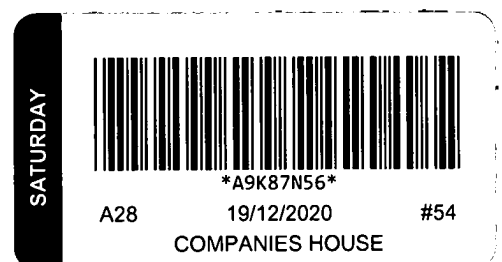


Circle Health Holdings Limited
Annual Report and Financial Statements
for the year to 31 December 2019

2019



Circle Health Holdings Limited

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Circle Health Holdings Limited

Company Information

Directors

Henry Davies
Lord Hutton of Furness
Brent Layton
Ashley Lewis
Torquil Macnaughton
Paul Manning
Paolo Pieri
Peter Sullivan

Company Secretary

Shane Cobb

Independent Auditors

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

Bankers

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

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1st Floor 30 Cannon Street
London
EC4M 6XH

Circle Health Holdings Limited

Strategic Report for the year ended 31 December 2019

The Directors present the Strategic Report and Annual Report and the audited financial statements for the Group for the year to 31 December 2019.

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 2019. 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 and Reading. The NHS contract to operate the Nottingham Treatment Centre ceased in July 2019. 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. The principal activities of the Group expanded on 8 January 2020 following the acquisition of GHG Healthcare Holdings Limited, as explained later in this report.

Business review

The Group's turnover from continuing operation was £102.9 million (2018 (restated): £100.7 million) for the year to 31 December 2019, growth of 2%. Self-pay revenue grew by 8% (2018: 30%) in the year with insured patients' revenue growing by 15% (2018: 12%).

The Nottingham Treatment Centre activity is shown as discontinued operations in this report and disclosed separately. This treatment centre earned revenue of £31.8 million in the seven months to its closure in July 2019 (2018: £54.9 million for 12 months) and profit after tax of £2.8 million (2018: £1.9 million for 12 months).

The Group also continued to seek further growth in 2020 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. During the year Circle Integrated Care won contracts to provide a dermatology service in Wolverhampton, and a musculoskeletal ('MSK') service in North Hampshire.

On 24 December 2019, the Group entered into share purchase agreements to acquire GHG Healthcare Holdings Limited, the holding company of the BMI Healthcare group ("BMI") (the "Transaction"). BMI operates 50 private hospitals around the UK and so this acquisition brings scale to the Group. The Group is committed to significant investment in people, equipment, technology, training and marketing in BMI to support its commitment to providing the highest standards of care for patients across the UK.

The Transaction completed on 8 January 2020 and therefore the Group has not consolidated the results of GHG Healthcare Holdings Limited during the year to 31 December 2019.

As a result of the Transaction the Competition and Markets Authority ("CMA") issued an Initial Enforcement Order (the "Order") requiring the operational business of the Group and BMI to remain separate until the CMA had reviewed the Transaction. On 23 June 2020 the Order was released in exchange for the undertaking by the Group to divest Circle Bath Hospital and Circle Birmingham Hospital (which has not been operationalised).

As part of the Transaction, the Group entered into new senior lending facilities. The new senior facilities agreement ("SFA") requires the Group to comply with certain financial covenants. Further details are given in the Going Concern assessment elsewhere in this report.

The SFA includes a senior term loan of £198m, a revolving credit facility of £30m (the "RCF") and a capex facility of £50m, of which £20m was drawn as part of the Transaction. Further details are provided in note 33.

Circle Health Holdings Limited

Strategic Report for the year ended 31 December 2019 (continued)

Results

Gross profit for the continuing operations of the Group improved from £29.5 million in 2018 (restated) to £30.8 million in 2019. This resulted in an operating loss, before exceptional items, of £4.1 million for the year (2018 (restated): loss of £7.9 million). The prior year operating loss was after operating lease rental costs in relation to land and buildings of £12.4 million. The equivalent charge in 2019 would have been £11.5 million, however on adoption of IFRS16 *Leasing* these operating lease rentals are no longer charged and were replaced by a depreciation charge of £8.4 million on the Right of Use asset and an interest charge of £5.1 million on the lease creditor. The impact of the adoption of IFRS16 was an improvement in the operating result of £3.1 million and a reduction in the result before tax of £2.0 million.

The loss after tax from continuing operations was £23.6 million (2018 (restated): loss of £15.5 million). This included £14.6 million of exceptional operating costs (2018: £8.9 million) which largely related to acquisition costs incurred in the year for the Transaction.

The net assets of the Group were £28.3 million (2018 (restated): £45.6 million), the decline as a result of the loss for the year offset by the issue of equity. Further equity was issued after the year-end as outlined in the non-adjusting events after the balance sheet date note.

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 continued to achieve high levels of patient satisfaction, with a similar average recommendation score to last year of 98.1% at our hospital sites in 2019 (2018: 98.2%).

Cash flow

Net cash inflows from operating activities totalled £3.1 million (2018: outflow of £1.4 million). The total cash balance at 31 December 2019 was £11.1 million (2018: £14.0 million).

Issue of new equity

During the year, new equity was issued in the form of Preference shares and Ordinary Class A shares. The new equity issued is as follows: 4,478 Ordinary Class A shares for a total consideration of £535k and 85,075 Preference shares for a total consideration of £3.0 million. After the year-end, additional equity was issued in the form of 3,617,780 preference shares for a consideration of £130.0 million.

Principal risks and uncertainties

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.

(a) Working capital risk

Working capital risk is the risk that the Group will encounter in the event of difficulty in meeting obligations associated with financial liabilities.

(b) Funding risk

Funding risk is the risk that the Group will be unable to obtain sufficient funding to pursue its growth plans and expansion opportunities.

The Group aims to mitigate these risks 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.

Circle Health Holdings Limited

Strategic Report for the year ended 31 December 2019 (continued)

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 experienced by the Group, along with a description, where relevant, of the mitigating actions in place.

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 mitigated these risks by focusing on its business model of delivering high quality care at the best value.

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.

Circle Health Holdings Limited

Strategic Report for the year ended 31 December 2019 (continued)

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.

Corporate Governance Statement (Section 172(1))

Under section 172 of the Companies Act 2006, directors of a company have a duty to promote the success of the company. Specifically, it requires the director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In performing their duties under section 172, the directors of the Company have had regard to the matters set out in section 172(1) as follows:

a) the likely consequences of any decision in the long term;

The Board has set long term strategic objectives for the Company focused on:

- clinical quality, patient experience and market leading reputation;
- attracting and retaining the best people;
- digital transformation to enable improved patient pathways, propositions and efficiency; and
- growth.

These pillars form the basis of a five-year plan which is monitored and update periodically. The strategy and plan supports decision making around capital investment and allows the board to forecast funding requirements, debt capacity and financing options that are required to deliver this. As described elsewhere in this report, in January 2020 the Group put in place new facilities, with maturities in 2026 and 2027, as part of the Transaction which will support the Company's investment plans.

In developing the strategy, the Directors also consider external factors such as the political, economic, regulatory, and competitive environment.

b) the interests of the company's employees;

The Directors understand the importance of the Group's employees to quality of care provided to patients, and so the long-term success of the business.

There is regular engagement with employees through a National Employee Engagement Forum, weekly staff newsletters, and annual staff surveys. Pay and benefits are assessed against the wider healthcare sector and in 2020 a salary benchmarking and pay review exercise was undertaken to bring clinical and other staff to competitive levels in the market.

c) the need to foster the company's business relationships with suppliers, customers and others;

The Board regularly reviews how the Group maintains positive relationships with all of its stakeholders including patients, consultants, suppliers and others.

