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In accordance with Regulation 32 of the Overseas Companies Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law

✗ **What this form is N**
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FRIDAY

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LD4 26/06/2015 #91
COMPANIES HOUSE

Part 1 Corporate company name

→ **Filling in this form**
Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state

Corporate name of overseas company ❶	CIRCLE HOLDINGS PLC
UK establishment number	B R 1 5 3 3 2

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation ❷

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☑ **Yes** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**

Name of organisation or body ❸: UK GAAP - ISSUED BY ACCOUNTING STANDARDS BOARD

❸ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☑ **Yes** Go to **Section A4**

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ **No** Go to **Part 3 'Signature'** ☑ **Yes** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**	❶ Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ❶	UNITED KINGDOM GENERALLY ACCEPTED ACCOUNTING PRACTICE - ISSUED BY ACCOUNTING STANDARDS BOARD (ASB)	

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☐ **No** ☐ **Yes**

Part 3 Signature

	I am signing this form on behalf of the overseas company
Signature	Signature X R. Ching X
	This form may be signed by Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name
RITA CHING

Company name
CIRCLE HOLDINGS PLC

Address
32 WELBECK STREET

Post town
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Postcode
W1G 8EU

Country
UK

DX

Telephone
[redacted] 0207 034 1261

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address

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DX 33050 Cardiff

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The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
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Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

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For further information, please see the guidance notes on the website at www companieshouse gov uk
or email enquiries@companieshouse gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

The healthcare partnership

Annual Report and financial statements 2014

LD4
COMPANIES HOUSE

Our credo

Our purpose To build a great company dedicated to our patients **Our parameters** We focus our efforts exclusively on what we are passionate about What we can become best at What drives our economic sustainability **Our principles** We are, above all, the agents of our patients We aim to exceed their expectations every time so that we earn their trust and loyalty We strive to continuously improve the quality and the value of the care we give our patients We empower our people to do their best Our people are our greatest asset We should select them attentively and invest in them passionately As everyone matters, everyone who contributes should be a partner in all that we do In return, we expect them to give their patients all that they can We are unrelenting in the pursuit of excellence We embrace innovation and learn from our mistakes We measure everything we do and we share the data with all to judge Pursuing our ambition to be the best healthcare provider is a never-ending process 'Good enough' never is

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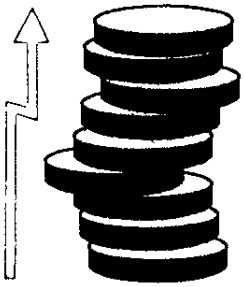
Highlights

Group revenue increased

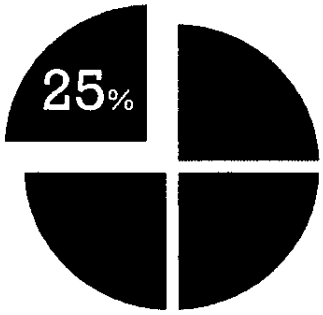


+32%

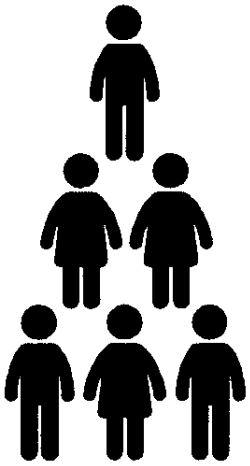
to **£111 million**

(2013 £84 3 million)

Completed Group restructure that gives staff and clinicians a



stake in Circle Holdings plc, and will offer employees share options

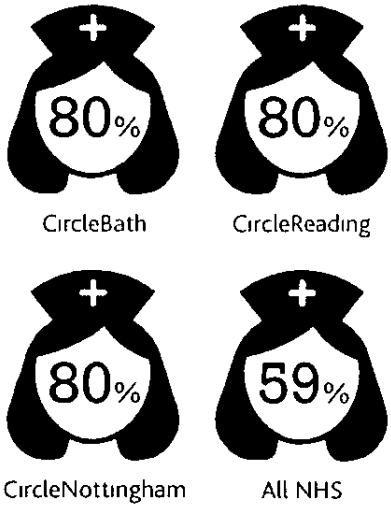


Patient volumes across the Group are up

+8.7%

to **45,173** day cases (2013 40,284) and **269,316** outpatients (2013 248,913)

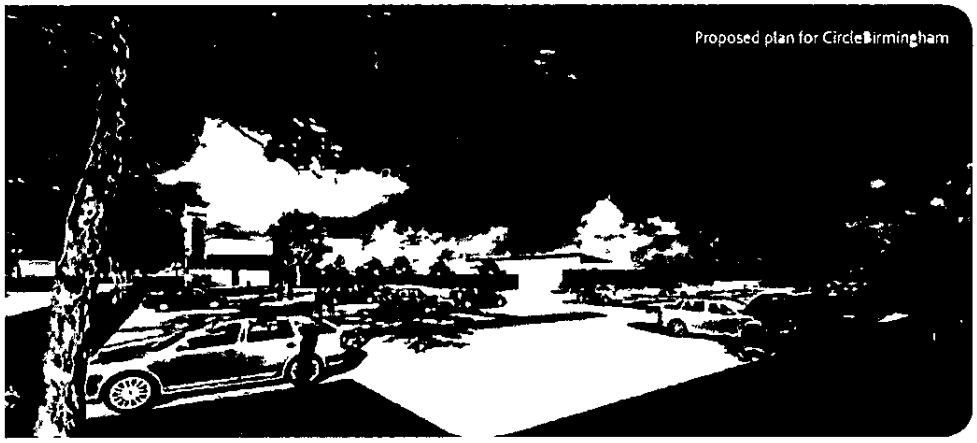
Staff likely to recommend Circle to friends and family



(NHS figures based on 2013 NHS Staff Survey)

Operational highlights

- Patient recommendation rates were at 99 4% at our independent hospitals and Nottingham NHS Treatment Centre
- Excellent clinical outcomes across sites, including low mortality rates, infection rates and strong patient feedback
- Commenced innovative new contract for musculoskeletal ('MSK') conditions in Bedfordshire
- Announced withdrawal from the Hinchingbrooke Health Care NHS Trust ('Hinchingbrooke') franchise in January 2015
- Planning work commenced for a new-build independent hospital in Edgbaston, Birmingham


Proposed plan for Circle Birmingham

Hospital highlights

Patient satisfaction

99.4%

of patients would recommend our facilities at Circle-owned hospitals (2013 99 4%)

Patient numbers

314,489

total day case and outpatient appointments, excluding Hinchingbrooke Hospital An increase of 8 7% from 2013

Staff satisfaction

80%

figure based on staff likely or extremely likely to recommend Circle to family and friends as a place to work

Chairman's letter

2014 saw significant developments in our business and the wider healthcare market, and we believe that our model of patient-centred and employee-led care is more relevant than ever

We achieved increased revenue, increased patient volumes and made positive EBITDAR[1] for the first time – and this is thanks to two trends that have defined healthcare in the UK in 2014

The first trend is for higher patient expectations More patients require treatment, and their demands for high-quality, compassionate and efficient care have steadily risen

Outcomes across the Group point to real success here Clinical performance and patient feedback from our two independent hospitals and our NHS treatment centre have been excellent, maintaining an average patient recommendation rate of 99% year-on-year – compared to the NHS average of 94%, and independent sector average of 98% – while the most important clinical outcomes, from infection rates to patient-reported quality of life improvements, have shown consistently strong performance

The second trend is constrained finances, and the ever-greater efficiency challenge faced by providers and commissioners

This was reflected across the Group in different ways

At Hinchingbrooke, reduced funding combined with unprecedented accident and emergency ('A&E') demands, meant that in early 2015, we took the difficult decision to withdraw from the franchise to operate the hospital

In contrast, our other operations were well-placed to offer support to an increasingly pressured system

Our independent hospitals in Bath and Reading have seen increased demand, including from NHS commissioners seeking to reduce elective waiting times, and both saw revenue increasing At our Nottingham NHS Treatment Centre, we saw increasing patient volumes, and have sustained good margins even as commissioners reduced our payment tariffs

Finally, in April, we started the first capped-budget[2] contract for MSK services in England The contract gives us responsibility for integrating MSK services in Bedfordshire, and it is one emerging model to help the NHS meet its future challenges of integration, savings and better care

These models are now crystallising around NHS England's *Five Year Forward View*, and our track record offers significant opportunities for the Group The blueprint sets out significant financial challenges for the NHS we have proved our model offers financial efficiency It sets out the need for clinical excellence we have proved we can deliver excellent care Finally, the *Five Year Forward View* sets out radical plans for new structures of care organisations, with a particular focus on integrating services With our experience of running acute trusts and capped budgets, we feel well-placed to offer the NHS the innovative solutions it needs to meet its most pressing challenges

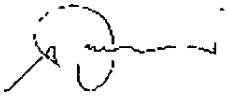
Equally, the increasing availability of medical data, the national policy push for transparency and the rise of consumer health technology are unlikely to halt soon They all suggest increased consumer activism and information-savvy patients We know patients value our clinician-led hospitals and focus on hospitality in care, and feel confident about thriving in a health system with well-informed users

During the year, our two major shareholder Board representatives, Tim Bunting and Tony Bromovsky, stood down from the Board Their counsel and experience in the immediate years following our initial public offering was invaluable, and I thank them for their contribution to Circle

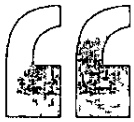
We were delighted to welcome John Hutton and Justin Jewitt to the board Both bring very relevant healthcare and health economy experience to our strategy and governance Their contributions have already added greatly to the Board's conversations I would like to thank all my Board colleagues for their commitment and support as we develop the business and navigate the complexities of the UK health economy

We also ended 2014 by realising a long-held ambition to strengthen our employee co-owned ethos Project Reset simplified our structure and governance, with our staff owning 25% of Circle Holdings plc shares through the Circle Partnership Benefit Trust (the 'CPBT') The restructure aligns the interests of staff, investors and patients, and we are now the largest employee co-owned organisation on the AIM market

These changes capped a significant year for Circle I have no doubt that the need to meet both rising patient expectations and tough efficiency goals present significant opportunities next year and beyond I remain equally confident that in this environment, our patient-centred and co-owned approach is a solid foundation for future growth



Michael Kirkwood CMG
Chairman
18 March 2015

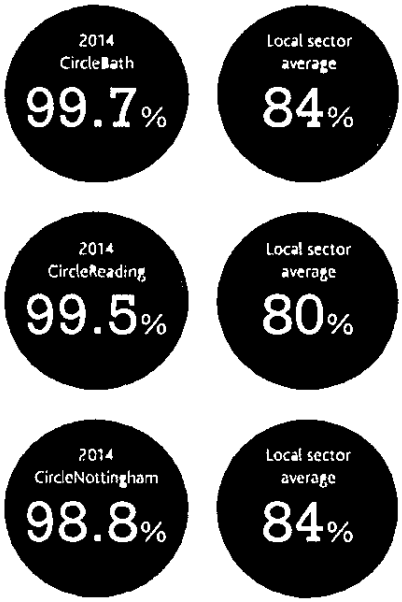


Michael Kirkwood

Chairman

Our independent hospitals in Bath and Reading have seen increased demand, including from NHS commissioners seeking to reduce elective waiting times, and both saw revenue increasing

