Group's business strategy is founded on the belief that the best way to deliver great patient care is to empower the doctors, nurses and all other staff who work in our hospitals and treatment centres to put patients' needs first.

Business review

The Group's turnover of £155,621k (2017: £100,881k) represents trading of the Group's companies for the year to 31 December 2018. The group was acquired in April 2017, therefore when comparing this year's results to a full 12 months of trading for 2017 revenue grew by 6%. Self-pay revenue has achieved 30% growth compared to a full twelve months of trading in 2017 along with a 12% growth in insured patients' revenue. We also achieved a 5% growth in revenue per patient.

A new hospital and 120 bed rehabilitation centre, to be operated by Circle, is currently under construction in Birmingham. This facility is planned to open towards the end of 2019. Once fully operational this will be one of the largest private hospitals in the UK. Its high class facilities and the availability of treatments from many leading clinicians will bring in significant revenue to the Group.

The Group also continues to seek further growth in 2019 through acquisition of healthcare facilities and from new integrated care contracts based on our Circle Integrated Care model which has proved to be successful at Bedford and Greenwich.

The Group has continued to invest in its facilities which provide patients with a high level of patient experience. It has also invested in technology to drive efficiencies including an upgraded patient administration system across all hospitals. Our investment in staff includes rigorous training and ensures that patients receive quality care. Our high recommendation rates, as stated below, are a result of the overall quality of care that all patients receive. We are the only private hospital group to have a "good" rating at all of its hospitals. The contract to operate the Nottingham NHS Treatment Centre is scheduled to end on 28 July 2019.

Results

The underlying performance of the group improved considerably during 2018. At EBITDAR (earnings before interest, taxation, depreciation, amortisation and rent) level the group made a profit of £12,358k (2017: £6,778k). The operating loss before exceptional items of £3,493k shows improvement from £3,676k in 2017 (a period which included only 8 months of group trading operations). The result reflects Circle's investment in the long term growth of its hospitals. Exceptional costs of £8,946k (2017: £2,638k) relating to the impairment of intangible assets and goodwill (see notes 6, 12 and 13) resulted in a loss for the financial year of £11,083k (2017: loss of £6,155k).

The net assets of the Group, which improved significantly from 2017, were £54,629k (net liabilities for the period ended 2017: £6,155k). £71,844k of shareholder loans were converted to equity during the year (see below and note 20).

Circle Health Holdings Limited

Strategic Report

for the year ended 31 December 2018 (continued)

Key Performance Indicators (KPIs)

The Directors manage the Group's operations based on a range of factors, including patient safety, clinical quality, business operations and financial results. KPIs such as patient volumes and customer feedback rating, revenues and result for the year are used as part of this management. The Group has achieved high levels of patient satisfaction, with an average recommendation of 98.2% at our hospital sites in 2018 (98.5% in the period ended 31 December 2017).

The Group treated 363,328 patients in the year to 31 December 2018 (2017: 246,000).

Cash flow

The total cash balance at 31 December 2018 is £14,033k (2017: £16,215k). Net cash used in operating activities totalled £1,414k (2017: £4,955k).

Capitalisation of Loan Notes and issue of new equity

In the prior financial period the Group had £71,844k of loan notes outstanding as non-current liabilities. These loan notes were issued to Tosca Penta Funds, the Company's major shareholders, and provided long-term funding to the Group. During the year ended 31 December 2018, all of the loan notes were converted into equity.

The new equity issued in relation to the loan note conversion is as follows: 80,000 ordinary class A shares for a total consideration of £3,194k; 10,000 ordinary class B shares for a total consideration of £399k and 1,900,000 preference shares for a total consideration of £68,274k.

In addition to these shares, the Group issued a further 750 Class C shares (with a total consideration of £7.50 received) to a number of employees and Directors of the Group.

Financial risks

The Group's operations expose it to a variety of financial risks that include working capital and funding risk. The Group has implemented a comprehensive strategic planning and budgeting system to monitor and limit the adverse effects of the below risks, the results of which are presented to and approved by the Board. Management and the Board monitor performance against budget and key financial benchmarks through monthly reporting routines, detailed business reviews and variance analysis.

Working capital and funding risk

Working capital and funding risk is the risk that the Group 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 Group 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 throughout the Group.

Principal risks and uncertainties

Enterprise risk identification and management

The Group has an effective system of risk management in terms of identifying risks and monitoring actions to manage these risks.

Risk is an unavoidable element of doing business. The Group's risk management system aims to provide assurance to the Board of Directors regarding the effectiveness of the Group's ability to manage risk. The system includes the controlled prioritisation of issues, review of four key operational metrics in relation to clinical outcomes, patient experience, staff engagement and value-for-money mitigation, sharing of best practice and effective crisis management.

The following provides an overview of the principal business risk factors facing the Group, along with a description, where relevant, of the mitigating actions in place.

Circle Health Holdings Limited

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

Contract risk

Owing to the complexity of delivering NHS-funded services, there is inherent contractual risk arising from the Group's existing NHS contracts. Default and termination of these contracts could occur as a result of clinical or operational failures. The Group continues to mitigate these risks by focusing on its business model of delivering high quality care at the best value.

Additionally, Contract risk exists where the Group is unable to renew the NHS contracts at the end of their fixed tenure. The Group aims to mitigate this risk by maintaining good relationships with contracting parties and actively pursuing contract renewals and extensions ahead of time. The Group operates a five-year integrated musculoskeletal ("MSK") service contract in Bedfordshire, which was extended for a further two years, and ends in March 2021. The Group also operates a five-year integrated MSK service contract in Greenwich which ends in March 2022.

The Group's private hospitals have lower contract risk due to the lower reliance on one purchaser, but they do hold contracts with NHS bodies and private insurers which account for significant proportions of revenue. There is some risk that these contracts could not be renewed, but as these services are not purchased by one individual body (as is the case with purely NHS services) the impact would not be as significant. The Group takes active steps to manage contracts.

Clinical Quality Risk

As with all medical providers, clinical quality risk is a major consideration. The Group has an integrated corporate governance structure which is managed by the Chief Medical Officer who also sits on the Board. This structure includes senior staff across the operational, clinical and central support teams. Each hospital site has its own local governance structure, while a team of clinical care quality specialists is dedicated to developing up to date and consistent clinical and operational policies across all sites. Local governance committees work to a rigorous assurance framework, manage day to day clinical risks through a risk register, provide appropriate training to staff and consultants, and report their findings to the Group's Integrated Governance Committee (IGC). The IGC in turn provides risk assurance reports to the boards of the relevant Group companies including the Company.

Price risk

The Group generally seeks to price contracts at levels that take account of increasing prices and, where appropriate, establish contract terms that enable revenues to be adjusted as a result of any future increasing price levels. As the volume of patients is anticipated to increase, the Group will be increasingly subject to pricing changes from private insurance companies and the NHS tariff set by NHS Improvement.

The Bedford and Greenwich MSK contracts operate under a capped revenue budget. The underlying principle assumes that the service can be run more efficiently, improving the patient experience and reducing operational costs. Nevertheless, the Group bears the risk of rising operational prices as the baseline revenue is fixed subject to local demographic or service portfolio changes.

Government policy and regulatory risk

There are risks that political or policy changes may mean that the number and size of contracts awarded to the Group are diminished and that fewer services provided by the Group are contracted by the public sector.

New regulations may be introduced which could have an adverse effect on the Group's operational and compliance costs. In addition, the Group relies on the ability and willingness of government-funded bodies such as CCGs and NHS England to pay for the Group's clinical services.

Reputational risk

Reputational risk associated with poor clinical outcomes or patient satisfaction is mitigated by the focus on providing high quality medical care at the Group's facilities and constantly seeking to improve clinical services through the activities of the IGC and the Quality Quartet reviews.

Circle Health Holdings Limited

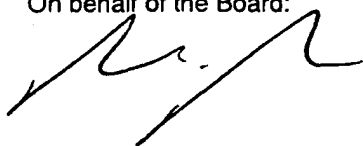
Strategic Report for the year ended 31 December 2018 (continued)

Brexit

Brexit uncertainty has not had a material impact on the financial results of the Group since demand for the Group's services is primarily driven by the population growth and aging demographics within the different regions of the United Kingdom in which it operates. Management do not believe there will be a material impact to the Group's operations regardless of the outcome of Brexit.

This Strategic Report has been approved by the Company's Board of Directors.

On behalf of the Board:



Paolo Pieri

Chief Executive Officer

22 July 2019

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2018

The Directors present their Annual Report and the audited consolidated financial statements for the year to 31 December 2018 for the Group.

Directors

The Directors who served during the year and up to the date of signing the financial statements were:

Paolo Pieri

Massoud Fouladi

Ashley Lewis

Torquil Macnaughton

Peter Sullivan

Lord Hutton of Furness

Benjamin Lloyd (appointed 29 March 2019)

Brent Layton (appointed 11 June 2019)

Directors' indemnity

In its Articles of Association, the Company has granted third party 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. There are no outstanding claims or provisions as at the balance sheet date. The indemnity was in force during the financial year and also at the date of approval of the financial statements.