Circle Health Holdings Limited

Strategic Report for the year ended 31 December 2019 (continued)

Patient satisfaction surveys are run by an independent third party and the Company also undertakes consultant surveys to gauge the views of the surgeons and other medical consultants practicing in our hospitals. The Board reviews the results of these surveys.

The Group's principal risks and uncertainties set out risks that can impact the long term success of the Group and how these risks interact with our stakeholders. The Directors actively seek information on the interaction with stakeholders to ensure that they have sufficient information to reach appropriate conclusions about the risks faced by the Group and how these are reflected within the long-term plans.

d) the impact of the company's operations on the community and the environment;

The Group is committed to a capital investment programme to grow the hospital estate and bring new medical and diagnostic capabilities to the hospitals. The capital project process considers the environmental impact and energy efficiency of programmes of work to monitor and improve this over time. The Group has achieved year on year improvements in energy efficiency.

e) the desirability of the company maintaining a reputation for high standards of business conduct

As a healthcare provider, the Directors believe that maintaining the reputation of the Company is critical for the future success. Clinical quality and governance is at the heart of the culture of the Company and receives significant focus at Board level. The Board is committed to high standards of business conduct.

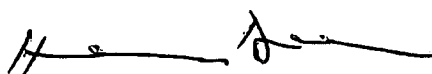
f) the need to act fairly as between members of the company

The Directors hold meetings with shareholders monthly and work together on setting the course for the long term future of the Group. The shareholders are committed to supporting the Group achieve high standards in clinical quality and business fundamentals to achieve longer term growth and success.

In discharging our section 172 duties we have regard to the factors set out in the statement above. To ensure stakeholder considerations are central to decision making, relevant documents relating to various stakeholder groups and matters are presented to the Board. In the decision making process we consider our strategies, along with our values, vision and purpose. Occasionally some decisions could adversely impact one or more stakeholder groups. However, at all times we aim to act in the best interests of the Group, all stakeholders and we will always aim to be reasonable in our decision making process.

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

On behalf of the Board:



Henry Davies

Chief Financial Officer

22 December 2020

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2019

The Directors present their Annual Report and the audited consolidated financial statements for the year to 31 December 2019 for the Group.

Directors

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

Henry Davies (appointed 21 August 2020)

Massoud Fouladi (resigned 21 August 2020)

Lord Hutton of Furness

Brent Layton

Benjamin Lloyd (appointed 29 March 2019, resigned 21 August 2020)

Paolo Pieri

Ashley Lewis

Torquil Macnaughton

Paul Manning (appointed 21 August 2020)

Peter Sullivan

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 2018: £nil)

Donations

The Group made £500 in donations during the year to charitable organisations within the UK (2018: £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 (2018: £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 lease commitments are paid by direct debit. At 31 December 2019, the Group had 25 (2018: 25) equivalent days of purchases outstanding and the Company had 2 (2018: 5) equivalent days of purchases outstanding.

At 31 December 2019, trade creditors in the Group and Company were £15.5 million and £60k, respectively (2018: £10.8 million and £9k respectively).

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2019 (continued)

Outlook

As a result of the delay to treatments caused by the Covid pandemic and continuing disruption to elective care, the demand for healthcare over the short and medium term is expected to be strong. Following the Transaction, the Group has a large hospital network, capacity and geographical footprint, which means it is well placed to deliver increased diagnostic, surgical and other treatment to patients in all geographies.

Pressures on clinical staffing availability are expected to continue in the medium term resulting in upward cost pressure in this area. The cost of Covid testing of patients and staff as well as increased costs of personal protective equipment ("PPE") has increased costs in the period since the year end and this is expected to continue in the short term as a necessary cost to keep our patients and staff safe.

The Transaction provides the Group with access to capital to continue the investment in the hospitals as well as developing new services to achieve growth in key markets. This includes opening a new 120 bed rehabilitation facility in Birmingham in September 2020.

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 5 to 7 of these financial statements.

Going Concern

Management of the Group have prepared covenant and liquidity forecasts for the purpose of the going concern review and have also applied various sensitivities. These forecasts reflect the latest views, taking into account the impact of Covid 19. These forecasts and sensitivities have been reviewed by the directors of the Company together with the underlying assumptions. The forecasts show that the Group will comply with its financial covenant throughout the forecast period with appropriate headroom. The forecasts also show that the Group has sufficient facilities to provide liquidity through the review period.

After making enquiries, including reviewing the forecasts and sensitivities, the directors have concluded that they have a reasonable expectation that the Group and the Company have adequate resources available to them, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Events after the Balance Sheet date

As set out elsewhere in this report, on 8 January 2020 the transaction to acquire GHG Healthcare Holdings Limited, the holding company of the BMI group, completed. As the Transaction completed after the balance sheet date, the Group has not consolidated the results of GHG Healthcare Holdings Limited group during the year to 31 December 2019.

As a result of the Transaction the CMA issued the Order requiring the operational business of the Group and BMI to remain separate until the CMA had reviewed the Transaction. On 23 June 2020 the Order was released as the undertaking by the Group to divest two hospitals was accepted by the CMA.

£130m of equity was raised to part fund the acquisition of GHG Healthcare Holdings Limited in the form of 3,617,780 preferences shares (and 100 C ordinary shares). Transaction costs of £3.8m, directly related to the raising of the equity, have been debited to the share premium account.

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2019 (continued)

As part of the Transaction, the Group entered into new senior lending facilities. The SFA includes a senior term loan of £198m, revolving credit facility of £30m (the "RCF") and a capex facility of £50m of which £20m was drawn as part of the Transaction.

Subsequent to the year end, the Group has been working with the NHS in England, Scotland and Wales to support them in the provision of healthcare to patients across the country and the Group's hospitals have remained open throughout. In the initial phase, this included treatment of Covid positive patients at some hospitals and providing continuing care for patients requiring urgent treatment including complex cancer surgery, chemotherapy, cardiac care, and diagnostic imaging services. Subsequently, the Group has committed the majority of its hospital capacity to supporting the return to elective surgical and other cases to support the NHS in beginning to clear waiting lists, alongside opening up capacity to treat insured and self-pay patients requiring treatment. Between April and October 2020 over three hundred thousand NHS patients attended the Group's hospitals.

Activity and revenue levels have returned close to prior year levels over recent months with a significant waiting list of deferred patients requiring treatment.

The Directors would like to thank the clinical and support staff across all of the hospitals and central functions for their selfless commitment and dedication during this challenging period.

The Directors consider all events after the balance sheet date to be non-adjusting.

Adoption of new accounting standard

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. This has resulted in the recognition of right-of-use assets of £104.6 million and a lease liability of £112.8 million, reflecting the present value of the future lease payments, and the de-recognition of property, plant and equipment totalling £2.5 million in the Group's statement of financial position as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities at 1 January 2019 was 4.7%. Further detail on this is included in Notes 22 and 32.

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.

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.

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2019 (continued)

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.

Business relationships

Business relationships are discussed in the Strategic report in the section 172(1) statement.

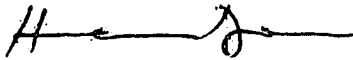
Independent auditors

PricewaterhouseCoopers LLP is the auditor for the year ended 31 December 2019. Subsequent to the signing of these financial statements, Deloitte LLP will be appointed for the year ending 31 December 2020.

Circle Health Holdings Limited

Directors' Report for the year ended 31 December 2019 (continued)

On behalf of the Board of Directors:



Henry Davies

Chief Financial Officer

22 December 2020

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 2019 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 2019; 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

Circle Health Holdings Limited

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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.

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 11, 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.

Circle Health Holdings Limited

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

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.

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.