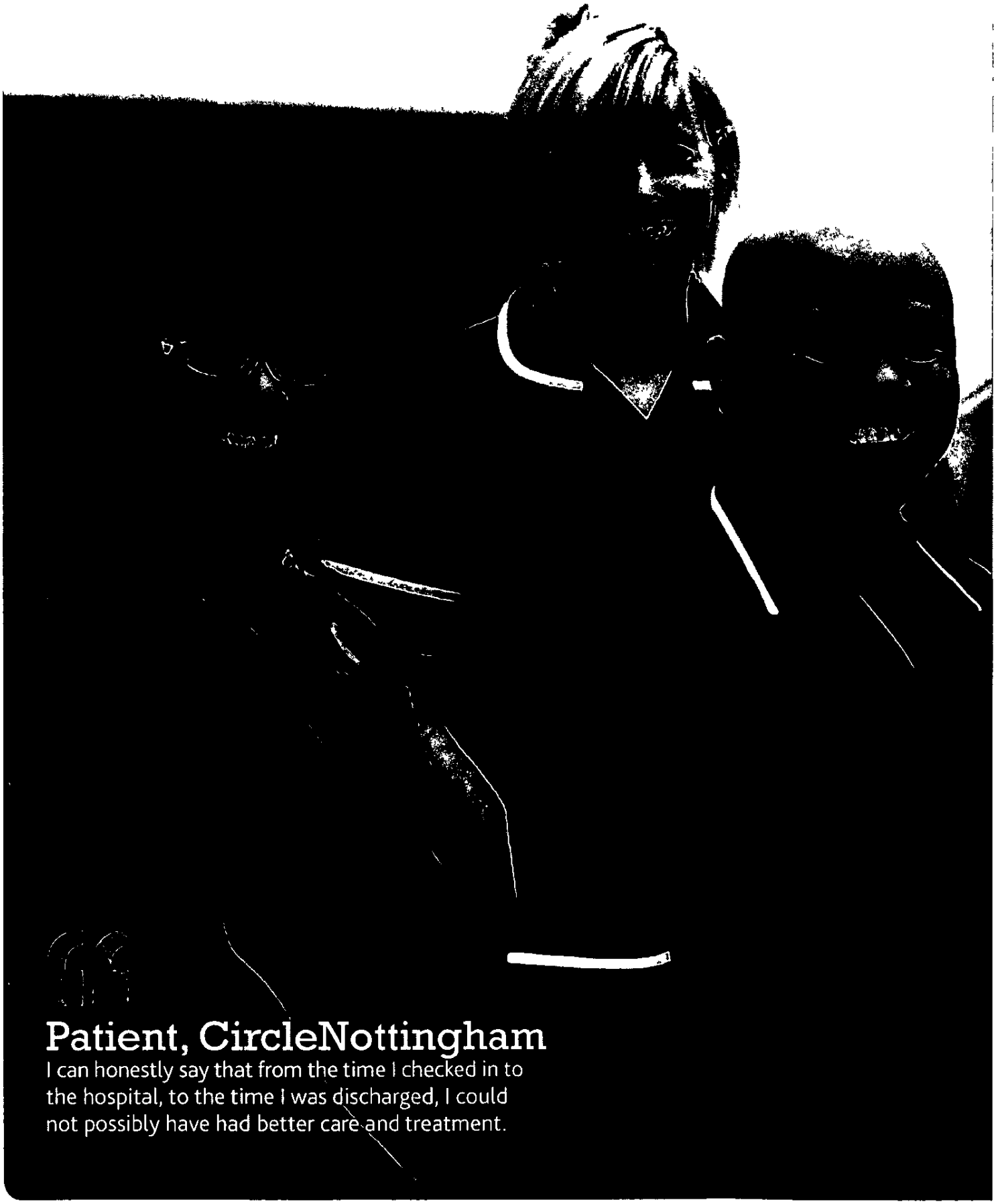
Patient recommendation



Results of Friends and Family Test, completed by all Circle hospital patients Competitor figures as reported on www phin org uk

1 Earnings before interest tax, depreciation, amortisation and rent, excluding exceptional items

2 The capped budget model refers to a contract, whereby, the baseline revenue is fixed over the contract term rather than an activity-based payment plan



Patient, CircleNottingham

I can honestly say that from the time I checked in to the hospital, to the time I was discharged, I could not possibly have had better care and treatment.

Patient, CircleBath

Everyone I met was just so nice from the receptionist to the anaesthetist. I can't really [illegible]

Patient story

I went in to CircleBath for a knee arthroscopy two years ago. It was brilliant. The surgery was completely successful, and the hospital couldn't have been a nicer place.

Then just a few months ago, it turned out that I needed another, in my other knee. I had the discussion with my GP about where to go, and there was no question really. I wanted to go back to Circle.

The hospital staff really made it easy for me. My husband has been ill too, so we don't have the freedom we used to – but the staff were very considerate and made it as convenient as possible to find a time that worked for us.

The pre-op was very thorough, and it was good to have such a clear chat with the team before going in to surgery. Everyone I met was just so nice – from the receptionist to the anaesthetist. It didn't really feel like going to a hospital.

After the surgery, I had a problem with my blood pressure. That was a bit unnerving, but I knew I was in good hands. I apologised for being such a pain, but the staff were having none of it. They offered me a room to stay longer if I wanted to, and completely looked after me.

Would I guess that staff were invested in their business? Well yes, that makes sense.

And would I recommend the hospital to other people? Of course I would. It's friendly, clean and hospitable.

Chief Executive Officer's report

Operating overview

Circle's sights have never been set low 2014 was an important year for us – and although we faced some challenges, overall, there was significant progress across the Group

Compared to 2013, revenue was up 32%, patient volumes increased 8 7%, and losses before exceptional items were down 25% Three operations have now reached positive EBITDA*, with CircleReading rapidly increasing revenue and making good progress in cost-saving initiatives

This success is based first, on our ability to offer patients excellent care clinical outcomes and patient feedback are consistently strong across the Group Second, it is based on our ability to run efficient, cost-effective facilities in an environment of constrained finances

Our decision to withdraw from the franchise at Hinchingbrooke showed the other side of this trend – where financial pressure within the NHS system, combined with the particular circumstances of the contract and surrounding health economy, to result in the difficult decision to withdraw

Organisations in the growth stage of their development expect to face such moments Our fundamental task remains to maintain our excellent clinical performance and move the underlying operations of the business to financial sustainability Overall, the year's results represent strong progress towards that goal – and our ambitions remain equally high

Steve Welton
Chief Executive Officer
After a strong 2014, I am optimistic for 2015. We aim for all current operating assets to be EBITDA positive by the end of 2015.

* Earnings before interest tax, depreciation, and amortisation

CircleBath

Revenue growth

+27%

Patient satisfaction

99.7%

Average orthopaedic market share in the Bath area

2014	47%
2013	37%

Hospital services

CircleBath

CircleBath opened in March 2010, and in 2014, it reached a milestone in its development The hospital achieved EBITDA break-even in the second half, with total patient volumes up 17 5% year-on-year Growth in NHS work from surrounding NHS organisations was strong, including working closely with two local trusts in order to reduce their waiting lists for elective surgery The hospital is now an integral part of the local health system Private patient volumes remained strong, with 12% of all patients opting to self-pay In total, revenue was up 27%, and losses reduced from £5 3 million in 2013 to £0 8 million this year overall

In August, we announced the sale of the land and building to Medical Properties Trust ('MPT'), which reduced the rent of the site by approximately £1 million per annum

Clinical outcomes remain excellent Patient satisfaction is currently 99 7%, and one particular highlight was being placed in the top quintile for hip operations

Our average orthopaedic market share in the Bath area has grown significantly from 37% last year, to 47% in 2014, which reflects our growing reputation for quality in the area

We expect to consolidate this performance in 2015, and see more gradual growth as the hospital achieves maturity

© Foster + Partners

CircleReading

Revenue growth

+44%

Patient satisfaction

99.5%

Average orthopaedic market share in the Reading area

2014 **28%**

2013 20%

CircleReading

CircleReading had its second full year of operation The hospital has focused on learning from the experience of CircleBath, in particular by growing relationships with nearby NHS trusts and increasing its catchment area

This contributed to revenue growth of 44% year-on-year As noted in our half-year statement, revenue growth outpaced recruitment of permanent staff – compounded by national shortages in key clinical roles – resulting in higher than expected interim staffing costs Losses reduced from £5 5 million in 2013, to £4 6 million in 2014 Total patient volumes were up 10%, with a 38% increase in day cases and inpatients Our presence in the local orthopaedic market is continuing to expand, growing by 8% to an average market share of 28% in 2014

Clinical outcomes also remain excellent, with 99 7% of patients recommending the hospital to friends or family After stabilising solid revenue, the focus for 2015 is on improving margins

CircleNottingham

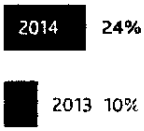
EBITDA

£2.5m

Patient satisfaction

98.8%

Year-on-year increase of orthopaedic operations



CircleNottingham

The Nottingham NHS Treatment Centre had a successful full first year in its new contract, which seeks to integrate care with surrounding providers The new contract rebased prices and removed the guaranteed volumes provided in the previous contract, however, patient volumes increased – indicating substantial success in attracting patients with freedom to choose their treatment elsewhere EBITDA was in line with expectations, at £2 5 million pre-exceptional items

At the start of 2014, CircleNottingham opened its new inpatient unit, meaning that we can now provide patients with a wider range of more complex procedures Since its opening, we have seen a steady increase in inpatient volumes and positive patient reviews This was followed by some innovative approaches to meeting the needs of the surrounding community, including the opening of an outreach clinic and the extension of our orthopaedic and ophthalmology services

As in Reading, national staffing trends have increased our cost base Recruitment and reducing these costs represents an area to focus on in 2015

Across the treatment centre, clinical outcomes remained excellent patient feedback remained above 98% across the year

Chief Executive Officer's report
Continued

Other services

Bedfordshire MSK

The Bedfordshire MSK contract started in April 2014 MSK services represent a significant proportion of commissioners' budgets, and most projections forecast an increase in demand as the population ages However, services are generally unco-ordinated and inefficient, and most patients do not experience a seamless service

The Bedfordshire contract aims to change the operation of this crucial clinical area, by creating a 'prime provider' which takes responsibility for co-ordinating and managing the rest of the system meaning that the patient journey is more co-ordinated, outcomes are improved, and commissioners save money

Achievements in the first nine months include capturing around 90% of all local MSK patients through our triage hub This means the vast majority of patients now experience a dedicated service, seeing the right clinician, first time round – which is both better for the patient and more cost-effective Around 40% of patients are coming through the electronic referral system, compared to about 5% previously – enabling referrals to be processed more efficiently, thereby, improving patient experience Furthermore, 97% of patients using our hub are offered an independent patient advisor, offering genuine choice to patients over their care