Dividends

The Directors do not recommend the payment of any dividends (period ended 31 December 2017: £nil)

Donations

The Group made no donations during the year to any charitable organisations within the UK (2017: £1,000).

No donation was made to any political party registered in the UK or EU under the Political Parties, Elections and Referendums Act 2000 by either the Company or its subsidiaries (2017: £nil).

Policy and practice on payment of creditors

It is the Group's and Company's policy to abide by the payment terms agreed with suppliers wherever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. A number of significant purchases and commitments under operating leases are paid by direct debit. At 31 December 2018, the Group had 25 (2017: 14) equivalent days of purchases outstanding and the Company had no equivalent days of purchases outstanding.

At 31 December 2018, trade creditors in the Group and Company were £10,814k and £9k, respectively (2017: £6,057k and £nil, respectively).

Future developments

Later in the year, Circle will open a new hospital and rehabilitation facility in Birmingham which will significantly increase the scope of the Group's hospital operations. Circle continues to evaluate other new opportunities to grow the business.

Circle Health Holdings Limited

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

Financial risk management

The Group's operations expose it to a variety of financial risks and it has in place a group risk management programme that seeks to limit the adverse effects on the financial performance of the Group by comprehensive budgeting and cost control along with cash forecasting and debt management. Details of the risk management policies are included on pages 4 to 7 of these financial statements.

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Directors have prepared cash flow forecasts for a period of not less than 12 months from the date of the signing of the financial statements for the year ended 31 December 2018.

The Board believes that the Group has sufficient funding to carry out its current business plans including commitments associated with new projects. Accordingly, the Directors have a reasonable expectation that the Group 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 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 current contract expires 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 current contract expires at the end of July 2019.

Circle have an ongoing legal challenge against the contract award which is expected to be heard at trial later this year.

Disabled employees

The Group 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 Group 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 Group. If members of staff become disabled the Group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employee involvement

The Group 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 Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group is considered to be of the utmost importance.

Circle Health Holdings 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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company 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 Group and parent company and of the profit or loss of the Group and parent 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 IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, 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 Group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent 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 Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent 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 Group and parent 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 Group and parent company's auditors are aware of that information.

Circle Health Holdings Limited

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

Independent auditors

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

On behalf of the Board of Directors:



Paolo Pleri

Chief Executive Officer

22 July 2019

Circle Health Holdings Limited

Independent auditors' report to the members of Circle Health Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Circle Health Holdings Limited's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements 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
- the financial statements 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 Consolidated and Company Statements of Financial Position as at 31 December 2018; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements 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 Group 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.

Circle Health Holdings Limited

Independent auditors' report to the members of Circle Health Holdings Limited (continued)

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 Group's and parent 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 Group's and parent 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 Group's trade, customers, suppliers and the wider economy.

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 Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Circle Health Holdings Limited

Independent auditors' report to the members of Circle Health Holdings Limited (continued)

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 10, 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 parent 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.

Circle Health Holdings Limited

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

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 parent 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 parent company 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
22 July 2019

Circle Health Holdings Limited

Consolidated Statement of Comprehensive Income for the year to 31 December 2018

		2018	2017
	Note	£'000	£'000
Revenue	4	155,621	100,882
Cost of sales		(108,035)	(70,934)
Gross profit		47,586	29,948
Administrative expenses before exceptional items		(51,079)	(33,624)
Operating loss before exceptional items		(3,493)	(3,676)
Exceptional operating items	6	(8,946)	(2,638)
Operating loss	5	(12,439)	(6,314)
Finance income	10	15	50
Finance costs	9	(214)	(200)
Loss before taxation		(12,638)	(6,464)
Corporation tax	11	1,555	309
Loss and total comprehensive loss for the financial year		(11,083)	(6,155)
Loss and total comprehensive loss attributable to:			
Owners of the parent		(10,693)	(5,835)
Non-controlling interests		(390)	(320)
		(11,083)	(6,155)

The notes on pages 20 to 55 form part of these financial statements.

Circle Health Holdings Limited

Consolidated Statement of Financial Position as at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Intangible assets	12	17,012	25,785
Goodwill	13	30,013	32,528
Property, plant and equipment	14	5,232	5,870
Investments		160	160
Other receivables	16	2,500	2,500
		<u>54,917</u>	<u>66,843</u>
Current assets			
Inventories	15	1,784	1,951
Trade and other receivables	16	12,526	12,386
Cash and cash equivalents	17	14,033	16,215
		<u>28,343</u>	<u>30,552</u>
Total assets		<u>83,260</u>	<u>97,395</u>
Current liabilities			
Trade and other payables	18	(21,245)	(22,845)
Loans and other borrowings	20	(745)	(947)
		<u>(21,990)</u>	<u>(23,792)</u>
Non-current liabilities			
Trade and other payables	18	(1,686)	(1,789)
Loans and other borrowings	20	(2,092)	(73,551)
Deferred tax liability	11,18	(2,863)	(4,418)
		<u>(6,641)</u>	<u>(79,758)</u>
Total liabilities		<u>(28,631)</u>	<u>(103,550)</u>
Net assets/(liabilities)		<u>54,629</u>	<u>(6,155)</u>
Share capital	21	20	-
Share premium	21	71,847	-
Accumulated losses		(16,528)	(5,835)
Equity attributable to owners of the parent		<u>55,339</u>	<u>(5,835)</u>
Equity attributable to non-controlling interests		<u>(710)</u>	<u>(320)</u>
Total equity		<u>54,629</u>	<u>(6,155)</u>

The financial statements of Circle Health Holdings Limited (Company registration no: 10543098) on pages 16 to 55 were approved by the board of Directors and authorised for issue on 22 July 2019. They were signed on its behalf by:



Paolo Pieri, Chief Executive Officer

Circle Health Holdings Limited

Circle Health Holdings Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

Attributable to owners of the Group

	Share capital	Share Premium	Accumulated losses	Total	Non- controlling interests	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 30 December 2016	-	-	-	-	-	-
Loss and total comprehensive loss for the year	-	-	(5,835)	(5,835)	(320)	(6,155)
At 31 December 2017 and 1 January 2018	-	-	(5,835)	(5,835)	(320)	(6,155)
Shares issued (note 21)	20	71,847	-	71,867	-	71,867
Loss and total comprehensive loss for the year	-	-	(10,693)	(10,693)	(390)	(11,083)
At 31 December 2018	20	71,847	(16,528)	55,339	(710)	54,629

Circle Health Holdings Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Net cash outflow from operating activities	25	(1,200)	(4,755)
Interest paid	9	(214)	(200)
Net cash used in operating activities		(1,414)	(4,955)
Cash flows from investing activities			
Purchase of computer software	12	-	(33)
Purchase of property, plant and equipment	14	(2,472)	(1,600)
Proceeds from sale of assets	14	1,508	-
Acquisition of subsidiary net of cash acquired		-	(28,624)
Net cash used in investing activities		(964)	(30,257)
Cash flows from financing activities			
Repayment of finance lease	26	(818)	(1,398)
Issuing of new finance lease		241	819
Interest received	10	15	50
Proceeds from borrowing		758	51,956
Net cash generated from financing activities		196	51,427
Net (decrease)/increase in unrestricted cash and cash equivalents		(2,182)	16,215
Unrestricted cash and cash equivalents at the beginning of the year		16,215	-
Unrestricted cash and cash equivalents at the end of the year		14,033	16,215
Cash and cash equivalents consist of:			
Cash at bank and in hand		14,033	16,215
Unrestricted cash at bank and on hand		14,033	16,215

Circle Health Holdings Limited

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

1. General information

Circle Health Holdings Ltd (the Group) is a private company limited by shares that is incorporated, registered and domiciled in England and Wales under The Companies Act 2006. The address of the registered office is given on page 3. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 4 to 7. The financial statements are for the year ended 31 December 2018. The comparative period is the period from incorporation on 30 December 2016 to 31 December 2017. The acquisition of Circle Holdings plc took place on 26 April 2017, and so the comparative period figures represent operations for the 8-month period to 31 December 2017.

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 adoption of IAS 18 Revenue.

Basis of preparation

The Group financial statements consolidate those of the parent company and its subsidiaries. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union, IFRS Interpretations Committee (IFRS IC) and Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through the income statement.

Items included in the results of each of the Group's subsidiaries are measured using the functional currency, which in all instances is Sterling. The Group's consolidated financial statements and parent company statements are presented in Sterling. All financial information has been rounded to the nearest thousand.

The principal accounting policies are set out below.

The Company has elected to prepare the Company financial statements in accordance with FRS 101. These are presented on pages 56 to 65 and the accounting policies in respect of Company information are set out on pages 58 and 59.

The Group generates revenue from the provision of medical services to privately insured, self-pay and NHS-funded patients at facilities located across England. 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.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Basis of preparation (continued)

In determining the appropriate method of recognising revenue, management are 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 obligation are not satisfied over time, the Group recognises revenue at a point in time.

Management have decided to adopt the modified approach to IFRS 15 and IFRS 9 and it has been assessed that its adoption will not have a material impact on the financial statements for neither the year ending 31 December 2018 nor for the prior period ending 31 December 2017. Therefore, no restatement of the prior accounting period comparative numbers is required.