Andy Grimbly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
12 December 2020

Circle Health Holdings Limited

Consolidated Statement of Comprehensive Income for the year ended to 31 December 2019

		2019	2018
	Note	£'000	Restated* £'000
Revenue	4	102,894	100,728
Cost of sales		(72,059)	(71,222)
Gross profit		30,835	29,506
Administrative expenses before exceptional items		(34,933)	(37,435)
Operating loss before exceptional items		(4,098)	(7,930)
Exceptional operating items	6	(14,588)	(8,946)
Operating loss	5	(18,686)	(16,876)
Finance income	10	2	14
Finance costs	9	(5,190)	(204)
Loss before taxation		(23,874)	(17,066)
Corporation tax	11	274	1,555
Loss from continuing operations		(23,600)	(15,511)
Profit from discontinued operations	23	2,767	3,576
Loss for the period		(20,833)	(11,935)
Loss attributable to:			
Owners of the parent		(20,538)	(11,545)
Non-controlling interests	30	(295)	(390)
		(20,833)	(11,935)

* See note 22

The notes on pages 21 to 62 form part of these financial statements.

Circle Health Holdings Limited

Consolidated Statement of Financial Position as at 31 December 2019 (continued)

		2019	2018	1 January 2018
	Note	£'000	Restated* £'000	Restated* £'000
Non-current assets				
Intangible assets	12	15,616	17,012	25,785
Goodwill	13	30,013	30,013	32,528
Property, plant and equipment	14	5,161	5,232	5,870
Investments		160	160	160
Other receivables	16	2,500	2,500	2,500
Right-of-use assets	22	95,837	-	-
		149,287	54,917	66,843
Current assets				
Inventories	15	1,207	1,784	1,951
Trade and other receivables	16	15,830	12,543	12,386
Cash and cash equivalents	17	11,134	14,033	16,215
		28,171	28,360	30,552
Total assets		177,458	83,277	97,395
Current liabilities				
Trade and other payables	18	(37,711)	(21,245)	(22,845)
Lease liabilities	22	(5,160)	(745)	(947)
		(42,871)	(21,990)	(23,792)
Non-current liabilities				
Trade and other payables	18	-	-	-
Loans and other borrowings	20	(1,848)	(995)	(73,551)
Deferred tax liability	11,18	(2,589)	(2,864)	(4,418)
Lease liabilities	22	(101,827)	(11,817)	(9,955)
		(106,264)	(15,676)	(87,924)
Total liabilities		(149,135)	(37,666)	(111,716)
Net assets		28,323	45,611	(14,321)
Share capital	21	21	20	-
Share premium	21	75,391	71,847	-
Accumulated losses		(46,085)	(25,546)	(14,321)
Equity attributable to owners of the parent		29,327	46,321	(14,001)
Equity attributable to non-controlling interests	30	(1,005)	(710)	(320)
Total equity		28,322	45,611	(14,321)

The notes on pages 21 to 62 form part of these financial statements.

* See note 22

The financial statements of Circle Health Holdings Limited (Company registration no: 10543098) on pages 17 to 62 were approved by the board of Directors and authorised for issue on 16 December 2020. They were signed on its behalf by:



Henry Davies, Chief Financial Officer
Circle Health Holdings Limited

22/12/2020

Circle Health Holdings Limited

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Accumulated deficit £'000	Total £'000	Non- Controlling Interest £'000	Total equity £'000
At 31 December 2017	-	-	(5,835)	(5,835)	(320)	(6,155)
Restatement*			(8,166)	(8,166)	-	(8,166)
Restated total equity at the beginning of the financial year	-	-	(14,001)	(14,001)	(320)	(14,321)
Shares issued	20	71,847	-	71,867	-	71,867
Loss and total comprehensive loss for the year	-	-	(11,545)	(11,545)	(390)	(11,935)
At 31 December 2018 and 1 January 2019	20	71,847	(25,546)	46,321	(710)	45,611
Shares issued	1	3,544	-	3,545	-	3,545
Loss and total comprehensive loss for the year	-	-	(20,538)	(20,538)	(295)	(20,833)
At 31 December 2019	21	75,391	(46,084)	29,328	(1,005)	28,323

* See note 22

The notes on pages 21 to 62 form part of these financial statements.

Circle Health Holdings Limited

Consolidated Statement of Cash Flows for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Net cash flow from operating activities	27	8,274	(1,200)
Interest paid	9	(5,154)	(214)
Net cash inflows / (outflows) from operating activities		3,120	(1,414)
Cash flows from investing activities			
Purchase of computer software	12	(415)	-
Purchase of property, plant and equipment	14	(4,088)	(2,472)
Proceeds on sale of fixed assets		2,133	1,508
Net cash outflows from investing activities		(2,370)	(964)
Repayment of finance lease	28	(7,909)	(818)
Issuing of new finance lease		-	241
Interest received	10	2	15
Proceeds from Borrowing		853	758
Shares issued		3,405	-
Net cash (outflow) / inflow from financing activities		(3,649)	196
Net (decrease) in cash and cash equivalents		(2,899)	(2,182)
Cash and cash equivalents at the beginning of the year		14,033	16,215
Cash and cash equivalents at the end of the year		11,134	14,033
Cash and cash equivalents consist of:			
Cash at bank and in hand		11,134	14,033
Cash at bank and on hand		11,134	14,033

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019

1. General information

Circle Health Holdings Limited is a private company limited by shares that is incorporated, registered and domiciled in the United Kingdom under The Companies Act 2006. The registered office is 1st Floor 30 Cannon Street, London, EC4M 6XH. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 4 to 8. The financial statements are for the year ended 31 December 2019. The comparative period is the period from 1 January 2018 to 31 December 2018.

2. Significant accounting policies

The principal accounting policies have been applied consistently in the years presented with the exception of IFRS 16 'Leases', which the Group and Company adopted on January 1, 2019, using the modified retrospective method, for which no restatement of prior year financial statement presentation was required (unless as noted by exception). This standard supersedes IAS 17 'Leases', and other lease-related interpretations, eliminated the classification of leases by lessees as either operating or finance type leases and introduced a single lessee accounting model.

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 Company has elected to prepare the Company financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101.

These are presented on pages 63 to 71.

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

- 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
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1.

The principal accounting policies for the Group and Company are set out below.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Basis of preparation (continued)

Management has adopted IFRS 16 'Leases' from 1 January 2019 using the modified retrospective method which has had a material impact on the company's financial statements – see note 22. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

Going concern

Management of the Group have prepared covenant and liquidity forecasts for the purpose of the going concern review and have also applied various sensitivities. These forecasts and sensitivities have been reviewed by the directors of the Company together with the underlying assumptions. The forecasts show that the Group will comply with its financial covenant throughout the forecast period with appropriate headroom. The forecasts also show that the Group has sufficient facilities to provide liquidity through the review period.

After making enquiries, including reviewing the forecasts and sensitivities, the directors have concluded that they have a reasonable expectation that the Group and the Company have adequate resources available to them, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

New standards, amendments and interpretations not yet adopted

No new standards or interpretations, or amendments thereto which have been issued but are not yet effective, are expected to have a material impact on the group or parent company financial statements.

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.

Discontinued operations

In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of any discontinued operations are presented on the Consolidated Statement of Comprehensive Income. The seven months ending July 2019 Circle Nottingham Limited has been reported as a discontinuing operation as 'Profit from discontinued operations' (for which the comparatives and related notes have been re-presented).

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (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.

Acquired contracts are separately identified from goodwill acquired as part of a business combination and are initially stated at fair value as at the acquisition date. 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 asset (estimated useful life not exceeding 3 years).

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

Revenue

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.

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 obligations are not satisfied over time, the Group recognises revenue at a point in time.

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

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

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. 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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Revenue (continued)

– 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.

In accordance with IFRS 15, the Company's revenue represents management fee income earned in the ordinary course of business for services rendered in the support of Group operating companies providing healthcare services. The Company recognises revenue when performance obligations have been satisfied and for the Company this is when the services have been provided to the Group operating companies. Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance and is measured at the fair value of the consideration received for activity performed.