Any new system faces challenges, and in Bedford, this has included convincing all local partners to use our triage hub This has been almost universally successful, with just one of 21 providers, Bedford Hospital NHS Trust, choosing to circumvent the system We are in discussions with the clinical commissioning group ('CCG') on handling this disruption of patient care, and expect to update on this further in our half-year results interim statement

Hinchingbrooke Health Care NHS Trust

Hinchingbrooke won several awards for its quality of care in 2014, including the CHKS 'best quality of care in England' award, and the Health Investor award for 'best public-private partnership'

Cumulative quality improvement plans made savings of approximately 5% year-on-year since the start of the contract Clinical outcomes were excellent across 2014, including running one of the best-performing A&Es in the country, meeting all major waiting time targets, low and declining mortality rates, and patient feedback in the top quartile of similar hospitals in the NHS Efficiency was also improved We believe that the Care Quality Commission ('CQC') inspection report on Hinchingbrooke, published in January 2015, did not reflect these achievements, and is not an accurate representation of the hospital We note that a subsequent report by MPs on the Public Accounts Committee recommended that the CQC review its approach

In March 2014, Circle made a franchise support payment of £1 3 million, following a dispute with commissioners over payments under the 2013/14 contract Like most acute hospitals, from late summer onwards, Hinchingbrooke saw unprecedented A&E attendances – at times up to 30% higher, year-on-year – and not enough care places for healthy patients who await discharge At the same time, funding was cut in the 2014/15 financial year

With these pressures on the system, to maintain the standards patients deserve required significant further investment, on top of the £5 million and considerable resources Circle has invested in the hospital to date

Solving the problems facing Hinchingbrooke could only be achieved through joined-up reform in Cambridgeshire across hospitals, GPs and community services – but these reforms are too far into the future We reluctantly concluded that with little flexibility in the contract, Circle's involvement in Hinchingbrooke was unsustainable We announced our intention to withdraw from the franchise in January 2015, and the contract formally ceases at the end of March

Operating outlook

After a strong 2014, I am optimistic for 2015 We aim for all current operating assets to be EBITDA positive by the end of 2015 There are notable opportunities in both our independent and NHS work

Hospital services

We have a long-term lease on well-located land in Birmingham, and we are now moving into detailed planning and modelling for its future development

Birmingham is a more diverse market than Bath or Reading It is a large healthcare economy, with over two million people living within a 30-minute drive of our site, and an ageing infrastructure of private health providers in the area There are a number of NHS providers in the region, ranging from large teaching hospital trusts to small specialist providers, representing a wider range of NHS organisations with which to partner

We will refine the model used in our first two hub hospitals In particular, we expect the build to be quicker and more cost-effective, and combined with a phased recruitment and commissioning process, it is expected to reach operational maturity at a quicker pace than Bath and Reading

We are seeing significant interest from UK and international investors for high-quality healthcare facilities, and we will be looking to progress with plans for the Birmingham hospital this year

We have previously noted our intention to pursue further new-build hospitals We have assessed the market in Manchester and believe that it is saturated The Group has decided that in this environment, pursuing a new independent hospital in Manchester is not currently viable and we are considering options for the land we own

Bath and Reading both have plans for organic growth in specialties where the surrounding area is under-served, with scope for new clinical units and services Nottingham also expects some organic additions to its services

We were pleased to be accepted in October to be a member of the NHS Supply Chain's new support framework This places us on a centrally-approved list of permitted bidders for contingency diagnostics and elective work at our existing hospitals

Other services

We expect further capped-budget contracts to come to market across 2015 This will include more MSK contracts, but is also likely to involve other service lines and clinical pathways As one of the few current providers of this type of contract, we are well-placed to help the NHS evolve the format

In March 2015, the 'vanguard' sites adopting new models of care proposed in Simon Stevens' *Five Year Forward View* were announced We expect greater clarity to emerge in the second half of the year on how these sites intend to reform services, regardless of the outcome of the general election in May

The election does pose some political risk, given no party is an active advocate of the role of the independent sector in the NHS, however, the role of NHS England and local health leaders in leading health policy insulates against this risk, and we fully intend to engage in the ideas and policy of the *Five Year Forward View* as it is clarified over the coming year

As one of the few non-NHS organisations with experience of both running acute trusts and capped-budget services, we feel confident about our role as a partner to the NHS in this potentially exciting set of reforms

Finally, we are reviewing options for acquisitions and consultancy work, both in the UK and abroad We are continuing our close relationship with CITIC, one of China's biggest conglomerates, which we announced in December 2013 We will update on these plans as required later in the year

Steve Melton
Chief Executive Officer
18 March 2015

Bedford MSK

Patient recommendations

100%

Patients coming through the electronic referral system

40%

compared to 5% before Circle commenced the MSK contract

Amanda Phillips

General Manager for Bedfordshire MSK

To me it feels like it's in Circle's DNA to do what it takes if it means we serve our patients.

Kay's story

Kay Hoare is an extended scope physiotherapist, working in our Bedfordshire musculoskeletal team.

I am the Lead Extended Scope Physiotherapist at the Enhanced Services Centre in Bedford. We are a musculoskeletal clinic which is run by a partnership of Horizon Health Choices and Circle. This is part of the MSK tender won by Circle to run MSK services for Bedfordshire. We see patients referred by GPs who may need imaging, injections or onward referral to consultants. We have a mixture of different clinicians working here, including physiotherapists, GPs with a particular interest in musculoskeletal conditions, and consultants.

I feel that working with Circle gives you an excellent support network at all levels. We have daily meetings where all aspects of the clinics are looked at. Any issues can be brought to the meeting, and everyone can contribute to finding a resolution.

This way of working gives you a say in how things are run. You are able to offer any ideas in an open atmosphere, and they will be listened to. It makes you feel part of a team and that you can really make a difference to the patient experience.

And in our service, the needs of the patient are paramount. Problem solving is always directed to improve the patient experience, and feedback from patients is actively sought at all stages of the patient process. Having a clinician-led company ensures that the patient needs are priority, as the clinicians have experience of working in various fields, and so understand the issues that are important to patients. These then drive the way services are delivered. We try to make the service as convenient as possible for the patient, for example, by decreasing wait times by having a number of providers and offering clinics for patients to attend as close to their homes as possible.

As an example of just one thing we've changed thanks to this way of working, in the space of just three months, I have been able to change the system we used for giving out TENS machines – a type of pain relief machine – in the pain service. Previously, there was an issue with supply due to the type of contract, which meant that referrals had virtually stopped to this service. But I was allowed to change supplier and set up a more efficient system for providing these machines that both patients and staff are happy with. This has allowed patients to be referred to this service again, and allowed the patients access to a non-chemical form of pain relief which can be helpful for this patient group.

Circle is challenging in a positive way. Starting a role that's new to me, and also to the company, was a challenge – but with support from Circle colleagues, for example, I've been able to define my role, and learn the skills to do the job. You're constantly learning, and Circle has the inclusive and supportive culture to make that happen.

Chief Financial Officer's report

Financial review

2014 saw improvements in revenue, gross profit and a reduction in overhead administrative costs, culminating in a 25% reduction in operating loss pre-exceptional items

A milestone was achieved in 2014 as EBITDAR, excluding exceptional items, is positive for the first time The Group's total loss for the year, excluding exceptional items ('underlying total loss'), has significantly improved by £4 3 million

The Group is making continued progress with like-for-like year-on-year growth of the operating sites, while improving the operational efficiency of the business

Revenue growth is set to continue in 2015, largely from organic growth at each site The Group continues to explore opportunities to expand independent hospital operations, and has commenced planning application for CircleBirmingham The cost of submitting detailed design plans for Birmingham is expected to be around £0 5 million Our proposed plan would be to fund the construction of Birmingham with a third party The Group has strong relationships with a number of investors interested in the development In addition, the Group continues to explore development opportunities to support NHS organisations, which is likely to become clearer post-general election

Patient procedures

Patient numbers across the Group have also seen a positive increase As the Stratford Clinic was closed at the beginning of 2014, the Stratford Clinic figures have been removed from 2013 patient procedures to compare like-for-like

	Year to 31 December 2014	Year to 31 December 2013	Change
Day case and inpatients	**45,173**	40,284	12 1%
Outpatients	**269,316**	248,913	8 2%
Total procedures	**314,489**	**289,197**	**8 7%**

Paolo Pieri
Chief Financial Officer
The Group has seen continued growth in its core operations, with revenue of £111 million marking a year-on-year increase of 32%

Total procedures continue to grow, with total day case and inpatient volumes increasing by 12%, as more patients are actively choosing to use Circle facilities for our high-quality care Reading saw the most significant increase in day case volumes, with a 38% growth on prior year Growth was also seen in Nottingham and Bath outpatient procedures, increasing by 7% and 17%, respectively The independent hospitals both delivered significant growth in average revenue per case, as the procedure mix trends towards a higher acuity Bath increased by 14% and Reading saw an increase of 18%

Group results

Revenue under management of £221 million and Group revenue of £111 million, mark a substantial uplift on the previous year's results The Group ends the year with a cash position of £24 5 million

	Year to 31 December 2014 £'000	Year to 31 December 2013 £ 000
Revenue under management*	**221,048**	192,749
Group revenue	**110,983**	84,252
EBITDAR, excluding exceptional items	**1,152**	(143)
EBITDA, excluding exceptional items	**(10,427)**	(13,812)
Total operating loss before exceptional items	**(13,329)**	(17,726)
Exceptional items	**(5,341)**	3,860
Loss for the financial year	**(20,155)**	(15,230)
Underlying total loss for the financial year **	**(14,812)**	(19,090)
Net assets	**34,374**	27,867

The Group has seen continued growth in its core operations, with revenue of £111 million marking a year-on-year increase of 32% This revenue growth was down to growth at both Bath and Reading hospitals, as well as the commencement of the Bedfordshire MSK contract

The Group achieved positive EBITDAR for the first time an improvement from a loss of £01 million in 2013, to a positive EBITDAR of £1 2 million in 2014 Operating loss before exceptional items improved significantly by £4 4 million on prior year This is principally attributable to the continual EBITDA improvements in CircleBath and CircleReading CircleBath increased revenue by 27% from 2013 levels, and saw an increase of 84% in EBITDA in the year For the first time, CircleBath recorded a positive EBITDA for the second half of 2014 CircleReading continues to grow towards sustainability, and achieved significant revenue growth of 44%, with revenue reaching £21 million, and also closed the year with an improvement in EBITDA loss of £0 9 million

This is our first full year of the new Payment by Results contract at Nottingham The treatment centre is delivering a greater number of procedures to an increasing volume of patients (7% increase on prior year), assisted by the delivery of new inpatient services The new Nottingham contract works under the NHS Choose and Book system It is gratifying to see that now patients are afforded greater choice, they nevertheless choose to return to the CircleNottingham facility, a testament to our high quality of care EBITDA achieved was in line with expectations at £2 5 million, with opportunities to improve margins as complexity of work increases