New standards and interpretations not yet adopted

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 Group will apply IFRS 16 from 1 January 2019. Management has assessed that there will be a material impact on the 31 December 2018 Group balance sheet figures. This impact has been disclosed in Note 29.

Going concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Directors have prepared cash flow forecasts for a period of not less than 12 months from the date of the signing of the financial statements for the year ended 31 December 2018.

The Board believes that the Group has sufficient funding to carry out its current business plans including commitments associated with new projects. Accordingly, the Directors have a reasonable expectation that the Group 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.

Consolidation

A subsidiary is an entity controlled, directly or indirectly. Control is regarded as the power to govern the financial and operating policies of the subsidiary so as to benefit from its activities. The financial results of subsidiaries are consolidated from the date control is obtained until the date that control ceases. All intra-Group transactions are eliminated as part of the consolidation process.

Business combinations

Under the requirements of IFRS 3 (revised), all business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the business and the equity interests issued by the Group. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. Acquisition related costs are expensed as incurred. An intangible asset, such as a brand is recognised if it meets the definition of an intangible asset under IAS 38 'Intangible assets'. The excess of the cost of the acquisition over the fair value of the Group's share of the net assets acquired is recorded as goodwill.

No business combinations took place during the year.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Goodwill and other intangible assets

Goodwill arising on acquisitions is capitalised, held on the balance sheet indefinitely and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable. At the date of acquisition, goodwill is allocated at the lowest levels for which there are separate identifiable cash flows for the purpose of impairment testing. Assets, excluding goodwill, which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets separately identified from goodwill acquired as part of a business combination are initially stated at fair value. The fair value attributable is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted weighted average cost of capital appropriate to that intangible asset. The assets are amortised on a straight line basis over their estimated useful lives which range from 9 to 15 years.

Acquired computer software (defined as software that is not considered an integral part of the hardware equipment) is capitalised on the basis of the costs incurred to acquire and bring to use the specific (not exceeding 3 years).

Goodwill is the intangible assets with an indefinite life in both the current year and prior period.

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.

Revenue can be broken down into the following categories:

– Any qualified provider

Any provider who is able to provide a specific service that meets the required minimum standards can be listed as a possible provider to deliver healthcare on behalf of the NHS at national tariff. Patients choose their preferred provider under the national e-referral system (formerly the 'Choose and Book' system). Following the patients' treatment and subsequent discharge from hospital, the Group will invoice the relevant CCG directly at tariff for the medical procedure performed and recognise the applicable revenue. The performance of the treatment is the sole performance obligation (representing that this is when the service is transferred), and so the whole tariff price is allocated to that performance obligation.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

– Any qualified provider (continued)

No provider is guaranteed any volume or exclusivity. For non-fixed payments at our Nottingham Treatment Centre, outpatient 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.

– Contracts with guaranteed payments

Integrated Care contracts have a term, usually, of 5 years. The contract involves a 'prime provider' (Circle) who takes responsibility for coordinating and managing the delivery of services across a local health system. Circle's main contracting parties are the local commissioner (CCG) and local care providers. The contract revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance and is measured at the fair value of the consideration received for activity performed (in accordance with IFRS 15).

The annual revenue relates to the year beginning 1 April and ends on the 31 March in the following year. The revenue is determined at the beginning of the year, in respect of the contract and any demographic growth in the local health system. The annual revenue is spread monthly across the year in a manner that reflects the proportion of total annual cost anticipated to be borne in that month. This is to reflect the contracts' main performance obligation of coordinating and managing the delivery of services to patients, with the cost of these services incurred reflecting the completion of the performance obligation.

– Private and self-pay

Revenue is recognised based on procedures performed either at contractually agreed insurance prices or self-pay rates. These are determined by the specific procedure undertaken. The medical procedure is the sole performance obligation, and so the whole price is allocated to that performance obligation. In the case of Private Medical Insurer revenue, the insurance companies pay the consultants directly and Circle recognises revenue for use of the hospital, consumables and other clinical services which are recognised as provided.

For self-pay patients, Circle recognises revenue when the performance obligation has been satisfied.

– Rehabilitation

Revenue represents the total amount earned by the Group in the ordinary course of business for services rendered in respect of medical and rehabilitation facilities and treatments. Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance and is measured at the fair value of the consideration received for activity performed. The performance obligation for inpatients is a stay of a 24 hour period, representing that patients receive separable benefit from each 24 hour period stayed. The transaction price is agreed on a per night basis, and so each 24 hour period is allocated the transaction price for that period.

– Other miscellaneous income

Other miscellaneous income primarily relates to car parking revenue and delicatessen revenue. Car parking revenue and delicatessen revenue are recognised at the point of sale, representing that the performance obligation has been satisfied.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Expenses

All costs that can be attributed to any 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 identifiable service provided to patients are categorised as administrative expenses.

Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items of income or expense, either one-off in nature, non-cash or of such magnitude that the Directors believe separate disclosure is required to allow readers to gain an understanding of the underlying results of the business.

The exceptional cost in the year ended 31 December 2018 was £8,946k (2017: £2,638k). See note 6.

Finance costs

Finance costs are recognised on an effective interest rate basis in the period in which they are incurred, except where they are directly attributable to the acquisition or production of a qualifying asset which takes a substantial period of time to get ready for intended use, such as the construction of a hospital. In such cases, borrowing costs are capitalised as part of the cost of that asset from the first date on which expenditure is incurred for the asset, provided the asset is determined to be economically viable. Capitalisation ceases when all the activities that are necessary to prepare the asset for use are complete.

Finance income

Finance income is recognised as earned and relates to interest received on cash and cash equivalents.

Property, plant and equipment

Property, plant and equipment are 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.

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 land – life of lease

Leasehold improvements – shorter of lease life or expected useful life (5-10 years)

Clinical equipment – 3 to 5 years

Furniture, fittings and office equipment, (including commissioning costs) – 3 to 10 years

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.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Assets under construction

Development costs which are directly attributable to the development of property are capitalised as part of the cost of the property. The commencement of capitalisation begins when development costs for the property are being incurred and activities that are necessary to prepare the asset ready for use are in progress. Capitalisation ceases when all the activities that are necessary to prepare the asset for use are complete.

Commissioning costs comprise staff, property, consultancy and operational costs directly related to the commissioning of new build hospitals. Such costs are capitalised, provided the asset is determined to be economically viable, up to the point that the commissioning is complete and the hospital is fully open for business, subsequent to which further such expenditure is charged to the income statement. Once commissioned, the asset is reclassified from 'Assets under construction' to the relevant property, plant and equipment category and depreciated on a straight line basis in accordance with the estimated useful lives as outlined in the previous property, plant and equipment significant accounting policy.

Leases

Where substantially all the risks and rewards of ownership of the leased item are transferred to the Group, 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 Group 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.

Where title never transfers to the Group, consignment stock is held off balance sheet.

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.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Trade receivables (continued)

The Group 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 entity 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.

A different percentage allowance is used for each purchaser type 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 equivalents includes cash in hand, deposits held at call with banks, overnight deposits other short-term highly liquid investments with original maturities of three months or less.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

Pension costs

The Group 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 Group has no further payment obligation once the contributions have been paid.

Taxation

Tax expense comprises current and deferred tax. The charge for current income tax is based on the results for the year, as adjusted for items which are taxable or deductible in other accounting periods and items not taxed or disallowed. The charge is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax is accounted for using the liability method in respect of temporary differences arising from differences between the tax bases of assets and liabilities, and their carrying amounts in the consolidated financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference is due to the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction (other than a business combination) which at the time of the transaction does not affect either taxable or accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Circle Health Holdings Limited

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

2. Significant accounting policies (continued)

Taxation (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled using rates enacted, or substantively enacted, at the end of the reporting period. Deferred tax is charged or credited in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Provisions for other liabilities and charges

Provisions are recognised when the Group has a present obligation in respect of a past event, when it is probable that an outflow of resources will be required to settle the obligation and it can be reliably estimated. Provisions are discounted where the time value of money is considered to be material, using an appropriate rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the discount is recognised as a finance cost.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

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 in excess of nominal value).

Loans and other borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Circle Health Holdings Limited

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

3. Critical judgements and accounting estimates in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the Directors make judgements and estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements and estimates that have the most significant effect on the amounts recognised in the consolidated financial statements, and could have a material impact on the financial statements in the following year, include:

Critical judgements in applying the Group's accounting policies

i Tax

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.

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

Estimates

The key assumptions and estimates at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i Revenue recognition

Across the Group, a number of CCGs have signed up to a framework agreement whereby payment is made in advance based on indicative volumes, and then reconciled to actual volumes over a period of up to 3 months when the CCGs then approve the activity levels. Revenue is estimated and recognised based on activity performed in the month which had not been approved at the end of the year.