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.

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.

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.

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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

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

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

Clinical equipment – 3 to 5 years

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.

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

The Group leases hospital buildings, and floor space for use by the Integrated Care function. Certain items of clinical equipment are also leased, along with furniture, fittings and office equipment located at the hospital sites.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Leases (continued)

- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Payments in relation to the hospital building leases are variable and contain an annual uplift based on RPI, within the bounds of a cap and collar of 2.0% and 5.0%.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The incremental borrowing rate is derived from yield curves based on synthetic credit ratings determined by third party advisors. Credit ratings have been determined for group level secured, subsidiary level secured and subsidiary level unsecured lending rates. The Group's leases have been assigned an incremental borrowing rate based on the subsidiary level unsecured lending rate, given the challenges associated with taking possession and sub-letting hospital buildings and medical equipment. The exception is the lease of the hospital building in Reading, which given the quality of the asset has been assigned an incremental borrowing rate based on the subsidiary level secured lending rate.

- The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Leases (continued)

As explained in notes 2 and 23, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 23. Prior to this change, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

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.

The Group and Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Each 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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

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.

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 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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

2. Significant accounting policies (continued)

Taxation (continued)

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 or Company 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 and the Company'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.

3. Critical judgements and accounting estimates

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:

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

3. Critical judgements and accounting estimates (continued)

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.

Critical accounting estimates and assumptions

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 Clinical Commissioning Groups (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.

4. Revenue

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

£2.4 million (2018: £269,000) of the revenue recognised in the current year was included in the deferred income balance at the beginning of the year.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

5. Operating loss

Operating loss is stated after charging:

	2019	2018
	£'000	Restated* £'000
Amortisation of intangible assets (note 12)	1,546	2,342
Depreciation of property, plant and equipment (note 14)	654	1,612
Depreciation of right-of-use assets (note 22)	8,913	-
Auditors' remuneration (see below)	1,302	327
Movement in provision for bad debts (note 16)	(147)	193
Operating lease charges	397	12,781
Exceptional operating items (note 6)	14,588	8,946

Remuneration payable to the company's auditors
(PricewaterhouseCoopers LLP):

	2019	2018
	£'000	£'000
Fees payable to Company's auditors for the parent Company and consolidated financial statements	99	80
Fees payable to the Company's auditors for other services		
– The audit of Company's subsidiaries	192	196
– Advisory services	1,011	51
	1,302	327

6. Exceptional operating items

	2019	2018
	£'000	£'000
Impairment losses	-	8,946
Acquisition costs	13,822	
Other exceptional items	766	-
	14,588	8,946

In 2019, £14,588k of exceptional costs were incurred. £13,822k of this related to the acquisition of BMI Healthcare and £766k related to legal costs in relation to a commercial dispute.

The exceptional costs in 2018 related to the impairment of intangible assets and goodwill recognised as a result of the contract to run the Nottingham NHS Treatment Centre that ended on 28 July 2019.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

7. Employees

Staff costs	2019	2018
	£'000	£'000
Wages and salaries	22,972	34,725
Social security costs	4,521	3,212
Other pension costs (note 25)	1,712	1,717
	<u>29,205</u>	<u>39,654</u>

Monthly average number of employees	2019	2018
Administrative	504	586
Clinical	506	633
	<u>1,010</u>	<u>1,219</u>

8. Directors' emoluments

The Directors' emoluments were as follows:

	2019	2018
	£'000	£'000
Total salary and other benefits	750	693
Company pension contributions to defined contribution scheme	34	34
Aggregate emoluments	<u>784</u>	<u>727</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

8. Directors' emoluments (continued)

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 (2018: two) under a defined contribution scheme.

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

	2019 £'000	2018 £'000
Total salary and other benefits	371	366
Company pension contributions to defined contribution scheme	10	10
Highest director aggregate emoluments	<u>381</u>	<u>376</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

	2019 £'000	2018 £'000
Lease interest	5,148	164
Other bank charges	42	40
	<u>5,190</u>	<u>204</u>

Increase in lease interest due to adoption of IFRS 16. Refer to notes 22 and 31 for more details.

£45k (2018: £10k) of lease interest was incurred during the year in relation to discontinued operations. This is in addition to the lease interest disclosed above

10. Finance income

	2019 £'000	2018 £'000
Bank interest receivable	2	14
	<u>2</u>	<u>14</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

11. Corporation tax

Tax credit included in profit or loss

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profit	-	-
Deferred tax		
Originating and reversal of timing differences	274	1,555
Income tax credit on loss for the year	274	1,555

Factors affecting the current tax credit for the year

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

	2019 £'000	2018 Restated* £'000
Loss before taxation	(23,874)	(17,066)
Loss before taxation multiplied by the rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(4,536)	(3,243)
Effects of:		
Expenses not deductible for tax purposes	2,018	1,403
Tax rate charges	-	95
Movement in deferred tax not recognised	2,244	190
Total income tax credit for the year	(274)	(1,555)

* See note 22

Factors that may affect future tax charges

The tax rate for the current year and prior year is 19.0%. The Finance Act 2016 reduced the rate of corporation tax to 17.0% from 1 April 2020. This reduction was reversed by the Finance Act 2020 which set the rate of corporation tax at 19.0% for the financial years beginning 1 April 2020 and 1 April 2021. As these changes were not substantively enacted at the balance sheet date their effects have not been included in these financial statements.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

11. Corporation tax (continued)

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:

	2019 £'000	2018 £'000
Balance at 1 January	2,863	4,419
Recognised during the year	-	-
Deferred Tax Credit to Income	(274)	(1,555)
At 31 December	2,589	2,864
Intangible assets	2,589	2,864
	2,589	2,864

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

	2019 Tax value £'000	2019 Gross £'000	2018 Tax value Restated* £'000	2018 Gross Restated* £'000
Tax losses carried forward	29,828	175,460	27,498	161,751
Deductible temporary differences - fixed assets	1,192	7,009	2,606	15,329
Other short term temporary differences	8	46	-	-
	31,028	182,515	30,104	177,080

* See note 22

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 2019 (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 31 December 2017	16,800	10,200	2,585	29,585
Additions	-	-	-	-
Impairments	(1,200)	(6,600)	-	(7,800)
As at 31 December 2018	15,600	3,600	2,585	21,785
Acquisitions	-	-	-	-
Additions	-	-	415	415
Disposals	-	-	(1,555)	(1,555)
As at 31 December 2019	15,600	3,600	1,445	20,645

Accumulated amortisation and impairment	Circle Brand £'000	Contracts £'000	Software £'000	Total £'000
As at 31 December 2017	933	756	2,111	3,800
Amortisation charge for the period	1,120	1,133	89	2,342
Impairments	(147)	(1,222)	-	(1,369)
As at 31 December 2018	1,906	667	2,200	4,773
Amortisation charge for the period	1,040	400	106	1,546
Disposals	-	-	(1,290)	(1,290)
As at 31 December 2019	2,946	1,067	1,016	5,029

Net book amount

At 31 December 2018	13,694	2,933	385	17,012
At 31 December 2019	12,654	2,533	429	15,616

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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

12. Intangible assets (continued)

Contracts

Circle holds several contracts with a number of CCGs which allow the Company to provide specific clinical services. These comprise contracts with the Bedfordshire and Greenwich CCGs to provide adult Musculoskeletal ("MSK") treatment and rehabilitation services 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 are amortised over 9 years from April 2017, the date that they were acquired, which represents the estimated remaining economic useful life of the contracts.

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 the brand 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.

Computer Software

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

13. Goodwill

	Goodwill £'000
Net Book Amount as at 31 December 2018	30,013
Additions	-
Net Book Amount as at 31 December 2019	<u>30,013</u>

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 (CGU's) 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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

13. Goodwill (continued)

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 CGUs. 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 0.7% 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 12.4% or higher.