Closing cash balance as at year-end is

£24.5m

(2013 £12 4 million) while net cash outflow from operating activities has decreased to £8 4 million (2013 22 1 million)

EBITDA losses before exceptional items were down

↓25%

to £10 4 million (2013 loss of £13 8 million) including £7 8 million of central costs

* Includes revenue generated at Hinchingbrooke which is managed by the Group but not included in the Group's statutory consolidated revenue

** Underlying total loss for the year is the total loss for the financial year, excluding exceptional items

Chief Financial Officer's report
Continued

We began 2014 by working closely with Bedfordshire CCG and the local supply chain to mobilise our MSK service, which started in April Our contracts with all providers require patients to use the Circle MSK services We are currently in discussions with the CCG regarding payments for those who circumvented the Circle triage system In addition, the contract provides for a number of one-off payments related to the transition of waiting lists at the start of the contract We expect to provide a more comprehensive review of our MSK business in the half-year interim results, after a full year's performance of the service

The £4 9 million increase in total loss for the year to £20 2 million in 2014 is due to the inclusion of one-off items, most of which are non-cash items Exceptional charges of £5 3 million were expensed in 2014 In 2013, an exceptional gain of £3 9 million was recognised, largely due to the deconsolidation of Health Properties Edinburgh To enable a more like-for-like basis of comparison, the underlying total loss for the year of £14 8 million highlights an improved trading performance in comparison to the underlying loss of £19 1 million in 2013 Exceptional costs are reviewed in more detail below

Exceptional Items
In 2014, the Group recorded exceptional charges of £5 3 million (2013 exceptional gain of £3 9 million)

Following the completion of Project Reset, which further enhanced our partnership incentive scheme and entailed a significant restructure of the Group to simplify our corporate structure, a non-cash IFRS 2 charge of £1 7 million was recognised in relation to the shares and associated share options issued Further ongoing share-based charges are expected going forwards in relation to share options being granted to Circle clinicians and employees

The Group made a non-cash gain of £4 8 million upon wind-up of the joint venture activities in Health Properties (Bath) Limited ('HP Bath')

An impairment of £0 1 million was recorded against Birmingham assets under construction, following updated plans for CircleBirmingham, along with a £2 8 million impairment of assets under construction at the Manchester site, as reported in the first half of 2014

The Group has made cumulative payments of £4 8 million towards working capital to Hinchingbrooke to date, and has provided for a further £0 2 million, culminating in a £5 million receivable at year-end The full amount has been provided against, given the current status of the contract Please refer to the *Directors' report* for further details

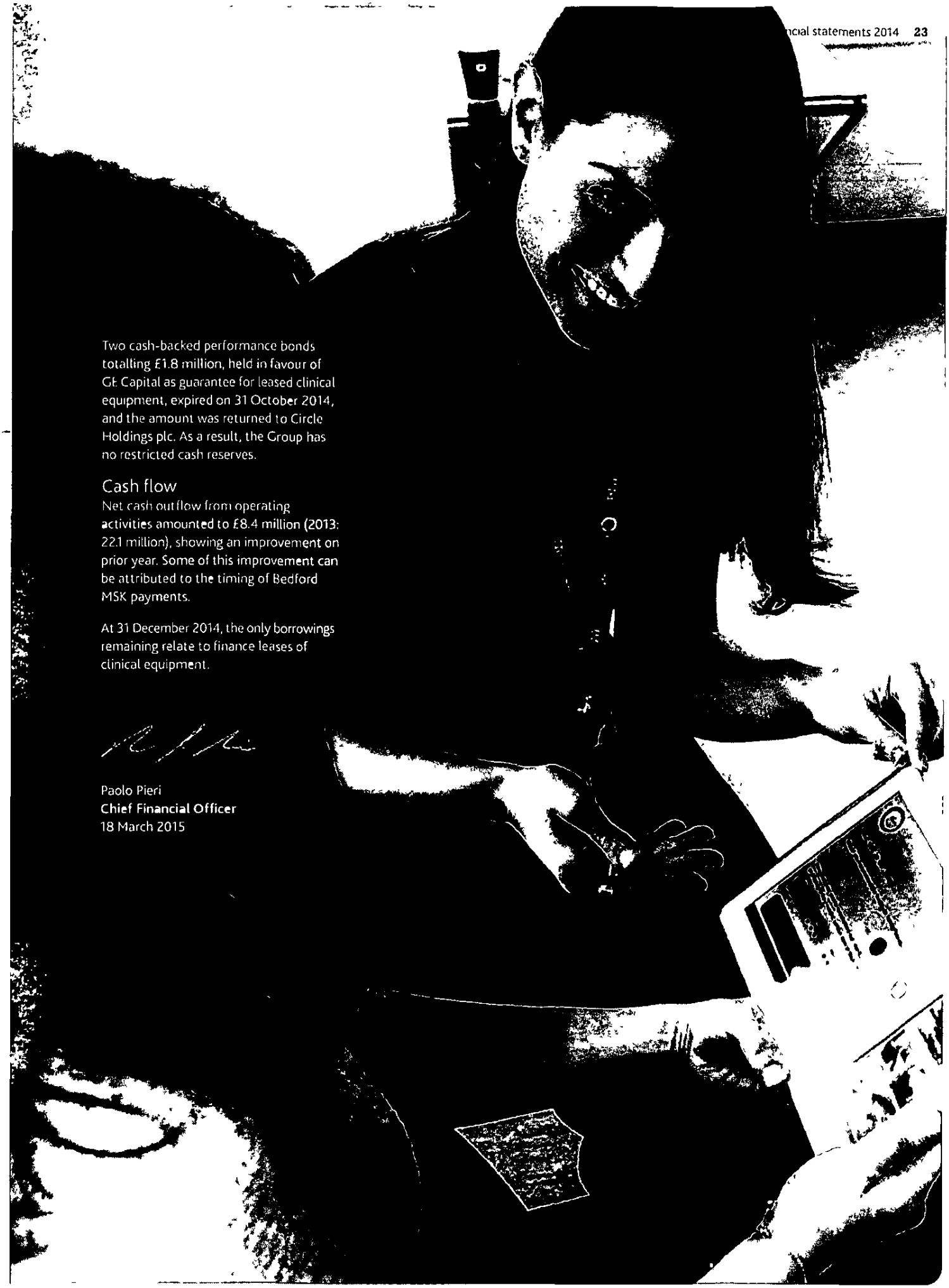
Other exceptional costs of £0 7 million incurred related to advisory fees to assist the Group's consideration of potential acquisitions The Group incurred fees during the year in relation to due diligence costs for a material potential acquisition This acquisition was unsuccessful and the costs have been included within exceptional costs

Corporate streamlining
The ongoing exercise to rationalise the number of Group entities resulted in the wind-up of a further eight entities, reducing the costs of administration A further 11 entities are planned to be dissolved in 2015

Financing
In January 2014, the Group successfully raised £27 5 million (before fees) by way of equity funding The Group will use the proceeds for growth and expansion into large markets, with planning set to commence on Circle's next new-build independent hospital in Birmingham, pursuing growth opportunities for current operating assets, for example, expansion of current service offerings, and set-up costs, commissioning and working capital for a mix of up to three generic service lines

On 1 July, MPT, the US specialist hospital real estate investment trust, completed the purchase of the Bath freehold for £28 3 million The asset was previously owned by HP Bath, a joint venture of which the Group controlled 38 7% This sale fully extinguished the loans held by HP Bath with Santander and Lehman Brothers (in administration), as well as an interest rate swap held in conjunction with the Santander loan CircleBath has signed a 15-year lease agreement with MPT, with a further 15-year extension, which will see its annual rent reduce by £1 million to £2 5 million As part of the repayment of the mezzanine debt, Circle Holdings plc paid Lehman Brothers £0 6 million under a capped guarantee, which has been recognised in exceptional finance costs

In July 2014, an amount of £2 million was released from escrow in Circle Hinchingbrooke Limited, in accordance with the terms of the Hinchingbrooke Franchise Agreement



Two cash-backed performance bonds totalling £1.8 million, held in favour of GE Capital as guarantee for leased clinical equipment, expired on 31 October 2014, and the amount was returned to Circle Holdings plc. As a result, the Group has no restricted cash reserves.

Cash flow

Net cash outflow from operating activities amounted to £8.4 million (2013: 22.1 million), showing an improvement on prior year. Some of this improvement can be attributed to the timing of Bedford MSK payments.

At 31 December 2014, the only borrowings remaining relate to finance leases of clinical equipment.

Paolo Pieri
Chief Financial Officer
18 March 2015

Board of Directors

1 Michael Kirkwood CMG
Chairman

2 Steve Melton
Chief Executive Officer

3 Paolo Pieri
Chief Financial Officer

4 Dr Massoud Fouladi
Chief Medical Officer

5 Lorraine Baldry OBE
Senior Non-Executive Director

6 Lord Hutton of Furness
Non-Executive Director

7 Justin Jewitt
Non-Executive Director

8 Andrew Shilston
Non-Executive Director

1

2

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1 Michael Kirkwood CMG
Chairman (a), (b), (c)*

Michael Kirkwood is an Economics and Industrial Engineering graduate of Stanford University and a Fellow of the Chartered Institute of Bankers He joined the Board of Circle Holdings plc as Chairman in June 2011 He is additionally Senior Advisor (formerly Chairman) of Ondra Partners LLP, a non-executive director of AngloGold Ashanti Limited, and an Emeritus Director (formerly Chairman) of British American Business Inc

Michael joined Citigroup in 1977 from where he retired at the end of 2008 Prior to Citigroup, he spent a number of years in Asia with Bowater-Ralli Group, having started his career at HSBC He was previously a non-executive director of UK Financial Investments Ltd (UKFI), Eros International plc, Kidde plc and Deputy Chairman of PricewaterhouseCoopers LLP's Advisory Board He is a member of the Advisory Board of the Association of Corporate Treasurers and a patron of poverty housing charity, Habitat for Humanity During his City career, he served as Deputy Chairman of the British Bankers Association, President of the Chartered Institute of Bankers, Chairman of the Association of Foreign Banks, and as a member of the CBI's Financial Services Council

A Freeman and former HM Lieutenant for the City of London in 2004, Michael was appointed a Companion of the Order of St Michael and St George (CMG) in HM The Queen's 2003 Birthday Honours

2 Steve Melton
Chief Executive Officer

Steve Melton was appointed as Chief Executive Officer in December 2012, after previously holding the roles of Head of Mobilisation and Chief Operating Officer since joining Circle in 2008 Steve has 30 years of experience leading large-scale operations in the retail, consumer goods manufacturing and healthcare sectors Prior to Circle, he was the Supply Chain Director at Argos, where he also led a number of group-wide improvement programmes

Previously, he was Supply Chain Director at Scottish Courage, and General Manager, Non-Food Supply Chain at Asda He began his career on Unilever's Management Trainee Programme, and subsequently held a number of roles at Unilever, working internationally across the personal products business Steve holds an MA (First Class) in Chemical Engineering from the University of Cambridge