The Bedford and Greenwich MSK contracts entitle Circle to a revenue stream that is pre-determined by the programme budget ('capped' budget). The annual revenue is spread across the term of the contract and incorporates monthly seasonal fluctuations and demographic growth.

ii Useful lives and recoverability of property, plant and equipment

Property, plant and equipment are reviewed on a regular basis to check they are still in use, to ensure that their useful economic life is in line with the expected life of the asset and that their carrying values are recoverable. In the event that estimates are wrong, this may impact the financial statements in future years.

iii Goodwill and intangibles

Goodwill and intangibles are recognised at cost less accumulated amortisation and impairment losses. The carrying amount of goodwill is assessed annually based on value in use calculations, using cash flow projections based on five year financial forecasts prepared by management. Key assumptions relating to forecasts in revenue growth and decline are used which include discounting back to present value using a risk adjusted pre-tax discount rate of 9.00% and assumptions in terms of volume and cost savings. In the event that these estimates are wrong, this may impact the value in use and consequently the recoverable amount and carrying value of goodwill and intangible assets. The useful lives of goodwill are indefinite.

Circle Health Holdings Limited

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

4. Revenue

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

£269k of the revenue recognised in the current reporting period was included in the deferred income balance at the beginning of the period.

5. Operating loss

Operating loss is stated after charging:	2018	2017
	£'000	£'000
Amortisation of intangible assets (note 12)	2,342	1,768
Depreciation of property, plant and equipment (note 14)	1,612	1,656
Auditors' remuneration (see below)	327	374
Movement in provision for bad debts (Note 16)	193	180
Operating lease rental	11,929	7,244
Exceptional operating items (note 6)	8,946	2,638

Remuneration payable to the company's auditors (PricewaterhouseCoopers LLP):	2018	2017
	£'000	£'000
Fees payable to Company's auditors for the parent Company and consolidated financial statements	80	102
Fees payable to the Company's auditors for other services		
– The audit of Company's subsidiaries	196	168
– Advisory services (due diligence and VAT advice)	51	104
	327	374

6. Exceptional operating items

	2018	2017
	£'000	£'000
Acquisition costs	-	2,638
Impairment losses	8,946	-
	8,946	2,638

Circle Health Holdings Limited

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

6. Exceptional operating items (continued)

The exceptional costs from 2017 relate to the acquisition of Circle Holdings plc.

The exceptional costs from 2018 relate to impairment costs pertaining to intangible assets and goodwill recognised as a result of the contract to run the Nottingham NHS Treatment Centre ending on 28 July 2019. For more details see notes 12, 13 and 30.

7. Employees

Staff costs	2018	2017
	£'000	£'000
Wages and salaries	34,725	21,653
Social security costs	3,212	2,017
Other pension costs (note 23)	1,717	1,008
	39,654	24,678

Monthly average number of employees	2018	2017
	Number	Number
Administrative	586	586
Clinical	633	628
	1,219	1,214

8. Directors' emoluments

The Directors' emoluments were as follows:

	2018	2017
	£'000	£'000
Total salary and other benefits	693	437
Company pension contributions to defined contribution scheme	34	40
Aggregate emoluments	727	477

Directors' emoluments relate to the Non-Executive and Executive Directors, who are remunerated by Circle Health Holdings Limited and Circle Health Limited.

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

Circle Health Holdings Limited

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

8. Directors' emoluments (continued)

Emoluments disclosed include the following amounts paid to the highest paid director:

	2018 £'000	2017 £'000
Total salary and other benefits	366	251
Company pension contributions to defined contribution scheme	10	11
Highest director aggregate emoluments	<u>376</u>	<u>262</u>

The Directors of the company are also directors or officers of a number of other companies within the ultimate parent group (the Group), and are remunerated in respect of services provided to the Circle Health Holdings Group. The Directors do not consider the time spent on dealing with individual company's matters to be material and therefore have not sought to separate out their costs in respect of services to each individual company in the Circle Health Holdings Group. The amounts disclosed above are the Directors' total emoluments as per their employment contracts.

9. Finance costs

	2018 £'000	2017 £'000
Finance lease interest	164	170
Other bank charges	50	30
	<u>214</u>	<u>200</u>

10. Finance income

	2018 £'000	2017 £'000
Bank interest receivable	15	50
	<u>15</u>	<u>50</u>

Circle Health Holdings Limited

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

11. Corporation tax

Tax credit included in profit or loss

	2018	2017
	£'000	£'000
Current tax		
UK corporation tax on loss	-	-
Deferred tax		
Originating and reversal of timing differences	1,555	309
Income tax credit on loss for the year	1,555	309

Factors affecting the current tax credit for the year

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

	2018	2017
	£'000	£'000
Loss before taxation	(12,638)	(6,464)
Loss before taxation multiplied by the rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(2,401)	(1,244)
Effects of:		
Expenses not deductible for tax purposes	561	609
Tax rate changes	95	-
Movement in deferred tax not recognised	190	326
Total income tax credit for the year	(1,555)	(309)

Circle Health Holdings Limited

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

11. Corporation tax (continued)

Factors that may affect future tax charges

The following tax rates had been substantively enacted at the balance sheet date and their effects have been included in these financial statements: 19.00% effective from 1 April 2017, reducing to 17.00% effective from 1 April 2020.

The rate change may affect future tax charges. In addition the utilisation of any tax losses and temporary differences for which no deferred tax asset has been recognised may also affect future tax charges. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Deferred Taxation

Deferred tax has been calculated at the rates of tax at which assets/liabilities are expected to reverse, based on enacted tax rates. The net deferred tax recognised in the balance sheet is as follows:

	2018 £'000	2017 £'000
Balance at 1 January	4,418	-
Recognised during the year	-	4,727
Deferred Tax Credit to Income	(1,555)	(309)
Balance at 31 December	2,863	4,418

A deferred tax liability of £4,727,000 was recognised on acquisition of the intangible assets identified on the acquisition of Circle Holdings Limited (previously named Circle Holdings plc). It was calculated at the rates of tax at which assets/liabilities are expected to reverse, based on enacted tax rates, and is reversed in line with the impairment and/or amortisation of the intangible assets.

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
Tax losses carried forward	26,047	153,215	25,279	148,701
Deductible temporary differences – fixed assets	2,606	15,330	2,710	15,941
	28,653	168,545	27,989	164,642

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

Circle Health Holdings Limited

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

12. Intangible assets

The amortisation charge for the year is included within the Consolidated Statement of Comprehensive Income within administrative expenses before exceptional items.

Cost	Circle Brand £'000	Contracts £'000	Software £'000	Total £'000
As at 30 December 2016	-	-	-	-
Acquisitions	16,800	10,200	2,552	29,552
Additions	-	-	33	33
As at 31 December 2017	16,800	10,200	2,585	29,585
Impairment	(1,200)	(6,600)	-	(7,800)
As at 31 December 2018	15,600	3,600	2,585	21,785

Accumulated amortisation and impairment	Circle Brand £'000	Contracts £'000	Software £'000	Total £'000
As at 30 December 2016	-	-	-	-
Acquisitions	-	-	2,032	2,032
Amortisation charge for the period	933	756	79	1,768
Disposals	-	-	-	-
As at 31 December 2017	933	756	2,111	3,800
Amortisation charge for the year	1,120	1,133	89	2,342
Impairment	(147)	(1,222)	-	(1,369)
As at 31 December 2018	1,906	667	2,200	4,773

Net book amount				
At 31 December 2017	15,867	9,444	474	25,785
At 31 December 2018	13,694	2,933	385	17,012

Circle Health Holdings Limited

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

12. Intangible assets (continued)

Intangible assets that are subject to amortisation are considered for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Contracts

Circle holds several contracts with a number of CCGs which allow the Company to provide specific clinical services. These comprise a contract with the Nottingham CCG which allows Circle to operate the Nottingham Treatment Centre on behalf of the NHS, as well as contracts with the Bedfordshire and Greenwich CCGs to provide adult Musculoskeletal ("MSK") treatment and rehabilitation services, also on behalf of the NHS.

The contracts attract significant value given the exclusivity they provide Circle with regard to service provision, and the potential profitability associated with operating them.

The value of these contracts is amortised over 9 years from April 2017, the date that they were acquired, which represents the estimated remaining economic useful life of the contracts.

As a result of the contract to operate the Nottingham NHS Treatment Centre ending on 28 July 2019, the intangible asset relating to that contract has been fully impaired. This reduces the cost of Contracts by £6,600k and the accumulated amortisation by £1,222k.

Circle Brand

Circle has a well-known and respected brand in the areas where it operates hospitals. It is also known across the UK in the healthcare industry among consultants and suppliers.

The value of these contracts is amortised over 15 years from April 2017, which represents the estimated remaining economic useful life of the brand.

The value of the Circle brand is apportioned across the different cash generating units (CGUs) of the Group. As a result of the contract to operate the Nottingham NHS Treatment Centre ending on 28 July 2019, the value of the Circle brand that had been apportioned to the Circle Nottingham Limited CGU has been fully impaired. This reduces the cost of the Circle brand by £1,200k and the accumulated amortisation by £147k.

Computer Software

Computer software represents third party costs incurred in relation to the Group's information technology systems.