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

	2019 £'000	2018 £'000
Private hospitals	29,223	29,223
MSK businesses	790	790
	<u>30,013</u>	<u>30,013</u>

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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

14. Property, plant and equipment

Cost	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
At 1 January 2018	987	3,693	6,508	7,408	18,596
Additions	1,136	43	696	597	2,472
Disposals	(1,506)	-	(241)	(1,247)	(2,994)
At 31 December 2018 and 1 January 2019	617	3,736	6,963	6,758	18,074
Effect of adoption of IFRS 16 Leases (note 32)	-	-	(1,145)	(2,285)	(3,430)
Additions	3,197	10	360	520	4,087
Disposals	-	(1,659)	(3,037)	(1,416)	(6,112)
At 31 December 2019	3,814	2,087	3,141	3,577	12,619
Accumulated depreciation and impairment	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
At 1 January 2018	-	2,540	5,429	4,756	12,725
Depreciation charge for the year	-	193	821	598	1,612
Disposals	-	-	(241)	(1,254)	(1,495)
At 31 December 2018 and 1 January 2019	-	2,733	6,009	4,100	12,842
Effect of adoption of IFRS 16 Leases (note 32)	-	-	(399)	(533)	(932)
Depreciation charge for the year	-	123	296	235	654
Disposals	-	(849)	(2,927)	(1,330)	(5,106)
At 31 December 2019	-	2,007	2,979	2,472	7,458
Net book amount					
At 31 December 2018	617	1,003	954	2,658	5,232
At 31 December 2019	3,814	80	162	1,105	5,161

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

15. Inventories

	2019 £'000	2018 £'000
Consumables	<u>1,207</u>	<u>1,784</u>

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

At 31 December 2019, an amount of £nil (2018: £nil) has been provided against the gross cost of inventories. The cost of inventories recognised as an expense in the year is £11,913k (2018: £13,676k).

16. Trade and other receivables

	Current 2019 £'000	Current 2018 £'000	Non-current 2019 £'000	Non-current 2018 £'000
Trade receivables	12,441	9,088	-	-
Less: provision for impairment	(500)	(647)	-	-
Net trade receivables	<u>11,941</u>	<u>8,441</u>	<u>-</u>	<u>-</u>
Prepayments and accrued income	2,069	3,431	2,500	2,500
Other receivables	1,820	671	-	-
	<u>15,830</u>	<u>12,543</u>	<u>2,500</u>	<u>2,500</u>

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

	2019 £'000	2018 £'000
At 1 January	647	454
(Decrease)/increase in the year	(147)	193
At 31 December	<u>500</u>	<u>647</u>

The movement in the allowance for impairment in respect of trade receivables during the year is reflected within administrative expenses in the income statement.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

16. Trade and other receivables (continued)

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

	2019 £'000	2018 £'000
Not past due	1,293	3,485
Past due 0-30 days, but not impaired	5,159	3,092
Past due 31-60 days but not impaired	3,896	968
Past due by more than 60 days but not impaired	1,593	896
	<u>11,941</u>	<u>8,441</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.

17. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	<u>11,134</u>	<u>14,033</u>

The Directors consider the carrying amount of cash and cash equivalents approximate to their fair value. There is no restricted cash (2018: nil).

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

18. Trade and other payables

	Current 2019	Current 2018	Non- current 2019	Non- current 2018 Restated*
	£'000	£'000	£'000	£'000
Trade payables	15,471	10,814	-	-
Deferred income & provisions	742	2,360	-	-
Accruals	21,582	7,599	-	-
Social security and other taxation	(84)	472	-	-
Deferred Tax Liability	-	-	2,590	2,864
	<u>37,711</u>	<u>21,245</u>	<u>2,590</u>	<u>2,864</u>

*See note 22

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

There are no contingent liabilities in 2019. In 2018, contingent liability was provided for the event that Shanghai Circle Harmony Hospital Management Limited was unable to pay its liabilities as there a commitment by Circle Harmony Health Limited and Deep Sea Capital to fund capital contributions up to a maximum of \$300k USD each.

20. Loans and other borrowings

	Current 2019	Current 2018	Non- current 2019	Non- current 2018
	£'000	£'000	£'000	£'000
Other loans	-	-	1,848	995
	<u>-</u>	<u>-</u>	<u>1,848</u>	<u>995</u>

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 2019 (continued)

20. Loans and other borrowings (continued)

Maturity profile

Under the terms, the amounts fall due as follows:

2019	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years £'000	Total £'000
Other loans	-	-	-	1,848	1,848
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,848</u>	<u>1,848</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,848</u>	<u>1,848</u>
2018	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years £'000	Total £'000
Other loans	-	-	-	995	995
	<u>-</u>	<u>-</u>	<u>-</u>	<u>995</u>	<u>995</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>995</u>	<u>995</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

21. Share capital and share premium

Authorised	2019 £	2018 £
Ordinary shares (Class A Ordinary Shares) of £0.01 each	945	900
Ordinary shares (Class B Ordinary Shares) of £0.01 each	100	-
Ordinary shares (Class C Ordinary Shares) of £0.01 each	8	-
	1,053	900

Allotted and fully paid up

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Ordinary Class A shares:					
At 1 January 2019	0.01	90,000	900	3,193,096	3,193,996
Shares issued	0.01	4,478	45	534,663	534,708
At 31 December 2019		94,478	945	3,727,759	3,728,704

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Ordinary Class B shares:					
At 1 January 2019	0.01	10,000	100	399,162	399,262
Shares issued	0.01	-	-	-	-
At 31 December 2019		10,000	100	399,162	399,262

	Par value	Shares (number)	Share capital £	Share premium £	Total £'000
Ordinary Class C shares:					
At 1 January 2019	0.01	750	8	-	8
Shares issued	0.01	-	-	-	-
At 31 December 2019		750	8	-	8

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Preference shares:					
At 1 January 2019	0.01	1,900,000	19,000	68,254,904	68,273,904
Shares issued	0.01	85,075	851	3,009,486	3,010,337
At 31 December 2019		1,985,075	19,851	71,264,390	71,284,241

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

21. Share capital and share premium (continued)

Allotted and fully paid up

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Ordinary Class A shares:					
At 1 January 2018	0.01	10,000	100	-	100
Shares issued	0.01	80,000	800	3,193,096	3,193,896
At 31 December 2018		90,000	900	3,193,096	3,193,996
Ordinary Class B shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	10,000	100	399,162	399,262
At 31 December 2018		10,000	100	399,162	399,262
Ordinary Class C shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	750	8	-	8
At 31 December 2018		750	8	-	8
Preference shares:					
At 1 January 2018	0.00	-	-	-	-
Shares issued	0.01	1,900,000	19,000	68,254,904	68,273,904
At 31 December 2018		1,900,000	19,000	68,254,904	68,273,904

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

21. Share capital and share premium (continued)

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. The Preference shares are non-cumulative.

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

1. Holders of Preference shares receive up to £205m of proceeds.
2. The remaining proceeds (up to £432m) are split 90:10 between the holders of Class A and Class B shares. Proceeds above £432m are split 80/20 between the holders of Class A and Class B /Class C shares, respectively.