3 Paolo Pieri
Chief Financial Officer

Paolo Pieri joined Circle after spending over five years at lastminute com He spent the majority of this time as the UK Finance Director and, subsequently, took on a number of operational roles, including the Managing Director of some European divisions

Prior to this, Paolo spent seven years in the Virgin organisation, principally within the retail and cinema operations, where he spent three years as Finance Director of the Virgin Megastore business

Paolo has a Bachelor of Accountancy from Glasgow University, and is a member of the Institute of Chartered Accountants for Scotland

4 Dr Massoud Fouladi
Chief Medical Officer

Dr Massoud Fouladi is a co-founder of Circle and Group Medical Director He also serves as the initial director representative of the CPBT, the Group's largest single shareholder

Massoud graduated from Bristol Medical School in 1990 and completed his ophthalmology training at Birmingham and Midland Eye Centre in 1999 He was also awarded a Masters in Health Services Management by Birmingham Health Services Management Centre in 1998

In 2001, Massoud founded the Ophthalmic Clinical Leads Forum at the King's Fund He was Chairman of the Association of Ophthalmologists UK from 2003 to 2007 He remains an active consultant specialising in ophthalmic surgery

5 Lorraine Baldry OBE
Senior Non-Executive Director (a), (b)*, (c)

Lorraine Baldry is Chairman of London and Continental Railways Limited, Schroders Real Estate Investment Trust, Inventa Partners Limited and Tri-Air Developments Limited She is also a Board member of Thames Water Utilities Ltd She was previously Senior Independent Non-Executive Director of DTZ Holdings plc, and Chairman of the London Thames Gateway Development Corporation

Prior to that, Lorraine was Chief Executive of Chesterton International plc, a senior advisor at Morgan Stanley, investment banking division, and Managing Director and a member of the Executive Committee of Regus Lorraine joined Regus from Prudential Corporation where she held a number of posts, including Managing Director of Prudential Corporate Pensions, Chief Operating Officer of Prudential Portfolio Managers (now M&G), and Managing Director of its property investment division

She was awarded OBE in the Queen's Jubilee Honours, and is an Honorary Member of the Royal Institution of Chartered Surveyors and a past president of the British Property Federation

Board of Directors
Continued

6 Lord Hutton of Furness
Non-Executive Director (b), (c)

Lord Hutton served as a member of the British House of Commons from 1992 to 2010 During his time in government, he held several prominent Cabinet positions, including Secretary of State for defence, business, enterprise and regulatory reform, and work and pensions Lord Hutton was also a minister in the UK Department of Health from 1998 to 2005, where he helped lead the modernisation of the National Health Service Prior to public service, Lord Hutton worked as a senior law lecturer at Northumbria University, and served as a legal adviser to the Confederation of British Industry Between 2010 and 2014, Lord Hutton was the Chairman of the Independent Public Service Pensions Commission

He is currently Chairman of the Nuclear Industry Association, a non-executive director of Sirius Minerals plc and Arthurian Life Sciences Ltd Lord Hutton also holds advisory positions at Bechtel Corporation, PricewaterhouseCoopers and Lockheed Martin Lord Hutton graduated from Magdalen College, Oxford University, in 1978 with an MA and a Bachelor in Civil Law

7 Justin Jewitt
Non-Executive Director (a)

Justin Jewitt has extensive commercial knowledge and practical experience in the delivery and creation of public and private health services He graduated from Leicester University in 1975, joining Mobil Oil Company Limited as a graduate trainee, where he occupied various roles for 12 years In 1986, he joined Thorn Emi plc in their retail/rental division, moving through various senior management roles

In 1992, Justin became Managing Director of two B E T plc companies, Laundrycraft and Initial Healthcare (Textile) Ltd Justin joined Nestor Healthcare Group plc in 1994, where he worked for 10 years as Chief Executive Officer of the Group, building it into a FTSE 250 listed company Justin also held several non-executive director positions in both private and public healthcare companies Justin is currently a visiting professor for the Welsh Institute for Health and Social Care, University of South Wales, a member on the Quality Committee of an NHS CCG, and a senior independent director of NHS Shared Business Services Ltd

8 Andrew Shilston
Non-Executive Director (a)*, (b), (c)

Andrew Shilston graduated from the University of Oxford in 1977 with an MA in Engineering Sciences, and is a member of the Institute of Chartered Accountants of England and Wales and a Fellow of the Association of Corporate Treasurers

Andrew joined Rolls-Royce Group plc in 2002 and was appointed Group Finance Director in 2003, where he remained until 2011 He was Finance Director at Enterprise Oil Ltd from 1993 to 2002 Andrew was an independent non-executive director of Cairn Energy plc between 2004 and 2008, and is currently Chairman of Morgan Advanced Materials plc and Independent Non-Executive and Senior Independent Director of BP plc

(a) Member of Audit and Risk Committee
(b) Member of Remuneration Committee
(c) Member of Nomination Committee
* Denotes Chair of respective committee

Directors' report

The directors present their Annual Report and audited financial statements for the Group for the year ended 31 December 2014

The Group financial statements consolidate the financial statements of Circle Holdings plc (the 'Company') and its subsidiary undertakings ('subsidiaries') drawn up to 31 December 2014 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 The Group's business strategy is founded on the fundamental belief that the best way to deliver great patient care is to empower the doctors, nurses and everyone who works in the hospitals, treatment centres and clinics, to put patients' needs first

Business review

The information that fulfils the requirements of the business review can be found in the *Operating review* on pages 12 to 16 Information on environmental matters, employees, community and social issues is given in the *Report on corporate governance* on pages 30 to 34

Results and dividends

The loss and total loss for the financial year attributable to owners of the parent amounted to £8,055,000 (2013 £6,678,000) The directors do not recommend the payment of any dividends (2013 £nil)

Cash flow

The total cash balance at 31 December 2014 is £24,496,000 (2012 £12,397,000) of which £24,496,000 (2013 £8,597,000) relates to unrestricted cash Net cash used in operating activities totalled £8,361,000 (2013 £22,062,000)

Share capital and control

As at 31 December 2014, the Company's authorised share capital comprised 325,000,000 (2013 250,000,000) ordinary shares of £0 02 each, 12,500,000 convertible shares (18 months) of £0 02 each, and 15,500,000 convertible shares (36 months) of £0 02 each, of which 247,797,188 (2013 130,785,122) (note 22) were in issue Shareholders are entitled to receive the Company's *Annual Report and financial statements*, to attend and speak at general meetings, to appoint proxies and exercise voting rights The Company's shares do not carry any special rights with regard to control of the Company

The appointment and replacement of directors is governed by the Company's Articles of Association Any changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time The directors have authority to issue and allot ordinary shares pursuant to Article 7 of the Company's Articles of Association

Policy and practice on payment of creditors

It is the Group's and Company's policy to abide by the payment terms agreed with suppliers wherever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions A number of significant purchases and commitments under operating leases are paid by direct debit At 31 December 2014, the Group had 30 equivalent days (2013 32 days) of purchases outstanding, and the Company had 46 equivalent days (2013 68 days)

At 31 December 2014, trade creditors in the Group and Company were £6,666,000 and £133,000, respectively (2013 £5,240,000 and £190,000)

Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future The directors have prepared cash flow forecasts for a period of not less than 12 months from the date of signing the financial statements for the year ended 31 December 2014

The Board believes that, following the completion of the fundraising in January 2014, the Group has sufficient funding to carry out its current business plans Based on this, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Events after the balance sheet date

On 1 February 2012, the Group commenced the operation to run Hinchingbrooke Under the terms of the contract (the 'Franchise Agreement'), the Group agreed to make working capital contributions of up to £5 million, and to share surpluses generated over the term of the contract with the Trust The Franchise Agreement allows either party to terminate if Hinchingbrooke incurs more than £5 million in aggregate deficits during the contract term

In January 2015, Circle announced its intention to terminate the Franchise Agreement Based on discussions with the Trust Development Authority ('TDA'), Circle expects the contract to be formally terminated on or before 31 March 2015, after which Circle will have no further financial obligations under the contract

Circle is obliged to pay all costs incurred by the Trust arising as a result of the termination, including, but not limited to, retendering costs, up to £2 million As the franchise is not being retendered and because the transition period is significantly less than that assumed in the original franchise, the Trust, the TDA, and Circle have agreed £130,000 in termination costs

Directors' report
Continued

During the year, the Group has provided for a further £164,000 working capital contribution to the Trust, which has resulted in an aggregate £5 million receivable at the year-end In light of the Group's announcement of its intention to terminate the contract, the aggregate working capital contributions of £5 million are not recoverable and have been fully impaired

Directors
The directors who served during the year and up to the date of signing the financial statements were as per the table

Biographies of the current directors are detailed on pages 24 to 26, and directors' beneficial interests in the Group's share capital and warrants are detailed on pages 36 to 39 of the *Directors' remuneration report*

Directors' indemnity
In its Articles of Association, the Company has granted an indemnity to every present and former officer in respect of proceedings brought by third parties The Company has procured liability insurance for all directors and officers of the Company, and all Group companies There are no outstanding claims or provisions as at the balance sheet date

Donations
The Group made charitable donations totalling £1,142 (2013 £1,000) during the year to a number of charitable organisations within the UK

No donation was made to any political party registered in the UK under the Political Parties, Elections and Referendums Act 2000 by either the Company or its subsidiaries

Steve Melton	Chief Executive Officer
Massoud Fouladi	Chief Medical Officer
Paolo Pieri	Chief Financial Officer
Michael Kirkwood CMG	Non-Executive Chairman (independent)
Lorraine Baldry OBE	Senior Non-Executive Director (independent)
Andrew Shilston	Non-Executive Director (independent)
Lord Hutton of Furness	Non-Executive Director (independent) (appointed 21 May 2014)
Justin Jewitt	Non-Executive Director (independent) (appointed 21 May 2014)
Tim Bunting	Non-Executive Director (non-independent) (resigned 21 May 2014)
Tony Bromovsky	Non-Executive Director (non-independent) (resigned 21 May 2014)

Principal risks and uncertainties
Enterprise risk identification and management
The Group has an effective system of risk management in terms of identifying risks and monitoring actions to manage these risks Further details of the Group's risk management process can be found in the *Report on corporate governance* on pages 30 to 34

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

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

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

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

arises, significant cost savings are made in the short term by reducing Head Office costs The Group is also backed by leading UK institutional investors that have provided finance through several financing rounds over the last nine years

Contract risk

Contract risk exists where the Group is unable to renew the NHS contracts at the end of their fixed tenure The Group aims to mitigate this risk by maintaining good relationships with contracting parties and actively pursuing contract renewals and extensions ahead of time During 2013, the Group won the retender to provide renewed services at the Nottingham NHS Treatment Centre for a further five years until July 2018 The Group also commenced the operation of a five-year integrated MSK service contract in Bedfordshire

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

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 chaired 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) This committee, in turn, provides written risk assurance reports to the Boards of the relevant Circle Group companies and the Audit and Risk Committee