Assets held under finance lease have the following net book amounts:

	2018 £'000	2017 £'000
Software	-	45
	<u>-</u>	<u>45</u>

Circle Health Holdings Limited

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

13. Goodwill

	Goodwill £'000
Additions	32,528
Net Book Value as at 31 December 2017	32,528
Impairment	(2,515)
Net Book Value as at 31 December 2018	30,013

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. The recoverable amounts of all cash generating units (CGUs) are determined based on value in use calculations, using discounted pre-tax cash flow projections based on management approved financial forecasts for the period of the contract. The key assumptions for these forecasts are those relating to revenue growth and decline, based on past experience and expectations of future changes in relevant CGUs. The Group prepares cash flow forecasts derived from the most recent financial plans approved by management for the period of the contract.

The time period over which management has projected cash flows varies based on each CGU, based on the financial plans approved by management. This takes into consideration contract lengths. Any projections for future years beyond the period in financial plans approved by management are extrapolated at a growth rate of 2% based on past experience and future expectations. The discount rate used is 9%, which is the estimated weighted average cost of capital for the Group. The financial plans reflect past experience and incorporate assumptions in terms of volumes, the mix of patient treatments and tariff changes.

The Group has conducted a sensitivity analysis on the carrying value of each of the CGU's. There are no reasonably possible changes in the key assumptions that could cause the carrying value of the MSK CGU to exceed its recoverable amounts. A fall in the aforementioned growth rate to 1.5% or lower would result in the need for impairment of the goodwill relating to the private hospitals CGU, as would an increase in the discount rate to 10.1% or higher.

As a result of the contract to operate the Nottingham NHS Treatment Centre ending on 28 July 2019, the goodwill relating to that contract has been fully impaired. This reduces overall goodwill by £2,515k.

Based on the result of the value in use calculations undertaken, the Directors conclude that the recoverable amount in the MSK and private hospitals CGUs exceed their carrying value.

Allocation of Goodwill to each CGU

	2018 £'000	2017 £'000
Private hospitals	29,223	29,223
Nottingham	-	2,515
MSK businesses	790	790
	30,013	32,528

Circle Health Holdings Limited

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

13. Goodwill (continued)

Goodwill has been allocated to each CGU based on an implied purchase price for each CGU during the acquisition by Circle Health Holdings Limited, and the net assets held by each CGU at that time. A discounted cash flow approach was used to assist in allocating the purchase price to those CGUs.

14. Property, plant and equipment

Cost	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
Acquisitions	-	3,486	11,545	7,749	22,780
Additions	987	207	184	222	1,600
Disposals	-	-	(5,221)	(564)	(5,785)
At 31 December 2017 and 1 January 2018	987	3,693	6,508	7,407	18,595
Additions	1,136	43	696	597	2,472
Disposals	(1,506)	-	(241)	(1,247)	(2,994)
At 31 December 2018	617	3,736	6,963	6,757	18,073

Accumulated depreciation	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
Acquisitions	-	2,418	9,332	4,790	16,540
Depreciation charge for the year	-	122	1,135	399	1,656
Disposals	-	-	(5,038)	(433)	(5,471)
At 31 December 2017 and 1 January 2018	-	2,540	5,429	4,756	12,725
Depreciation charge for the year	-	193	821	598	1,612
Disposals	-	-	(241)	(1,255)	(1,496)
At 31 December 2018	-	2,733	6,009	4,099	12,841

Net book amount					
At 31 December 2017	987	1,153	1,079	2,651	5,870
At 31 December 2018	617	1,003	954	2,658	5,232

Circle Health Holdings Limited

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

14. Property, plant and equipment (continued)

Assets held under finance leases have the following net book amounts:

	2018 £'000	2017 £'000
Clinical equipment	589	964
Furniture, fittings and office equipment	-	18
	<u>589</u>	<u>982</u>

The depreciation charge for the year is included in the income statement within administrative expenses (note 5).

15. Inventories

	2018 £'000	2017 £'000
Consumables	<u>1,784</u>	<u>1,951</u>

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

At 31 December 2018, an amount of £nil (2017: £nil) has been provided against the gross cost of inventories. The cost of inventories recognised as an expense in the year is £13,676k (2017: £9,218k).

At 31 December 2018, the consignment stock which is held off balance sheet amounted to £1,329k (2017: £1,752k).

16. Trade and other receivables

	Current 2018 £'000	Current 2017 £'000	Non- Current 2018 £'000	Non- Current 2017 £'000
Trade receivables	9,088	7,894	-	-
Less: provision for impairment	(647)	(454)	-	-
Net trade receivables	<u>8,441</u>	<u>7,440</u>	-	-
Prepayments and accrued income	3,431	3,556	-	-
Other receivables	654	1,390	2,500	2,500
	<u>12,526</u>	<u>12,386</u>	<u>2,500</u>	<u>2,500</u>

Circle Health Holdings Limited

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

16. Trade and other receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 £'000	2017 £'000
At 1 January	454	-
Increase in the year	193	454
At 31 December	<u>647</u>	<u>454</u>

At 31 December, the ageing analysis of trade receivables was as follows:

	2018 £'000	2017 £'000
Not past due	3,485	531
Past due 0-30 days, but not impaired	3,092	2,411
Past due 31-60 days but not impaired	968	714
Past due by more than 60 days but not impaired	896	3,784
	<u>8,441</u>	<u>7,440</u>

Trade receivables are non-interest bearing and credit terms are generally 30 days. The above receivables are not impaired because management believe they are fully recoverable.

As per IFRS 9, the Group follows the simplified approach to calculating a loss allowance for trade and other receivables.

Each site uses a formula to calculate the expected credit loss. Trade receivables have been grouped based on shared characteristics (e.g. payer type). This weighting is used as it reflects the risk of credit risk, as this risk increases when the age increases.

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

Circle Health Holdings Limited

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

17. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash and cash equivalents	<u>14,033</u>	<u>16,215</u>

The Directors consider the carrying amount of cash and cash equivalents approximate to their fair value. There is no restricted cash (2017: nil).

18. Trade and other payables

	Current 2018 £'000	Current 2017 £'000	Non- Current 2018 £'000	Non- Current 2017 £'000
Trade payables	10,814	6,057	-	-
Deferred income	2,360	269	-	-
Accruals	7,599	15,234	1,686	1,789
Social security and other taxation	472	1,285	-	-
Deferred Tax Liability	-	-	2,863	4,418
	<u>21,245</u>	<u>22,845</u>	<u>4,549</u>	<u>6,207</u>

Trade payables, accruals and amounts owed to other parties are unsecured and interest-free.

The Directors consider the carrying amount of trade and other payables approximate to their fair value. Long-term payables have been discounted where the time value of money is considered to be material.

19. Contingent liabilities

In the event of Shanghai Circle Harmony Hospital Management Limited being unable to pay its liabilities, there is a commitment by Circle Harmony Health Limited and Deep Sea Capital to fund capital contributions up to a maximum of \$300k USD each.

Circle Health Holdings Limited

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

20. Loans and other borrowings

The future minimum lease payments are as follows:

	Current 2018 £'000	Current 2017 £'000	Non- Current 2018 £'000	Non- Current 2017 £'000
Secured finance leases (i)	745	947	1,097	1,707
Loan Notes (ii)	-	-	-	71,844
Other loans (iii)	-	-	995	-
	<u>745</u>	<u>947</u>	<u>2,092</u>	<u>73,551</u>

i. Finance leases

Finance leases comprise various lease agreements with Close Leasing Limited, Shawbrook Bank Limited and GE Capital Equipment Finance Limited to finance the purchase of Information Technology ('IT') assets, fixtures, fittings and furniture and medical equipment.

Gross finance lease liabilities - minimum lease payments	2018 £'000	2017 £'000
Falling due:		
- No later than 1 year	864	1,101
- Later than 1 year and no later than 5 years	1,238	1,913
- Later than 5 years	-	-
	<u>2,102</u>	<u>3,014</u>
Future finance charges on finance leases	(260)	(360)
	<u>1,842</u>	<u>2,654</u>

The breakdown of the present value of finance leases is as follows:

	2018 £'000	2017 £'000
Falling due:		
No later than 1 year	745	947
Later than 1 year and no later than 5 years	1,097	1,707
Later than 5 years	-	-
	<u>1,842</u>	<u>2,654</u>

Circle Health Holdings Limited

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

20. Loans and other borrowings (continued)

ii. Loan notes

On 28 March 2017 the Company issued 66,292,309 Rollover Loan Notes at a nominal value of £0.30 each and 193,143,297 Subscription Loan Notes also at a nominal value of £0.30 each.

On 25 April 2017 the loan notes were transferred to the shareholders of the Company.

At 31 December 2017 the balance outstanding was:

	Number	£'000
Subscription Loan Notes	173,187,999	51,956
Rollover Loan Notes	66,292,309	19,888
	<u>239,480,308</u>	<u>71,844</u>

All of the loan notes were converted into equity in October 2018. The new equity that was issued that relates to the loan note conversion is as follows: 80,000 ordinary class A shares for a total consideration of £3,194,100; 10,000 ordinary class B shares for a total consideration of £399,260; 1,900,000 preference shares with a total consideration of £68,273,900.

The par value for each type of shares issued was £0.01

The par value of shares issued was £20k, with the balance of £71,824k being treated as share premium.

iii. Other loans

This balance is the loan provided by VAMED Management und Services GmbH to Circle Rehabilitation Services Limited.