22. Leases

The Company has lease contracts for the hospital and clinical equipment. The amounts recognised in the financial statements in relation to the leases are as follows:

Amounts recognised in the statement of financial position:

	31 Dec 19 £'000	1 Jan 19 £'000
Right-of-use assets		
Buildings	93,898	102,093
Furniture, fittings and office equipment	1,523	1,752
Clinical equipment	416	746
	<u>95,837</u>	<u>104,591</u>
Lease liabilities		
Current	(5,160)	(7,571)
Non-current	(101,827)	(107,026)
	<u>(106,987)</u>	<u>(114,597)</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

22. Leases (continued)

Amounts recognised in the statement of comprehensive income

	2019 £'000	2018 £'000
Depreciation charge of right-of-use assets		
Buildings	8,375	-
Furniture, fittings and office equipment	229	-
Clinical equipment	309	-
	<u>8,913</u>	<u>-</u>
Interest expense	(5,193)	(164)
Expense relating to short-term leases	(398)	(706)
Future minimum lease payments		
	2019 £'000	2018 £'000
No later than 1 year	10,145	838
Later than 1 year and no later than 5 years	38,495	1,209
Later than 5 years	105,111	-
Total gross payments	<u>153,751</u>	<u>2,047</u>
Impact of finance charges	(46,764)	(206)
Carrying value of lease liability	<u>106,987</u>	<u>1,841</u>

The Company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 32.

The total cash outflow for leases in 2019 was £13,265k (2018: £11,682k).

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

22. Leases (continued)

Restatement of prior year results

As part of the review of leases carried out for the adoption of IFRS 16, a fixed uplift contained within the RPI linked lease was identified requiring a restatement to the statement of financial position as at 1 January 2018, and therefore impacting the comparative Administrative expenses and Non-current lease liabilities.

The restatement affects the following items in the statement of financial position on 1 January 2018:

- Non-current lease liabilities – increase by £9,955k
- Creditors falling due after more than one year – decrease by £1,789k
- Accumulated losses – increase by £8,166k

The restatement affects the following items in the statement of comprehensive income for the year ended 31 December 2018, and further affects the following items in the statement of financial position on 31 December 2018:

- Administrative expenses – increase by £852k
- Non-current lease liabilities – increase by £765k
- Creditors falling due after more than one year – increase by £87k

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

23. Discontinued operation

In July 2019, the NHS contract to operate the Nottingham Treatment Centre ceased. Circle Nottingham Ltd held this contract and is reported in the current period as a discontinued operation.

The financial performance and cash flow information presented are for the 7 months ended 31 July 2019 and the year ended 31 December 2018.

	2019 £'000	2018 £'000
Revenue	31,841	54,893
Expenses	(29,074)	(51,317)
Profit before income tax	2,767	3,576
Income tax expense	-	(1,639)
Profit after income tax of discontinued operation	2,767	1,937
Net cash inflow/(outflow) from operating activities	(2,620)	1,122
Net cash inflow/(outflow) from investing activities	2,103	(385)
Net cash inflow/(outflow) from financing activities	(180)	(124)
Net increase/(decrease) in cash generated by the subsidiary	(697)	613

24. Capital commitments

At 31 December 2019, the Group had no capital commitments (2018: none).

25. 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 £1,712k (2018: £1,717k). As at 31 December 2019 there was £69k of outstanding contributions (2018: £133k).

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

26. Operating lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases (under IAS 17) are as follows:

	Land and buildings		Plant and machinery	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
No later than 1 year	-	10,346	-	75
Later than 1 year and no later than 5 years	-	36,970	-	-
Later than 5 years	-	117,284	-	-
	<u>-</u>	<u>164,600</u>	<u>-</u>	<u>75</u>

Due to the adoption of IFRS 16, operating lease commitments are nil as at 31 Dec 2019. Refer to note 22 for lease assets and liabilities as at 31 December 2019.

27. Net cash flow from operating activities

	2019	2018
	£'000	£'000
Loss before income tax from:		
Continuing operations	(23,874)	(17,066)
Discontinued operations	2,767	3,576
Loss before income tax including discontinued operations	(21,107)	(13,490)
Exceptional operating items (note 6)	14,588	8,946
Finance costs	5,190	214
Finance income (note 10)	(2)	(14)
Amortisation of intangible assets (note 12)	1,546	2,342
Depreciation of property, plant and equipment (note 14)	654	1,612
Depreciation of right-of-use assets (note 32)	8,913	-
Costs associated with transfer of shares	153	-
Other non-cash items	-	(2)
Profit on disposal of fixed assets	(1,110)	-
Loss on impairment of intangible fixed assets	265	-
Movements in working capital:		
– Decrease in inventories	577	167
– Increase in trade and other receivables	(3,601)	(139)
– Increase/(decrease) in trade and other payables	2,208	(836)
Net cash inflow (outflow) from operating activities	<u>8,274</u>	<u>(1,200)</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

28. Reconciliation and analysis of net debt

	2019 £'000	2018 £'000
(Decrease) in cash in the year	(2,899)	(2,182)
Issuing of new finance lease	-	(241)
Repayment of lease liabilities	7,909	818
Proceeds from borrowing	(853)	(758)
Movement in net debt from cash flow	4,157	(2,363)
Other non-cash movements	(116,290)	51,956
Movement in net debt	(112,132)	49,593
Net cash/(debt) at 1 January	14,431	(35,162)
Net cash/(debt) at 31 December	(97,701)	14,431

2019	At 1 January £'000	Cash flow £'000	Other non- cash changes £'000	At 31 December 2019 £'000
Liquid resources				
Cash at bank and in hand	14,033	(2,899)	-	11,134
Debt due within one year	1,156	7,909	(14,225)	(5,160)
Debt due after one year	(758)	(853)	(102,065)	(103,675)
Net cash/(debt)	14,431	4,157	(116,290)	(97,701)

2018	At 1 January £'000	Cash flow £'000	Other non- cash changes £'000	At 31 December 2018 £'000
Liquid resources				
Cash at bank and in hand	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 cash/(debt)	(35,162)	(2,363)	51,956	14,431

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

29. Financial risk management

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.

The following table classifies the Group's financial assets and liabilities in line with IFRS 9 'Financial Instruments':

As at 31 December 2019	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)	-	-	17,794	17,794
Cash and cash equivalents (note 17)	-	-	11,134	11,134
Total financial assets	<u>-</u>	<u>-</u>	<u>28,928</u>	<u>28,928</u>
Financial liabilities				
Trade and other payables (note 18)	-	-	(15,387)	(15,387)
Lease liabilities (note 22)	-	-	(106,987)	(106,987)
Total financial liabilities	<u>-</u>	<u>-</u>	<u>(122,374)</u>	<u>(122,374)</u>
As at 31 December 2018				
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	<u>-</u>	<u>-</u>	<u>28,379</u>	<u>28,379</u>
Financial liabilities				
Trade and other payables (note 18)	-	-	(11,286)	(11,286)
Lease liabilities (note 22)	-	-	(1,841)	(1,841)
Total financial liabilities	<u>-</u>	<u>-</u>	<u>(13,127)</u>	<u>(13,127)</u>

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

29. Financial risk management (continued)

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.

The following table summarises the fixed and variable rate loans:

	Fixed £'000
At 31 December 2019	
Loans and other borrowings	<u>1,848</u>
At 31 December 2018	
Loans and other borrowings	<u>995</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.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

29. Financial risk management (continued)

b) Credit risk (continued)

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 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 Groups 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 2019						
Trade and other payables	(15,387)	-	-	-	-	-
Lease liabilities	(7,305)	(7,097)	(6,506)	(6,313)	(6,440)	(90,147)
Net outflows	(22,692)	(7,097)	(6,506)	(6,313)	(6,440)	(90,147)
At 31 December 2018						
	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other payables	(11,286)	-	-	-	-	-
Finance Lease	(745)	(433)	(469)	(455)	-	-
Net outflows	(12,031)	(433)	(469)	(455)	-	-

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

29. Financial risk management (continued)

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 existed anywhere in the Group at the balance sheet date.

30. Non-controlling interests

Circle Rehabilitation Services Limited was a UK joint venture company between Circle Health Limited and VAMED Management Und Services GmbH ('VAMED'). The principal place of business of the subsidiary is the United Kingdom.