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 pricing tariff

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

Government policy and regulatory risk

There are risks that political or policy changes may mean that the number and size of contracts awarded to the Group are diminished, and that fewer services provided by the Group are contracted by the public sector This is particularly relevant given the general election in May 2015

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 trusts to pay for the Group's 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 QQ reviews

Steve Melton
Chief Executive Officer
18 March 2015

Report on corporate governance

General

The Company, being quoted on AIM, is not required to comply with the provisions of the UK Corporate Governance Code (the 'Code') Nevertheless, the directors are committed to the highest standards of corporate governance, and have voluntarily complied with elements of the Code issued by the Financial Reporting Council, where relevant and appropriate to the Company As envisaged by the Code, the Board has established three committees an Audit and Risk Committee, a Remuneration Committee and a Nomination Committee In addition, the Board has authorised a Market Disclosure Committee and the IGC, with the latter reporting on clinical, operational and financial matters into the Audit and Risk Committee These committees operate within defined terms of reference, as determined by the Board, details of which are publicly available at the Group's registered office The functions and responsibilities of each committee are described below, and the members of each committee are listed in the biographies of the *Board of Directors* on pages 24 to 26

The Board

The Board of Directors comprises a non-executive chairman, four independent non-executive directors, and three executive directors (Chief Executive Officer, Chief Medical Officer and Chief Financial Officer) The profiles of the current executive directors and non-executive directors are set out on pages 24 to 26 The Articles of Association allow no fewer than three directors

The Code recommends that the Board should comprise at least two non-executive directors, determined by the Board to be independent in character and judgement, and free from relationships or circumstances which may affect, or could appear to affect, the directors' judgement

The Board considers that the Company complies with the requirements of the Code in this regard

The non-executive directors contribute a wide range of skills and experience, forming a strong and independent element within the Board The non-executive directors receive a fixed fee for services rendered, are appointed for an initial period of three years, which may be extended by agreement with the Board, are subject to re-election by shareholders at the Annual General Meeting ('AGM'), and are not employees of the Company at the time Their opinions carry significant weight in the decision-making processes, both operational and financial, and they are free from any business or personal relationships that could interfere with their independent judgement The non-executive directors ensure that some meetings are set aside during the year without the executive directors present Lorraine Baldry OBE, is the nominated senior independent non-executive director to whom shareholders, directors and employees may bring concerns which normal channels have failed to resolve or are otherwise not appropriate

The Chairman is responsible for leadership of the Board and ensuring its effectiveness in all aspects of the role, including

- managing the Board,
- ensuring that sufficient time is allowed for the discussion of complex or contentious issues,
- ensuring a regular evaluation of the performance of the Board as a whole, its committees and individual directors, and
- taking the lead in identifying and meeting the development needs of individual directors and the Board as a whole

"

Andy Addison

Operations Manager at CircleNottingham

Coming from another organisation outside of healthcare, I have been absolutely blown away by the team ethic across the treatment centre in all gateways

Report on corporate governance
Continued

The Board and its subcommittees meet at regular intervals throughout the year, and have reserved for their consideration matters, including

- the responsibility for the overall strategy of the Group,
- significant capital expenditure projects, budget approval and any major financial proposals,
- ensuring effective systems of internal control and risk management,
- regulatory compliance,
- approval of public announcements and communications with shareholders,
- approval of the *Annual Report and financial statements*, and
- remuneration of key senior employees

Detailed monthly operational, clinical and financial information is provided to the Board in a timely manner to enable it to discharge its duties This includes information on the historic, budgeted and forecast financial performance of the business, as well as key performance indicators covering volumes, revenue and EBITDA, to allow the Board to challenge Group management effectively A budget is agreed by the Board annually, and performance against budget is reported monthly

The Board ensures that all directors receive appropriate training and induction, as required, and that they are able to take independent professional advice in the furtherance of their duties The Board may appoint a director and revoke or terminate the appointment of a director as it thinks fit Any director so appointed shall offer himself or herself for reappointment at the first AGM following appointment, and at each AGM thereafter The shareholders may also remove a director by ordinary resolution

Audit and Risk Committee
The Audit and Risk Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group's *Annual Report and financial statements*, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors, reviewing the effectiveness of the internal control systems in place within the Group, and determining and reviewing the nature and extent of the risks facing the Group The Audit and Risk Committee meets not less than four times a year

The Code recommends that all members of the Audit and Risk Committee be non-executive directors and that the committee is not chaired by the Chairman of the Board The Company complies with the requirements of the Code in this regard

Reporting into the Audit and Risk Committee is the IGC, which is chaired by the Chief Medical Officer, Dr Massoud Fouladi, who also sits on the Board Further details are provided in the principal risks and uncertainties section of the *Directors' report* on page 27

Remuneration Committee
The Remuneration Committee recommends policies the Group should adopt on executive remuneration, determines the levels of remuneration for each of the executive directors, and is also invited to attend meetings of the Remuneration Committee of Circle Health Limited ('CircleHealth') The Remuneration Committee generates an annual remuneration report to be approved by the members of the Company at the AGM The minutes of the Remuneration Committee are circulated to, and reviewed by, the Board The Remuneration Committee meets not less than twice a year and the *Directors' remuneration report* is set out on pages 36 to 39

The Code recommends that all members of the Remuneration Committee be non-executive directors, and the Company complies with the requirements of the Code in this regard

Nomination Committee
The Nomination Committee assists the Board in determining its composition, desired balance of skills and potential Board candidates as the need may arise, and formulates the succession plans for the Chairman It recommends to the Board the succession plans for the Chief Executive Officer The Nomination Committee meets at least once a year, and whenever necessary, to fulfil its responsibilities

The Code recommends that a majority of the Nomination Committee be non-executive directors, and the Group complies with the requirements of the Code in this regard

During the year, the Nomination Committee led the recruitment of two new non-executive directors (Justin Jewitt and Lord Hutton) The committee drew up a shortlist of candidates and, following a series of interviews, recommended the appointment of suitable directors to the Board

Market Disclosure Committee

The Market Disclosure Committee assists the Group in meeting its obligations to announce price sensitive and other significant information, and decide quickly whether an announcement obligation has arisen under the AIM Rules for Companies and related legislation

The Code does not require companies to have a Market Disclosure Committee, but the directors consider it best practice to have such a committee

Performance evaluation and attendance

The Board has undertaken a formal evaluation of its own performance and that of its committees through the circulation and completion of a comprehensive questionnaire Having considered the results of the questionnaire, the directors have concluded that the Board and its committees continue to function effectively, and that the other commitments of the Chairman and directors are such that all directors are capable of devoting sufficient time to the Company

Attendance by the directors at the various committees during the year was as follows

	Board	Market Disclosure Committee	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Lorraine Baldry	8	n/a	4	3	2
Tony Bromovsky[1]	3	n/a	n/a	n/a	n/a
Tim Bunting[2]	2	n/a	n/a	n/a	n/a
Massoud Fouladi	6	n/a	n/a	n/a	n/a
Lord Hutton[3]	5	n/a	n/a	2	n/a
Justin Jewitt[4]	5	n/a	3	n/a	n/a
Michael Kirkwood	8	2	1	3	2
Steve Melton	8	1	n/a	n/a	n/a
Paolo Pieri	8	2	n/a	n/a	n/a
Andrew Shilston	8	n/a	4	3	2
Total meetings held	**8**	**2**	**4**	**3**	**2**

1 Tony Bromovsky resigned from the Board on 21 May 2014

2 Tim Bunting resigned from the Board on 21 May 2014

3 Lord Hutton of Furness was appointed on 21 May 2014

4 Justin Jewitt was appointed on 21 May 2014

Report on corporate governance
Continued

Relations with shareholders
The Company maintains a regular dialogue with fund managers, other investors and analysts, usually following the announcement of interim and final results, to ensure that the investing community receives a balanced and consistent view of the Group's performance The principal documents received by shareholders are the *Interim Report, Annual Report and financial statements*, and any circulars as appropriate The Company's AGM provides an opportunity to respond to shareholders' questions

Employee involvement
Circle is a socially responsible employer, and various initiatives are in place to ensure that staff are treated fairly, as they are critical to its clinical, commercial and operational success Communication is critical to employee relations, and the Group uses bi-weekly business updates with all sites present via teleconference to ensure employees are fully informed about plans and progress Communications from the Human Resources Department notify all staff of any changes to personnel during the year Semi-annual off-site meetings are held for management and directors to review strategy implementation and key business opportunities Semi-annual performance reviews are conducted for employees, and individual training and development needs are identified to ensure staff receive supplementary training

Following Project Reset, the Group is 25% owned by the newly formed CPBT Employees and clinicians who work in the Group's facilities can own shares in Circle Holdings via the CPBT, and will be allocated share options according to performance These organisational changes strengthen our identity and ethos as a co-owned company

Disabled employees
The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position, and to provide appropriate training to achieve this aim

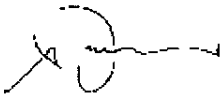
Equality
Circle seeks to be a socially responsible Group which has a positive impact on the communities it operates in We look to employ a workforce which reflects the diversity of the Group's communities No discrimination is tolerated, and we endeavour to give all employees the opportunity to develop their capabilities

Environmental matters
The services provided by the Group have minimal environmental impact However, the Board believes that good environmental practices support the Group's strategy by enhancing the reputation of the Group and improving the efficiency of running hospitals Consequently, the Group continues to put environmental responsibilities high on the agenda