Circle Health Holdings Limited

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

20. Loans and other borrowings (continued)

Maturity profile

Under the terms, the amounts fall due as follows:

2018	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years £'000	Total £'000
Finance leases	745	409	376	312	1,842
	<u>745</u>	<u>409</u>	<u>376</u>	<u>312</u>	<u>1,842</u>
2017	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years £'000	Total £'000
Finance leases	947	613	433	661	2,654
Loan Notes	-	-	-	71,844	71,844
	<u>947</u>	<u>613</u>	<u>433</u>	<u>72,505</u>	<u>74,498</u>

21. Share Capital and Share Premium

Authorised

	2018 £'000	2017 £'000
Ordinary shares (Class A Ordinary Shares) of £0.01 each	1	-
Ordinary shares (Class B Ordinary Shares) of £0.01 each	-	-
Ordinary shares (Class C Ordinary Shares) of £0.01 each	-	-
	<u>1</u>	<u>-</u>

Allotted and fully paid up

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class A shares:					
At 1 January 2018	0.01	10,000	-	-	-
Shares issued	0.01	80,000	1	3,193	3,194
At 31 December 2018		<u>90,000</u>	<u>1</u>	<u>3,193</u>	<u>3,194</u>

Circle Health Holdings Limited

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

21. Share Capital and Share Premium (continued)

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class B shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	10,000	-	399	399
At 31 December 2018		10,000	-	399	399

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class C shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	750	-	-	-
At 31 December 2018		750	-	-	-

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Preference shares:					
At 1 January 2018	0.01	-	-	-	-
Shares issued	0.01	1,900,000	19	68,255	68,274
At 31 December 2018		1,900,000	19	68,255	68,274

Share Classes A and B have equal voting rights. For every one share held each shareholder receives one vote. Holders of both Class A and B shares have equal ranking to participate in the Group's distribution of profits in the form of dividends.

Both Class C and Preference shares do not carry any voting rights and holders of such shares are not entitled to participate in the Group's distribution of profits.

If the Group were to be wound-up, then the priority of the distribution of available retained earnings will take place as follows:

1. Holders of preference shares up to the liquidation preference value of outstanding preference.
2. The remaining proceeds are split 90:10 between the holders of Class A shares and the holders of Class B shares, up to £235m, which then varies after certain value hurdles.

Circle Health Holdings Limited

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

22. Capital commitments

At 31 December 2018, the Group had no capital commitments (2017: £Nil).

23. Pension commitments

The Group participates in two personal defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The contributions by the Group for the year were £1,592k (2017: £1,008k). As at 31 December 2018 there were £133k of outstanding contributions (2017: £132k).

24. Operating lease commitments

The Group has entered into various non-cancellable operating leases of equipment, land and buildings with varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Plant and machinery	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
No later than 1 year	10,346	10,167	75	208
Later than 1 year and no later than 5 years	36,970	35,327	-	-
Later than 5 years	117,284	125,890	-	-
	<u>164,600</u>	<u>171,384</u>	<u>75</u>	<u>208</u>

Circle Health Holdings Limited

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

25. Net cash outflow from operating activities

	2018	2017
	£'000	£'000
Loss before taxation	(12,638)	(6,464)
Exceptional operating items (note 6)	8,946	-
Finance costs (note 9)	214	200
Finance income (note 10)	(15)	(50)
Amortisation of intangible assets (note 12)	2,342	1,768
Depreciation of property, plant and equipment (note 14)	1,612	1,655
Movements in working capital:		
– Decrease/(increase) in inventories	167	(247)
– (Increase)/decrease in trade and other receivables	(139)	10,702
– (Decrease) in trade and other payables	(1,689)	(12,319)
Net cash outflow from operating activities	(1,200)	(4,755)

Circle Health Holdings Limited

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

26. Reconciliation and analysis of net debt

	2018 £'000	2017 £'000
(Decrease)/Increase in unrestricted cash in the year	(2,182)	16,215
Issuing of new finance lease	(241)	(819)
Repayment of finance lease	818	1,398
Proceeds from borrowing	(758)	(51,956)
Movement in net debt from cash flow	(2,363)	(35,162)
Other non-cash movements	51,956	-
Movement in net debt	49,593	(35,162)
Net debt at 1 January	(35,162)	-
Net debt at 31 December	(14,431)	(35,162)

2018	At 1 January £'000	Cash flow £'000	Other non- cash movements £'000	At 31 December 2018 £'000
Liquid resources				
Unrestricted cash	16,215	(2,182)	-	14,033
Debt due within one year	579	577	-	1,156
Debt due after one year	(51,956)	(758)	51,956	(758)
Net debt	(35,162)	(2,363)	51,956	(14,431)
2017	At 1 January £'000	Cash flow £'000	Other non- cash movements £'000	At 31 December 2017 £'000
Liquid resources				
Unrestricted cash	-	16,215	-	16,215
Debt due within one year	-	579	-	579
Debt due after one year	-	(51,956)	-	(51,956)
Net debt	-	(35,162)	-	(35,162)

Circle Health Holdings Limited

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

27. Financial risk management

I. Financial risk factors

The Group's operations expose it to a variety of financial risks that include market risk (including interest rate risk and price risk), credit risk, liquidity risk and capital risk. The Group seeks to limit the adverse effects of these risks by monitoring levels of debt finance and the related finance costs, and by matching the risks of the financing with the risks and return profiles of the assets. The risks are monitored by management throughout the year via monthly reviews of operational performance, cash flows, and levels of individual debt instruments and overall debt levels.

Classes of financial instruments

The Group's financial instruments comprise financial assets such as cash, short-term deposits, trade and other receivables, and financial liabilities such as bank loans, loan notes, and trade and other payables. In addition, the Group was party to interest rate swaps to manage the Group's interest rate risks arising from the Group's sources of finance.

IFRS 9 was first applied on 1 January 2018. On this date, the carrying value financial assets and financial liabilities under IAS 39 were as follows.

As at 1 January 2018	Loans and receivables £'000	Amortised cost £'000	Total £'000
Financial assets			
Trade and other receivables (note 16)	8,830	-	8,830
Cash and cash equivalents (note 17)	16,215	-	16,215
Total financial assets	25,045	-	25,045
Financial liabilities			
Trade and other payables (note 19)	-	(6,057)	(6,057)
Finance lease liabilities (note 20)	-	(2,654)	(2,654)
Total financial liabilities	-	(8,711)	(8,711)

Circle Health Holdings Limited

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

27. Financial risk management (continued)

Classes of financial instruments (continued)

There were no changes in carrying amounts on measurement on transition to IFRS9.

The classification requirements of IFRS9 have been applied, and result in the following classification of financial assets and financial liabilities.

As at 31 December 2018	Fair value through other comprehensive income £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total £'000
Financial assets				
Trade and other receivables (note 16)	-	-	14,346	14,346
Cash and cash equivalents (note 17)	-	-	14,033	14,033
Total financial assets	-	-	28,379	28,379
Financial liabilities				
Trade and other payables (note 19)	-	-	(11,286)	(11,286)
Finance lease liabilities (note 20)	-	-	(1,842)	(1,842)
Total financial liabilities	-	-	(13,128)	(13,128)

a) Market risk

Market risk is the risk that changes in market prices, such as interest rates or other price risks, will affect the income from or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

The Group is primarily impacted by interest rate risk and other price risks which are outlined below:

1) Interest rate risk

Financial instruments affected by interest rate risk include short-term deposits. The Group is primarily sensitive to changes in UK interest rates. This affects future cash flows from short-term cash deposits held.

Circle Health Holdings Limited

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

27. Financial risk management (continued)

1) Interest rate risk (continued)

The following table summarises the fixed and variable rate loans:

	Fixed £'000
At 31 December 2018	
Loans and other borrowings	<u>2,837</u>
	Fixed £'000
At 31 December 2017	
Loans and other borrowings	<u>74,498</u>

2) Other price risks

The Group has a number of long-term contracts containing fixed indexation provisions. The Group generally seeks to price contracts at levels that take account of increasing prices. As the volume of private patients is anticipated to increase, the Group will be increasingly subject to pricing changes from private insurance companies.

The Bedford and Greenwich MSK contracts operate under a capped revenue budget. The underlying principle assumes that the service can be run more efficiently, improving the patient experience and reducing operational costs. Nevertheless, the Group bears the risk of rising operational costs as the baseline revenue is fixed subject to local demographic or service portfolio changes.

b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash deposits, with their maximum exposure being represented by their carrying amount.

The Group has policies with customers that require upfront payment, where appropriate. Credit control procedures are designed to ensure that invoiced revenue is collected according to agreed terms, that policies exist to limit exposure to any one party and ensure approved credit limits are reviewed regularly. These all help to eliminate significant concentrations of credit risk.

Most revenues arise from insured patients' business and the NHS. Insured patients give rise to trade receivables which are mainly due from large insurance institutions, who have high credit worthiness. The remainder of revenues arise from individual self-pay patients.