On 31 December 2019, Circle Health Limited's shareholding and voting rights increased from 80.1% to 99.9% in Circle Rehabilitation Services Limited, reducing VAMED's voting rights to 0.01%. Subsequent to the year end, on 1 January 2020, Circle Health Limited acquired the remaining share capital held by VAMED.

The loss allocated to the non-controlling interest during the year was £295,000 (2018: 390,000). Accumulated non-controlling interests of the subsidiary at the end of the year were £1,005,000 (2018: £710,000).

A summary of financial information for Circle Rehabilitation Services Limited is given below.

	2019	2018
	£'000	£'000
Total assets	2,630	1,472
Total liabilities	(7,401)	(4,572)
Net liabilities	(4,771)	(3,100)
Loss for the period	(1,576)	(1,950)
Net cash inflow	69	253

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

31. 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:

Company name	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%		Medical practice services
Circle Hospital (Reading) Limited	100%	1 st Floor 30 Cannon Street	Medical practice services
Circle Clinical Services Limited	100%	London	Medical practice services
Circle Birmingham Limited	100%	EC4M 6XH	Medical practice services
Circle Rehabilitation Services Limited	99.90%		Medical practice services
Circle Health 1 Limited	100.00%		Holding
Circle Health 2 Limited	100.00%		Holding
Circle Health 3 Limited	100.00%		Holding
Circle Health 4 Limited	100.00%		Holding
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, Health Properties Limited and Health Properties (South Manchester) Limited) are currently active. These three entities have been dissolved post year end.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

31. Related party transactions (continued)

Trading transactions

Circle Rehabilitation Services Limited was a UK joint venture company between Circle Health Limited and VAMED Management Und Services GmbH, and formed part of a group whose ultimate parent company is Circle Health Holdings Limited (the 'Circle Health Holdings Group'). On 31 December 2019, Circle Health Limited's voting rights increased from 80.1% to 99.9% in Circle Rehabilitation Services Limited, reducing VAMED Management Und Services GmbH's voting rights to 0.01%. Subsequent to the year-end, on 1 January 2020, Circle Health Limited acquired the remaining share capital held by VAMED.

As at 31 December 2019, 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.

	Sales to related party £'000	Costs recharged to relate party £'000	Purchases from related party £'000	Amounts owed from related party £'000	Amounts owed to related party £'000
2019					
VAMED Management und Services GmbH	-	12	374	-	1,926
2018					
VAMED Management und Services GmbH	-		739	-	1,035

Purchases from VAMED Management Und Services GmbH relate to consultancy fees and management fees. The payment terms are standard payment terms. A loan of £1,848k (2018: £995k) is included within the amounts owed to VAMED Management Und Services GmbH.

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

Tosca Penta Healthco Limited Partnership	29.4%
Tosca Penta Healthco II Limited Partnership	19.5%
Tosca Penta Healthco III Limited Partnership	21.6%

As a result of the post year end acquisition of GHG Healthcare Holdings Limited and several related transactions, related parties by virtue of significant shareholding now include Tosca Penta Healthco Limited Partnership, Tosca Penta Healthco II Limited Partnership, Tosca Penta Healthco III Limited Partnership and Tosca Penta Healthco IV Limited Partnership (collective shareholding of 50%), and MH Services (UK) Limited (40% shareholding).

Other than the above and the transactions detailed in notes 21 and 32, there have been no transactions with these related parties.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

32. Impact of changes in Accounting Policy

As indicated in notes 2 and 22, the Group has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period (apart from where noted), as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 2.

The adoption of IFRS 16 - Leases resulted in the recognition of right-of-use assets of £104.6 million and a lease liability of £112.8 million, reflecting the present value of the future lease payments, and the de-recognition of property, plant and equipment totalling £2.5 million in the Group's statement of financial position as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities at 1 January 2019 was 4.7%.

At 1 January 2019, the Group had 7 leases previously classified as finance leases under IAS 17 Leases, relating to clinical equipment.

i. Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

32. Impact of changes in Accounting Policy (continued)

ii. Measurement of lease liabilities

	2019 £'000
Operating lease commitments disclosed as at 31 December 2018	164,675
Effect of change in rental assumptions	(20)
Reduction in short-term lease payments	(161)
Lease of additional office space	55
	<u>164,549</u>
Discounted using the lessee's incremental borrowing rate of 4.7% at the date of initial application	112,832
Add: finance lease liabilities recognised as at 31 December 2018	1,841
(Less): short-term leases not recognised as a liability	(19)
(Less): low-value leases not recognised as a liability	-
(Less): rent paid in advance	(57)
Lease liability recognised as at 1 January 2019	<u><u>114,597</u></u>
Of which are:	
Current lease liabilities	7,571
Non-current lease liabilities	107,026
	<u><u>114,597</u></u>

iii. Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

32. Impact of changes in Accounting Policy (continued)

iv. Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increase by £104,591k
- Property, plant and equipment – decrease by £2,498k
- Prepayments – decrease by £57k
- Lease liabilities – increase by £102,036k

The net impact on retained earnings on 1 January 2019 was £nil.

33. Non-adjusting events after the balance sheet date

Acquisition of GHG Healthcare Holdings Limited

In January 2020, Circle Health 4 Limited (a non-trading company established and 100% owned by Circle Health Holdings Limited in October 2019) acquired GHG Healthcare Holdings Limited, which operates as BMI Healthcare. The acquisition was funded by a combination of equity and debt, the details of which are set out below.

On 7 January 2020 £130m of equity was raised to part fund the acquisition of GHG Healthcare Holdings Limited in the form of 3,617,780 preference shares (and 100 C ordinary shares). Transaction costs of £3.8m, directly related to the raising of the equity, have been debited to the share premium account.

On 7 January 2020 the Group entered into a new £198m term loan to part fund the acquisition of GHG Healthcare Holdings Limited and a new £50m capex facility (of which £20m was drawn) to fund capital investment in GHG Healthcare Holdings Limited. £20m of the term loan is to be repaid on 8 July 2026 and the remaining amount (including capex facility) is repayable on 8 January 2027. Transaction costs of £9.2m, directly related to the debt facilities, have been capitalised into the loans and will be amortised over the term of the loans.

On 7 January 2020 the Group was provided with a £30m revolving credit facility ("RCF") to fund working capital requirements for the Group. Interest is payable at the end of each drawdown period. The interest rate on the RCF is LIBOR plus a margin of 350 basis points.

Following the acquisition of GHG Healthcare Holdings Limited the Competition Markets Authority ("CMA") placed an Initial Enforcement Order on the Group whilst it reviewed the merger. In June 2020, the CMA completed its review and concluded that both Circle Bath and Circle Birmingham hospitals must be divested from the Circle Group in order to protect competition in the Bath and Birmingham markets.

Circle Health Holdings Limited

Notes to the Financial Statements for the year ended 31 December 2019 (continued)

33. Non-adjusting events after the balance sheet date (continued)

Impact of Covid

Subsequent to the year end, the Group has been working with the NHS in England, Scotland and Wales to support them in the provision of healthcare to patients across the country and the Group's hospitals have remained open throughout. In the initial phase, this included treatment of Covid positive patients at some hospitals and providing continuing care for patients requiring urgent treatment including complex cancer surgery, chemotherapy, cardiac care, and diagnostic imaging services. Subsequently, the Group has committed the majority of its hospital capacity to supporting the return to elective surgical and other cases to support the NHS in beginning to clear waiting lists, alongside opening up capacity to treat insured and self-pay patients requiring treatment. Between April and October 2020 over three hundred thousand NHS patients attended the Group's hospitals.

Activity and revenue levels have returned close to prior year levels over recent months with a significant waiting list of deferred patients requiring treatment.