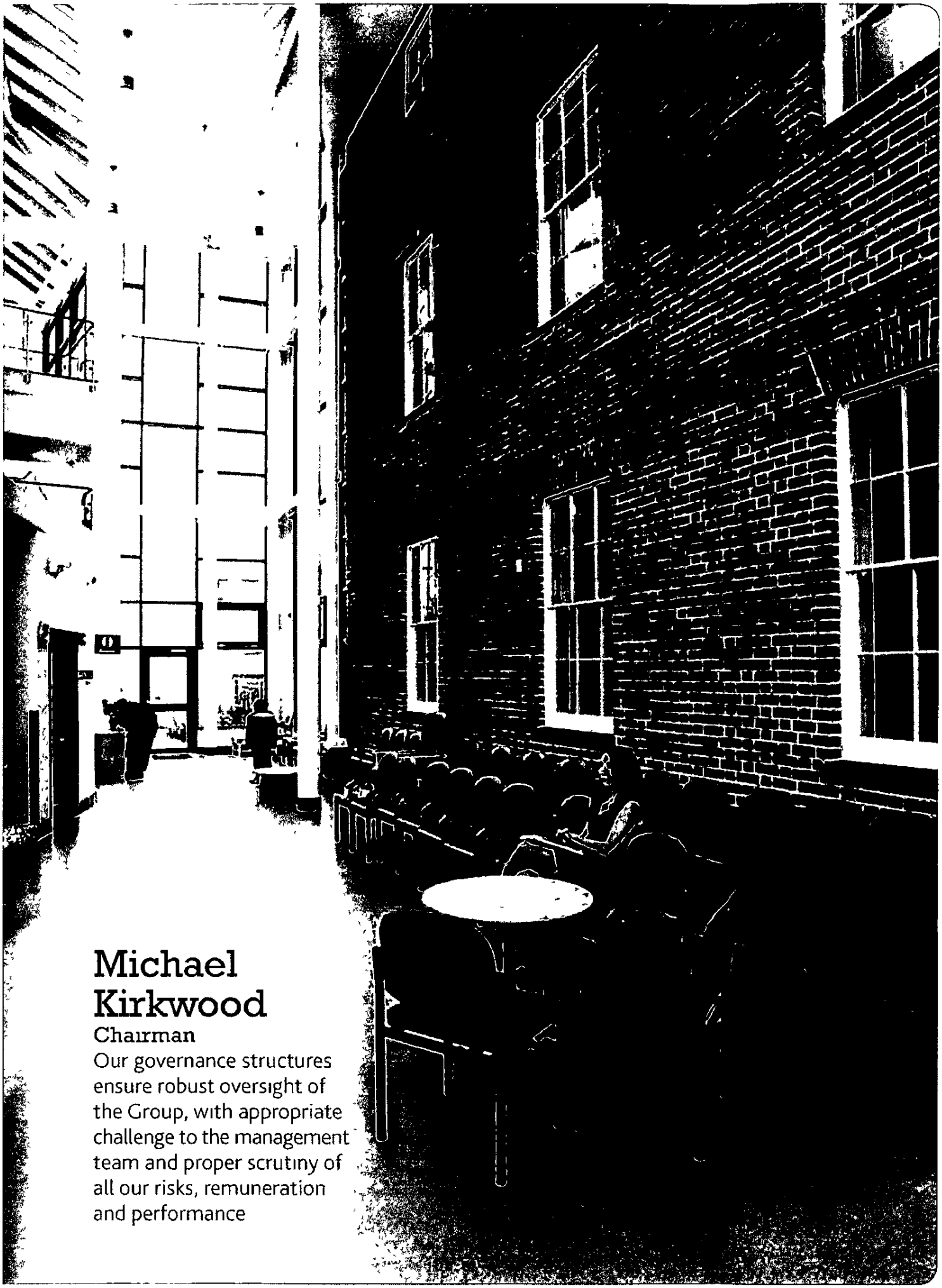
The Group and its employees try to ensure that both services and products are procured in an environmentally friendly manner, and that waste materials are disposed of appropriately, including recycling where economically possible The Group makes extensive use of electronic communications to reduce the amount of printing waste produced Where appropriate, electronic communication methods such as email, telephone and video conference facilities are used to avoid non-essential travel The Group does not offer a Company car scheme to employees, and encourages its employees to travel to work using public transport or a 'bike-to-work' scheme

Ethical conduct
The Board is committed to uphold ethical conduct throughout the Group, and has in place confidential whistle-blowing and anti-bribery policies that enable unresolved concerns to be escalated to the Board's senior independent non-executive director These policies are made available to all employees via a web-based policy management system that enables periodic monitoring

Health and safety
The Group is committed to protecting and enhancing the health and safety of its employees and all patients who are treated in the facilities it operates The Group operates a formal health and safety risk assurance framework, which is regularly monitored by a dedicated health and safety officer who provides monthly reports to the management teams at the operational level, and quarterly reports to the Group's IGC Under the framework, significant incidents are reported without delay to the Board



Michael Kirkwood CMG
Chairman
18 March 2015



Michael Kirkwood

Chairman

Our governance structures ensure robust oversight of the Group, with appropriate challenge to the management team and proper scrutiny of all our risks, remuneration and performance

Directors' remuneration report

This report sets out the Group's remuneration policy and details of directors remuneration

Remuneration Committee

The members of the Remuneration Committee are set out on pages 24 to 26, and the role of the Remuneration Committee is set out in the *Report on corporate governance* on page 30

Remuneration policy

Executive remuneration packages are designed to attract, motivate and retain directors, and to reward them for enhancing value to shareholders The performance measurement of the executive directors and key members of senior management, and the determination of their annual remuneration package, is undertaken by the Remuneration Committee The Board determines the remuneration of the non-executive directors

There are several elements to the remuneration policy

Basic salary

Executive directors' base salaries are set by the Remuneration Committee, taking into account the individual's level of responsibility, experience and performance Salary levels are reviewed annually In setting base salary levels, the Remuneration Committee also takes into account salary levels in comparable companies

Pension scheme

The Group made contributions on behalf of executive directors during the year to a defined contribution pension scheme, which was introduced in 2012

Taxable and other benefits

These include items such as private medical insurance and dental plans These benefits are in line with the remuneration policy framework

Share incentive plans

The trustee of the Circle Partnership Benefit Trust (the 'CPBT') was issued convertible and ordinary shares in the Company as part of Project Reset, resulting in the CPBT holding a 25% interest in the issued share capital of the Company The ordinary shares are to be used to satisfy options to be granted under the Company's new share incentive plans, in accordance with the terms previously approved by the Company's shareholders It enables the participants (including executive directors) who contribute to the Group's success and growth to be owners of the business

Share issue to non-executive directors

On 16 June 2014, the Group issued, at nominal value, an aggregate of 62,769 ordinary shares of £0 02 each in the capital of the Company ('ordinary shares') to certain non-executive directors pursuant to individual share awards (the 'share awards') This issuance represented the third and final tranche of share awards granted to these non-executive directors in 2012 The ordinary shares were issued as set out in the table below

The ordinary shares issued to the non-executive directors cannot be sold or transferred until one year following the end of the non-executive directors' term of service The named non-executive directors do not hold any other interests in the ordinary share capital of the Company

Share issue to directors

In December 2013, the Company agreed to grant to the Group's Chief Financial Officer options to subscribe for 2,200,000 ordinary shares at an exercise price of £0 02 per ordinary share This separate incentive arrangement was agreed, given he was not a participant in the Group's former share scheme, nor had he previously received as remuneration any shares or options in the Company since joining in 2010 The options were granted in December 2014 and vest in two equal tranches in December 2014 and December 2015 An IFRS 2 charge of £572,100 (excluding National Insurance contribution costs) was recognised

Share warrants

Health Trust (Jersey) holds a total of 2,340,765 share warrants at an exercise price of £1 52, which entitle the holder to an equivalent number of ordinary shares in the Company Ali Parsa, the Group's former Chief Executive Officer, is a beneficiary of the Trust

Non executive director	Number of ordinary shares awarded on 18 June 2012	Number of ordinary shares vested and issued on 18 June 2012	Number of ordinary shares vested and issued on 20 June 2013	Number of ordinary shares vested and issued on 16 June 2014	Number of ordinary shares held at 31 December 2014
Michael Kirkwood	94,157	31,386	31,386	31,385	94,157
Lorraine Baldry	47,078	15,693	15,693	15,692	47,078
Andrew Shilston	47,078	15,693	15,693	15,692	47,078

Service contracts
The Company's policy is for executive directors' service contract notice periods to be no longer than 12 months, with the directors having to give not less than six months' written notice In the event of termination, the Company will seek fair mitigation of contractual rights Within legal constraints, the Remuneration Committee tailors its approach, in the event of early termination, to the circumstances of each individual case The contracts of executive directors do not provide for any enhanced payments in the event of a change of control in the Company

Non-executive directors

Non-executive directors are appointed for an initial period of three years, which may be extended by agreement with the Board, subject to re-election by shareholders at the AGM Such appointment may be terminated by the Board or the director with one month's notice None of the non-executive directors is engaged on a service contract with the Company

The Chairman's remuneration was determined by the Board, based on industry practice and taking into account relevant responsibilities and time commitment

The remuneration for non-executive directors consists of fees for services in connection with Board and committee meetings and share options Fees for non-executive directors are determined by the Board, within the restrictions contained in the Articles of Association The levels of remuneration for the non-executive directors reflect the time commitment and responsibilities of the role The non-executive directors are not involved in deciding their fees

Individual emoluments for the year

The table below shows a breakdown, including taxable and other benefits, for each director for the year, or from the date of appointment for those directors appointed in the year

2014	Annual contracted salaries/fees £ 000	Actual salaries/fees £'000	Pension scheme £'000	Share-based charges £ 000	Actual taxable and other benefits £'000	Total £'000
Executive						
Steve Melton	339	328	15	0	2	**345**
Massoud Fouladi	158	158	24	0	–	**182**
Paolo Pieri	210	210	32	572	1	**815**
Non-executive						
Michael Kirkwood	100	100	–	5	–	**105**
Lorraine Baldry	53	53	–	3	–	**56**
Lord Hutton of Furness	40	23	–	–	–	**23**
Justin Jewitt	40	23	–	–	–	**23**
Andrew Shilston	48	48	–	3	–	**51**
Tony Bromovsky	40	17	–	–	–	**17**
Tim Bunting	–	–	–	–	–	–
	1,028	**960**	**70**	**583**	**3**	**1,616**

Directors' remuneration report
Continued

2013	Annual contracted salaries/fees £'000	Actual salaries/fees £ 000	Pension scheme £ 000	Share-based charges £ 000	Actual taxable and other benefits £'000	Total £ 000
Executive						
Steve Melton	300	300	45	1	2	**348**
Massoud Fouladi	156	156	24	1	–	**181**
Paolo Pieri	188	188	28	–	1	**217**
Non-executive						
Michael Kirkwood	100	100	–	11	–	**111**
Lorraine Baldry	53	53	–	6	–	**59**
Peter Cornell	40	20	–	6	–	**26**
Andrew Shilston	48	48	–	6	–	**54**
Tony Bromovsky	40	40	–	–	–	**40**
Tim Bunting	–	–	–	–	–	–
	925	**905**	**97**	**31**	**3**	**1,036**

No directors waived emoluments in respect of the year ended 31 December 2014 (2013 none)

Shares in Circle Partnership Limited

2014	At 1 January 2014 Number	Awards in year Number	Circle Holdings acquisitions of shares Number	At 31 December 2014 Number
Massoud Fouladi	5,418,500	–	(5,418,500)	–
Steve Melton	908,000	–	(908,000)	–
	6,326,500	**–**	**(6,326,500)**	**–**

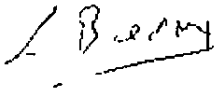
Shares in Circle Holdings plc

The table below shows the number of convertible shares issued to the directors, following the completion of Project Reset as explained in note 6

	Circle Holdings plc convertible (18 months) shares	Circle Holdings plc convertible (36 months) shares	Total convertible shares
Massoud Fouladi	1,181,233	1,181,233	2,362,466
Steve Melton	197,944	197,944	395,888