In accordance with IFRS9, an expected credit loss model is used to calculate the provision for impairment. This expected credit loss takes into consideration the age of debtor balances, and the characteristics of the debtor. Credit risk management services are designed to try and reduce the expected credit loss to a minimum.

When utilising bank accounts and cash deposits, the Group transacts with counterparties who have sound credit profiles. Such counterparties are primarily large, highly rated financial institutions. In relation to financial institutions, the Group allocates a credit limit based on external credit ratings. The counterparty's

Circle Health Holdings Limited

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

27. Financial risk management (continued)

b) Credit risk (continued)

total outstanding transactions with the Group including bank accounts and cash deposits must not exceed limits agreed by the Board of Directors.

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's approach to liquidity is to manage short and long-term borrowings to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risk damaging the Group's reputation.

This is achieved by robustly managing cash generation across its operations, by applying cash collection targets throughout the Group and by managing liquidity risk via long-term debt and equity funding from shareholders.

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contract maturity date. The amounts included in the table are the contractual undiscounted cash flows:

	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
At 31 December 2018						
Trade and other payables	(10,814)	-	-	-	-	-
Finance Lease	(745)	(433)	(469)	(455)	-	-
Net outflows	(11,559)	(433)	(469)	(455)	-	-
	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
At 31 December 2017						
Trade and other payables	(6,057)	-	-	-	-	-
Finance Lease	(1,101)	(676)	(522)	(487)	(226)	-
Net outflows	(7,158)	(676)	(522)	(487)	(226)	-

d) Capital risk

The primary objective of the Group's management of debt and equity is to ensure the continued growth of the business, including the financing of new hospitals, equipment and start-up costs, including Head Office overheads, in order to provide returns for the Group shareholders and other stakeholders. The Group raises financing when needed through a combination of equity and debt.

Objectives are set out at the beginning of each year, in line with the imposed requirements and covenants of the shareholder agreements. Covenants on the Circle Hospital (Bath) Limited property lease with its landlord Medical Properties Trust ('MPT'), are tested monthly. No long-term debt exists anywhere in the Group.

Circle Health Holdings Limited

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

28. Related party transactions

Subsidiaries

Details of the investments in which the parent holds 20.00% or more of the nominal value of any class of share capital and quasi subsidiaries are as follows:

	Proportion of voting rights held	Registered office	Nature of business
Circle International plc	100%		Holding
Circle Health Limited	100%		Holding and management
Nations Healthcare Limited	100%		Holding
Circle Nottingham Limited	100%		Medical practice services
Circle Hospital (Bath) Limited	100%	32 Welbeck Street, London, W1G 8EU	Medical practice services
Circle Hospital (Reading) Limited	100%		Medical practice services
Circle Clinical Solutions Limited	100%		Medical practice services
Circle Birmingham Limited	100%		Medical practice services
Circle Rehabilitation Services Limited	80.1%		Medical practice services
Health Properties Limited	100%		Holding
Health Properties (South Manchester) Limited	100%	12 Castle Street, St. Helier, Jersey, Channel Islands, JE2 3RT	Property ownership and development
Circle Holdings Limited *	100%		Holding
Circle Harmony Health Limited	50%	Rm 905-906, 9/F Houston Ctr, 63 Mody Road, TST, KLN, Hong Kong	Management services
Shanghai Circle Harmony Hospital Management Limited	50%	Rm1145, 11/F, Carlton Bldg, No.21 Huanghe Road, Huangpu District, Shanghai	Management services
Circle Partnership Limited	100%	Nemours Chambers PO BOX 3170 Road Town, Tortola, Virgin Islands, British	Former employee share ownership plan

* Circle Holdings Limited (company number FC030337) has a UK establishment titled Circle Holdings (UK) Limited.

All companies listed above (with the exception of Circle Partnership Limited) are currently active. Circle Partnership Limited is currently dormant.

Circle Health Holdings Limited

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

28. Related party transactions (continued)

Trading transactions

Circle Rehabilitation Services Limited is a UK joint venture company between Circle Health Limited and VAMED Management Und Services GmbH, and forms part of a group whose ultimate parent company is Circle Health Holdings Limited (the 'Circle Health Holdings Group'). Related party transactions and balances with Circle Health Limited, VAMED Management Und Services GmbH and other companies within the Circle and VAMED groups are disclosed below.

2018

	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
	£'000	£'000	£'000	£'000
VAMED Management und Services GmbH	-	739	-	1,035

2017

	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
	£'000	£'000	£'000	£'000
VAMED Management und Services GmbH	-	610	-	420
VAMED Standortentwicklung Und Engineering GmbH	-	388	-	-

Purchases from VAMED Management Und Services GmbH relate to consultancy fees and management fees. The payment terms are standard payment terms. A loan of £995k (2017: £237k) is included within the amounts owed to VAMED Management Und Services GmbH.

The following are related parties by virtue of their significant shareholding. Notes 20 and 21 provide further details:

	% shareholding
Tosca Penta Healthco LP	37.6%
Tosca Penta Healthco II LP	24.9%
Tosca Penta Healthco III LP	27.5%

Other than the above and the equity transactions and loan notes detailed in notes 20 and 21, there have been no transactions with these related parties.

Circle Health Holdings Limited

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

29. Impact of changes in Accounting Policy

As disclosed in note 2, management have assessed that there is no material impact of the Group adopting IFRS 9 and IFRS 15 during the financial year ending 31 December 2018.

IFRS 16 is to be introduced for the year beginning 1 January 2019. Circle have decided to follow the modified retrospective approach. This means that we will start following IFRS 16 from the beginning of 2019, and we will not restate prior period financial information.

IFRS 16 allows leases with short terms (a year or less) or low values not to be brought on to the balance sheet. Circle will not be bringing short term leases on to the balance sheet for most asset categories. The decision as to whether to bring low value leases on to the balance sheet can be done on a lease by lease basis, but with a general policy to be followed.

Management have estimated that the adoption IFRS 16 will have the following impact on the 1 January 2019 balance sheet compared to the 31 December 2018 closing balances. The impact is significant as a result of the long leases held on high-quality private hospitals.

Underlying asset category	Right-of-Use Asset £'000	Short-term liabilities £'000	Long-term liabilities £'000
Land and Buildings	114,750	(4,959)	(109,791)
Clinical Equipment	248	(180)	(68)
Total	114,998	(5,139)	(109,859)

The anticipated impact on the financial results of the Group in 2019 is as follows:

Underlying asset category	Cash outflow (2019 P&L treatment prior to IFRS 16) £'000	2019 IFRS16 depreciation of right-of-use assets £'000	2019 IFRS16 finance charge £'000	Total 2019 IFRS16 P&L impact £'000	Change in P&L impact £'000
Land and Buildings	10,205	8,865	5,246	14,111	3,906
Clinical Equipment	185	182	5	187	2
Total	10,390	9,047	5,251	14,298	3,908

The key judgement involved in the creation of this estimate is the incremental borrowing rate used to discount future cash flows. Circle have received independent advice on the discount rate.

There are no significant short term leases for which Circle will be taken the exemption not to bring on to the balance sheet. There are insignificant levels of expenses relating to low value assets which are not being brought on to the balance sheet.

The opening of Birmingham hospital and Birmingham Rehabilitation centre will result in an increase in the right-of-use assets recognised, as well as the corresponding lease liabilities, depreciation and finance charge.

Circle Health Holdings Limited

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

30. 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 current contract expires 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 and 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 current contract expires at the end of July 2019.

Circle have an ongoing legal challenge against the contract award which is expected to be heard at trial later this year.

31. 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.

The ultimate controlling parties are three shareholders - Tosca Penta Healthco LP, Tosca Penta Healthco II LP and Tosca Penta Healthco III LP – which jointly own 90% of the share capital of Circle Health Holdings Limited. These three shareholders are Scottish Limited partnerships.

Circle Health Holdings Limited

Company Statement of Financial Position as at 31 December 2018

	Note	2018	2017 £'000
Fixed assets			
Investments	7	75,211	75,211
Current assets			
Debtors	9	47	43
Cash at bank and in hand		-	-
		<u>47</u>	<u>43</u>
Creditors - amounts falling due within one year	10	(734)	(154)
Net current assets		(687)	(111)
Total assets less current liabilities		74,524	75,100
Creditors: amounts falling due after more than one year		-	(71,843)
Net assets		74,524	3,257
Capital and reserves			
Share capital	11	20	-
Share premium	11	71,847	-
Profit and loss account	12	2,657	3,257
Total shareholders' funds		74,524	3,257

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements.

The financial statements on pages 56 to 65 were approved by the Board of Directors on 22 July 2019 and were signed on its behalf by:



Paolo Pieri

Chief Executive Officer

Circle Health Holdings Limited

Circle Health Holdings Limited

Company Statement of Changes in Equity for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Retained deficit £'000	Total equity £'000
At 30 December 2016	-	-	-	-
Loss and total comprehensive loss for the year	-	-	3,257	3,257
At 31 December 2017 and 1 January 2018	-	-	3,257	3,257
Shares issued	20	71,847	-	71,867
Loss and total comprehensive loss for the year	-	-	(600)	(600)
At 31 December 2018	20	71,847	2,657	74,524

Circle Health Holdings Limited

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

1. Accounting policies

The entity's primary operation and business activity is to serve as the holding company for the Circle Group.