As a result of the delay to treatments caused by the Covid pandemic and continuing disruption to elective care, the demand for healthcare over the short and medium term is expected to be strong. The Group's large hospital network, capacity and geographical footprint, means that it is well placed to deliver increased diagnostic, surgical and other treatment to patients in all geographies.

Pressures on clinical staffing availability are expected to continue in the medium term resulting in upward cost pressure in this area. The cost of Covid testing of patients and staff as well as increased costs of personal protective equipment ("PPE") has increased costs in the period since December 2019 and this is expected to continue in the short term as a necessary cost to keep our patients and staff safe.

34. 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.

The ultimate controlling parties at the balance sheet date are three shareholders - Tosca Penta Healthco LP, Tosca Penta Healthco II LP and Tosca Penta Healthco III LP who jointly own 70.5% of the share capital of Circle Health Holdings Limited. See note 31 for further updates post 31 December 2019.

Circle Health Holdings Limited

Company Statement of Financial Position as at 31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	7	75,211	75,211
Current assets			
Debtors	8	2,717	47
Cash at bank and in hand		217	-
		<u>2,934</u>	<u>47</u>
Creditors - amounts falling due within one year	9	(14,150)	(734)
Net current liabilities		<u>(11,216)</u>	<u>(687)</u>
Net assets		<u>63,995</u>	<u>74,524</u>
Called up share capital		21	20
Share premium		75,391	71,847
(Accumulated losses) / retained earnings		(11,417)	2,657
Total equity		<u>63,995</u>	<u>74,524</u>

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 loss made by the company for the year was £14.1 million (2018: £0.6 million).

The financial statements on pages 64 to 72 were approved by the Board of Directors on 16 December 2020 and were signed on its behalf by:



Henry Davies

Chief Financial Officer

Circle Health Holdings Limited

22/12/2020

Circle Health Holdings Limited

Company Statement of Changes in Equity for the year ended 31 December 2019

	Share capital £'000	Share premium £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
At 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 and 1 January 2019	20	71,847	2,657	74,524
Shares issued	1	3,544	-	3,545
Loss and total comprehensive loss for the year	-	-	(14,074)	(14,074)
At 31 December 2019	21	75,391	(11,417)	63,955

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019

1. Accounting policies

The Company's accounting policies are included within those disclosed on pages 22 to 31 of the Circle Health Holdings Limited consolidated group financial statements.

2. Critical accounting judgements and estimates

In the process of applying the Group's and Company'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

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

Critical accounting 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 £14.1 million (2018: £0.6 million).

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 £5,000 in relation to UK statutory audit fees for the year ended 31 December 2019 (2018: £5,000).

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019 (continued)

5. Employees

Other than the Directors, the entity did not have any employees during the year (2018: nil), and therefore did not incur any staff costs during the year (2018: £nil).

6. Directors' emoluments

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

7. Investments

	Shares in subsidiary undertakings
Cost	£'000
At 1 January 2019 and 31 December 2019	<u><u>75,211</u></u>
Net book amount at 31 December 2019 and 2018	<u><u>75,211</u></u>

The Directors consider that the value of the company's fixed asset investments, which are listed below, is supported by their underlying assets. No provision for impairment of investments has been made for the year-ended 31 December 2019 (2018: £nil).

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019 (continued)

7. Investments (continued)

Company name	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%	1st Floor 30 Cannon Street London EC4M 6XH	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	99.90%		Medical practice services
Circle Health 1 Limited	100.00%		Holding
Circle Health 2 Limited	100.00%		Holding
Circle Health 3 Limited	100.00%		Holding
Circle Health 4 Limited	100.00%		Holding
Health Properties Limited	100%	12 Castle Street, St. Helier, Jersey, Channel Islands, JE2 3RT	Holding
Health Properties (South Manchester) Limited	100%		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	Medical practice 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, Health Properties Limited and Health Properties (South Manchester) Limited) are currently active. These three entities have been dissolved post year end.

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019 (continued)

8. Debtors

	2019 £'000	2018 £'000
Prepayments and accrued income	19	21
Amounts owed by Group undertakings	2,698	26
	<u>2,717</u>	<u>47</u>

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

9. Creditors – amounts falling due within one year

	2019 £'000	2018 £'000
Trade and other creditors	60	9
Amounts owed to Group undertakings	419	558
Accruals and deferred income	13,671	167
	<u>14,150</u>	<u>734</u>

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 2019 (continued)

10. Called up share capital and share premium

Authorised	2019 £	2018 , £
Ordinary shares (Class A Ordinary Shares) of £0.01 each	945	900
Ordinary shares (Class B Ordinary Shares) of £0.01 each	100	-
Ordinary shares (Class C Ordinary Shares) of £0.01 each	8	-
	1,053	900

Allotted and fully paid up

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Ordinary Class A shares:					
At 1 January 2019	0.01	90,000	900	3,193,096	3,193,996
Shares issued	0.01	4,478	45	534,663	534,708
At 31 December 2019		94,478	945	3,727,759	3,728,704

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Ordinary Class B shares:					
At 1 January 2019	0.01	10,000	100	399,162	399,262
Shares issued	0.01	-	-	-	-
At 31 December 2019		10,000	100	399,162	399,262

	Par value	Shares (number)	Share capital £	Share premium £	Total £'000
Ordinary Class C shares:					
At 1 January 2019	0.01	750	8	-	8
Shares issued	0.01	-	-	-	-
At 31 December 2019		750	8	-	8

	Par value	Shares (number)	Share capital £	Share premium £	Total £
Preference shares:					
At 1 January 2019	0.01	1,900,000	19,000	68,254,904	68,273,904
Shares issued	0.01	85,075	851	3,009,486	3,010,337
At 31 December 2019		1,985,075	19,851	71,264,390	71,284,241

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019 (continued)

10. Share capital and share premium (continued)

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. The Preference shares are non-cumulative.

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

1. Holders of Preference shares receive up to £205m of proceeds.
2. The remaining proceeds (up to £432m) are split 90:10 between the holders of Class A and Class B shares. Proceeds above £432m are split 80/20 between the holders of Class A and Class B shares.

11. 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. Related party transactions and balances with Circle Rehabilitation Services Limited are disclosed below.

	Sales to related party £'000	Purchases from related party £'000	Amounts owed from related party £'000	Amounts owed to related party £'000
2019				
Circle Rehabilitation Services Limited	18	-	-	-

Sales to Circle Rehabilitation Services Limited relate to costs recharged. The payment terms are standard payment terms.

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

Tosca Penta Healthco Limited Partnership	29.4%
Tosca Penta Healthco II Limited Partnership	19.5%
Tosca Penta Healthco III Limited Partnership	21.6%

As a result of the post year end acquisition of GHG Healthcare Holdings Limited and several related transactions, related parties by virtue of significant shareholding now include Tosca Penta Healthco Limited Partnership, Tosca Penta Healthco II Limited Partnership, Tosca Penta Healthco III Limited Partnership and Tosca Penta Healthco IV Limited Partnership (collective shareholding of 50%), and MH Services (UK) Limited (40% shareholding).

Other than the equity transactions detailed in notes 21 and 32 of the Group financial statements, there have been no transactions with these related parties.

There were no related party transactions requiring disclosure in 2018.

Circle Health Holdings Limited

Notes to the Company Financial Statements for the year ended 31 December 2019 (continued)

12. Non-adjusting events after the balance sheet date

Please refer to note 33 of the Circle Health Holdings Limited consolidated group financial statements.

13. 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.

The ultimate controlling parties at the balance sheet date are three shareholders - Tosca Penta Healthco LP, Tosca Penta Healthco II LP and Tosca Penta Healthco III LP who jointly own 70.5% of the share capital of Circle Health Holdings Limited. See note 32 of the Circle Health Holdings Limited consolidated group financial statements for further updates post 31 December 2019.