Basis of preparation

These financial statements are prepared for Circle Health Holdings Limited (the 'Company'), a private company limited by shares that is incorporated, registered and domiciled in England and Wales under The Companies Act 2006, for the year to 31 December 2018. The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). 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 Company financial statements present information about the Company as a separate entity and not about its Group.

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 adoption of IAS 18 Revenue.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements:

- 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)
- IAS 7, 'Statement of cash flows' and paragraph 10(d) of IAS 1 (statement of cash flows)
- 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.

Accounting convention

These financial statements have been prepared on a historical cost basis in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The company has not prepared a separate income statement and cash flow statement as it is not a requirement under Companies Act 2006.

Going concern

The Directors' consider it to be appropriate for the company financial statements to be prepared on a Going Concern basis based on the assumptions considered in the Directors' Report on page 9.

Investments

Investments in subsidiaries are valued at cost less provision for impairment. The carrying value of fixed asset investments is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Circle Health Holdings Limited

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

1. Accounting policies (continued)

Deferred tax

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 FRS 101.

2. Critical judgements and accounting estimates in applying the entity's accounting policies

In the process of applying the entity's accounting policies, the Directors make judgements and estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements and estimates that have the most significant effect on the amounts recognised in the entity's financial statements, and could have a material impact on the financial statements in the following year, include:

Critical judgements in applying the Group's accounting policies

There are not deemed to be any critical judgements in applying the entity's accounting policies.

Estimates

The key assumptions and estimates at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i Investments

Investments are recognised at cost less accumulated amortisation and impairment losses. The carrying amount of investments is assessed annually, and the useful lives of investments are considered to be indefinite. In the event that this estimate is inaccurate, the recoverable amount and consequently the carrying value of investments may be impacted.

3. Profit and loss

The result for the year is a loss of £600k (2017: £3,257k profit).

The Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own income statement in these financial statements.

4. Operating costs

The Company incurred £5k in relation to UK statutory audit fees for the year ended 31 December 2018 (2017: £5k).

5. Employees

Other than the Directors, the entity did not have any employees during the year (2017: nil), and therefore did not incur any staff costs during the year (2017: £nil).

Circle Health Holdings Limited

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

6. Directors' emoluments

Please refer to the Directors' emoluments note in the Circle Health Holdings Limited consolidated group financial statements.

7. Investments

Cost	£'000
At 30 December 2016	-
Additions	75,211
At 31 December 2017 & 31 December 2018	<u>75,211</u>
Net book amount at 31 December 2018	<u>75,211</u>

No provision for impairment of investments has been made for the year ended 31 December 2018 (2017: £Nil).

Circle Health Holdings Limited

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

7. Investments (continued)

No listed investments are included within the total investments.

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of Incorporation	Registered office
Circle International plc	Ordinary shares	Holding	100.0%	United Kingdom	
Circle Health Limited	Ordinary shares	Holding and management	100.0%	United Kingdom	
Nations Healthcare Limited	'A' Ordinary shares	Holding	100.0%	United Kingdom	
Nations Healthcare Limited	'C' Preference shares	Holding	n/a	United Kingdom	
Circle Nottingham Limited	Ordinary shares	Medical practice services	100.0%	United Kingdom	
Circle Hospital (Bath) Limited	Ordinary shares	Medical practice services	100.0%	United Kingdom	32 Welbeck Street, London, W1G 8EU
Circle Hospital (Reading) Limited	Ordinary shares	Medical practice services	100.0%	United Kingdom	
Circle Clinical Solutions Limited	Ordinary shares	Medical practice services	100.0%	United Kingdom	
Circle Birmingham Limited	Ordinary shares	Property development	100.0%	United Kingdom	
Circle Rehabilitation Services Limited	Ordinary shares	Medical practice services	80.1%	United Kingdom	
Health Properties (South Manchester) Limited	Ordinary shares	Property ownership and development	100.0%	Jersey	
Health Properties Limited	Ordinary shares	Holding	100.0%	Jersey	12 Castle Street, St. Helier, Jersey, Channel Islands, JE2 3RT
Circle Holdings Limited (Company number FC030337)	Ordinary shares	Holding	100.0%	Jersey	
Circle Partnership Limited	Ordinary shares	Former employee share ownership plan	100.0%	British Virgin Islands	Nemours Chambers PO BOX 3170 Road Town, Tortola, Virgin Islands, British
Circle Harmony Health Limited	Ordinary shares	Medical practice services	50.0%	China	Rm 905-906, 9/F Houston Ctr, 63 Mody Road, TST, KLN, Hong Kong
Shanghai Circle Harmony Hospital Management Limited	Ordinary shares	Medical practice services	50.0%	China	Rm 1145, 11/F, Carlton Bldg, No.21 Huanghe Road, Huangpu District, Shanghai

All companies listed above (with the exception of Circle Partnership Limited) are currently active. Circle Partnership Limited is currently dormant.

Circle Health Holdings Limited

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

8. Loan notes

On 28 March 2017 the Company issued 66,292,309 Rollover Loan Notes at a nominal value of £0.30 each and 193,143,297 Subscription Loan Notes also at a nominal value of £0.30 each.

On 25 April 2017 the loan notes were transferred to the shareholders of the company.

At 31 December 2017 the balance outstanding was:

	Number	£'000
Subscription Loan Notes	173,187,999	51,956
Rollover Loan Notes	66,292,309	19,888
	239,480,308	71,844

All of the loan notes were converted into equity during October 2018. The new equity that was issued that relates to the loan note conversion is as follows: 80,000 ordinary class A shares for a total consideration of £3,194,100; 10,000 ordinary class B shares for a total consideration of £399,260; 1,900,000 preference shares with a total consideration of £68,273,900.

The par value for each type of shares issued was £0.01.

The par value of shares issued was £20k, with the balance of £71,824k being treated as share premium.

9. Debtors

	Current 2018 £'000	Current 2017 £'000
Prepayments	21	21
Intercompany Debtors	26	22
	47	43

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

10. Creditors

	Current 2018 £'000	Current 2017 £'000
Trade and Other Creditors	9	-
Accruals	167	-
Intercompany Creditors	558	154
	734	154

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Circle Health Holdings Limited

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

11. Share capital and share premium

Authorised	2018 £'000	2017 £'000
Ordinary shares (Class A Ordinary Shares) of £0.01 each	1	-
Ordinary shares (Class B Ordinary Shares) of £0.01 each	-	-
Ordinary shares (Class C Ordinary Shares) of £0.01 each	-	-
	<u>1</u>	<u>-</u>

Allotted and fully paid up

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class A shares:					
At 1 January 2018	0.01	10,000	-	-	-
Shares issued	0.01	80,000	1	3,193	3,194
At 31 December 2018		<u>90,000</u>	<u>1</u>	<u>3,193</u>	<u>3,194</u>

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class B shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	10,000	-	399	399
At 31 December 2018		<u>10,000</u>	<u>-</u>	<u>399</u>	<u>399</u>

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Ordinary Class C shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	750	-	2	2
At 31 December 2018		<u>750</u>	<u>-</u>	<u>2</u>	<u>2</u>

Circle Health Holdings Limited

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

11. Share capital and share premium (continued)

Allotted and fully paid up (continued)

	Par value £	Shares (number)	Share capital £'000	Share premium £'000	Total £'000
Preference shares:					
At 1 January 2018	0.01	-	-	-	-
Shares issued	0.01	1,900,000	19	68,253	68,274
At 31 December 2018		1,900,000	19	68,253	68,274

12. Profit and loss account

	Profit and loss account £'000
At 30 December 2016	-
Profit for the financial year 2017	3,257
At 31 December 2017 & 1 January 2018	3,257
Loss for the financial year 2018	(600)
At 31 December 2018	2,657

13. Reconciliation of movements in shareholders' funds

	2018 £'000	2017 £'000
(Loss)/ profit for the financial year	(600)	3,257
Issue of shares	71,867	-
Net addition to shareholders' funds	71,267	3,257
Opening shareholders' funds	3,257	-
Closing shareholders' funds	74,524	3,257

Circle Health Holdings Limited

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

14. Related party transactions

Transactions with some group companies which are 100% owned by the Company are eligible for exemption from disclosure under IAS 24 'Related Party Disclosures' and have accordingly been excluded from the list of related party transactions.

The following are related parties by virtue of their significant shareholding.

	% shareholding
Tosca Penta Healthco LP	37.6%
Tosca Penta Healthco II LP	24.9%
Tosca Penta Healthco III LP	27.5%

Other than the above, there have been no transactions with these related parties.

15. 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.

The ultimate controlling parties are three shareholders - Tosca Penta Healthco LP, Tosca Penta Healthco II LP and Tosca Penta Healthco III LP – which jointly own 90% of the share capital of Circle Health Holdings Limited. These three shareholders are Scottish Limited partnerships.

16. 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 current contract expires 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 and 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 current contract expires at the end of July 2019.

Circle have an ongoing legal challenge against the contract award which is expected to be heard at trial later this year.