Warrants in Circle Holdings plc

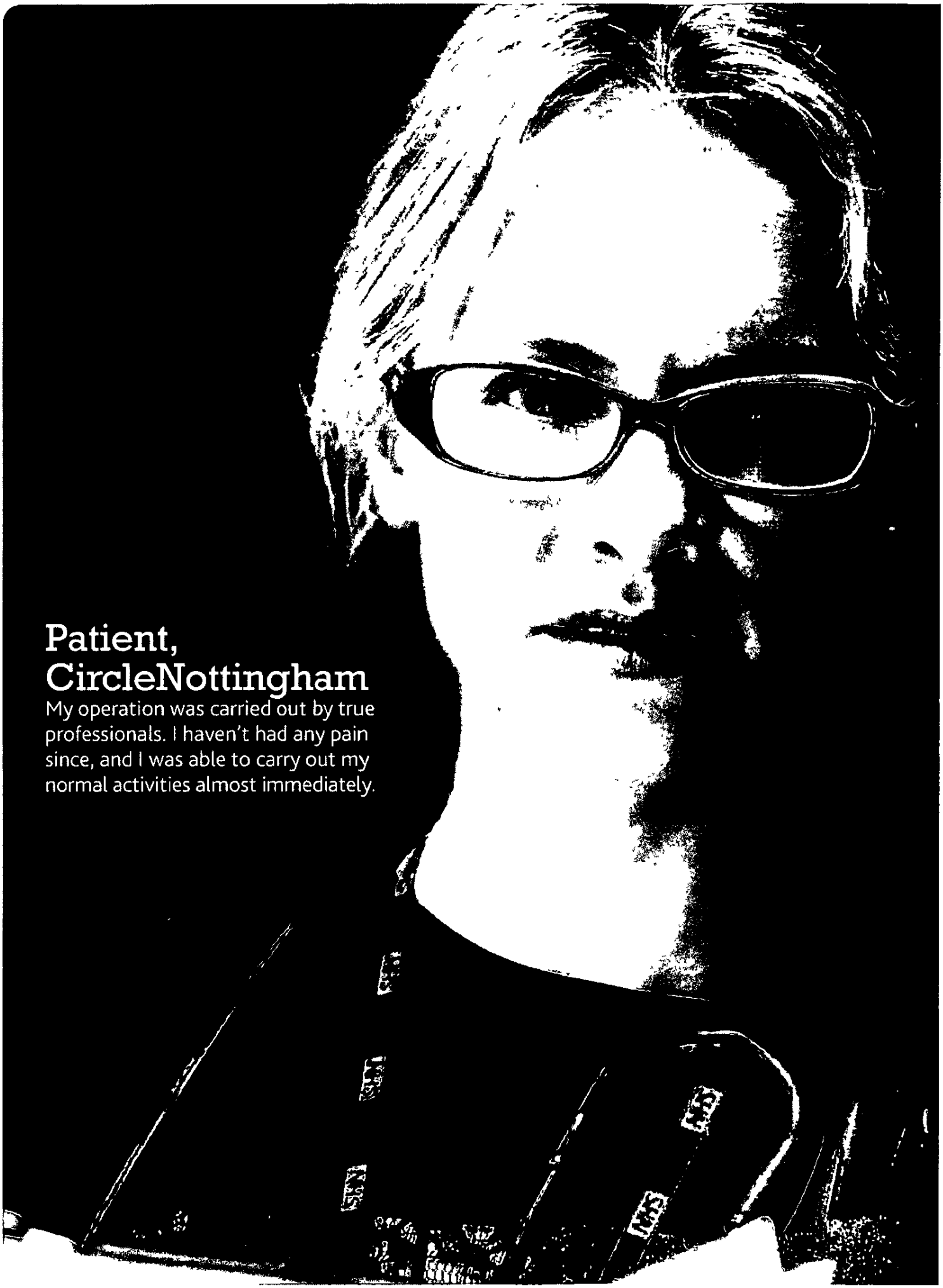
	Year	Exercise price £	At 1 January Number	Awards in year Number	At 31 December Number
Health Trust (Jersey)	**2014**	**£1 52**	**2,340,765**	**–**	**2,340,765**
	2013	£1 52	2,340,765	–	2,340,765



Lorraine Baldry
Chair Remuneration Committee
18 March 2015

* On 4 December 2014, Circle Holdings plc acquired all the issued shares of Circle Partnership Limited by means of the Scheme of Arrangement As consideration the Company issued convertible shares (18 months) and convertible shares (36 months) of 2 pence each Further information is included in note 6

** Health Trust (Jersey) is a family trust of which Ali Parsa the Group s former Chief Executive Officer, is a beneficiary



Patient, CircleNottingham

My operation was carried out by true professionals. I haven't had any pain since, and I was able to carry out my normal activities almost immediately.

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Directors are required by Companies (Jersey) Law 1991 to prepare financial statements for each financial year The directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union and the Company financial statements, in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), as well as 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 the Company, and the profit or loss of the Group for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable IFRSs and UK accounting standards as appropriate, have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume the Company and the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions, and disclose with reasonable accuracy, at any time, the financial position of the Group and the Company, and enable them to ensure that the financial statements comply with Companies (Jersey) Law 1991 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the directors, whose names and functions are listed in the *Board of Directors' report*, confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group, and
- the *Directors' report* includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Disclosure of information to auditors

So far as the directors are aware, at the time the report is approved

- there is no relevant audit information of which the Company's auditors are unaware, and
- each director has taken all the steps that he or she ought to have taken as a director, in order to make himself or herself aware of any relevant audit information, and to establish that the Company's auditors are aware of the information

Independent auditors

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

On behalf of the Board

Steve Melton
Chief Executive Officer
18 March 2015

Independent auditors' report

To the members of Circle Holdings plc

Report on the Group financial statements

Our opinion

In our opinion, Circle Holdings plc's Group financial statements (the 'financial statements')

- give a true and fair view of the state of the Group's affairs as at 31 December 2014, and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs, as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

What we have audited

Circle Holdings plc's financial statements comprise

- the consolidated balance sheet as at 31 December 2014,
- the consolidated income statement for the year then ended,
- the consolidated statement of cash flow for the year then ended,
- the consolidated statement of changes in equity for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs, as adopted by the European Union

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example, in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements These are cross-referenced from the financial statements and are identified as audited

Opinion on other matter

In our opinion, the information given in the *Directors' report* for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991, 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
- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the *Statement of directors' responsibilities* set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing ('ISAs') (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for, and only for, the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland) An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

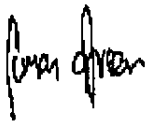
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures, or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements, and to identify any information that is apparently materially incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report

Other matter

We have reported separately on the Company financial statements of Circle Holdings plc for the year ended 31 December 2014



Simon O'Brien (Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Recognised Auditor
London
18 March 2015

Consolidated income statement

For the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Revenue	4	**110,983**	84,252
Cost of sales		**(80,373)**	(56,861)
Gross profit		**30,610**	27,391
Administrative expenses before exceptional items		**(43,939)**	(45,117)
Operating loss before exceptional items	5	**(13,329)**	(17,726)
Exceptional operating items	6	**(5,341)**	3,860
Operating loss	5	**(18,670)**	(13,866)
Finance income	10	**181**	2,035
Finance costs	9	**(911)**	(2,774)
Exceptional finance items	6	**(625)**	1,113
Provision for joint venture deficit	15	**(130)**	(1,738)
Loss before taxation		**(20,155)**	(15,230)
Income tax credit	12	**–**	–
Loss for the financial year		**(20,155)**	(15,230)
Loss for the year attributable to			
– Owners of the parent		**(8,055)**	(6,678)
– Non-controlling interests	23	**(12,100)**	(8,552)
		(20,155)	(15,230)
Basic and diluted loss per ordinary share attributable to the owners of the parent (pence)	11	**(4.3)**	(5.1)

There is no other comprehensive income arising in the Group or joint venture (2013 £nil) and, therefore, no separate statement of other comprehensive income has been prepared

Consolidated balance sheet

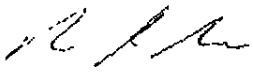
As at 31 December 2014

	Note	2014 £ 000	2013 £ 000
Non-current assets			
Intangible assets	13	**5,562**	5,982
Property, plant and equipment	14	**17,498**	20,675
Trade and other receivables	17	**2,500**	3,840
		25,560	30,497
Current assets			
Inventories	16	**1,806**	1,645
Trade and other receivables	17	**16,683**	14,184
Cash and cash equivalents	18	**24,496**	12,397
		42,985	28,226
Total assets		**68,545**	58,723
Current liabilities			
Trade and other payables	19	**(21,256)**	(11,818)
Loans and other borrowings	20	**(1,922)**	(1,547)
Provisions	21	**–**	(605)
		(23,178)	(13,970)
Non-current liabilities			
Trade and other payables	19	**(2,074)**	(2,169)
Loans and other borrowings	20	**(8,869)**	(9,982)
Provision for joint venture deficit	15	**–**	(4,685)
Provisions	21	**(50)**	(50)
		(10,993)	(16,886)
Total liabilities		**(34,171)**	(30,856)
Net assets		**34,374**	27,867
Share capital	22	**4,956**	2,616
Share premium	22	**236,795**	193,145
Other reserves	22	**22,182**	22,182
Warrant reserve	24	**22,703**	22,703
Share-based charges reserve	25	**1,842**	151
Treasury share reserve	22	**(9,587)**	–
Retained deficit		**(244,517)**	(169,980)
Equity attributable to owners of the parent		**34,374**	70,817
Non-controlling interests	23	**–**	(42,950)
Total equity		**34,374**	27,867

The financial statements on pages 44 to 93 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf by

Steve Melton
Chief Executive Officer

Circle Holdings plc
Registered number 100016 (Jersey)



Paolo Pieri
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital £ 000	Share premium £ 000	Other reserves £'000	Warrant reserve £ 000	Treasury charge reserve £'000	Share based charges reserve £'000	Retained deficit £ 000	Equity attributable to owners of the parent £ 000	Non-controlling interests £ 000	Total equity £ 000
At 1 January 2013	**2,614**	**193,145**	**22,182**	**22,390**	**–**	**96**	**(170,612)**	**69,815**	**(27,088)**	**42,727**
Loss and total comprehensive loss for the year	–	–	–	–	–	–	(6,678)	**(6,678)**	(8,552)	**(15,230)**
Transactions with owners										
Issue of shares in respect of awards to non-executive directors (note 22)	2	–	–	–	–	55	–	**57**	–	**57**
Share-based charges in respect of warrants issued (note 25)	–	–	–	313	–	–	–	**313**	–	**313**
Effect of shares vesting in the period (note 23)	–	–	–	–	–	–	7,310	**7,310**	(7,310)	–
At 1 January 2014	**2,616**	**193,145**	**22,182**	**22,703**	**–**	**151**	**(169,980)**	**70,817**	**(42,950)**	**27,867**
	–	–	–	–	–	–	(8,055)	**(8,055)**	(12,100)	**(20,155)**
Transactions with owners										
Issue of shares in relation to fundraising	1,100	26,400	–	–	–	–	–	**27,500**	–	**27,500**
Capitalised costs in relation to fundraising (note 22)	–	(1,280)	–	–	–	–	–	**(1,280)**	–	**(1,280)**
Effect of shares vesting in the period (note 23)	–	–	–	–	–	–	6,439	**6,439**	(6,439)	–
Issue of shares in respect of Project Reset (note 23)	1,239	19,780	–	–	(9,587)	–	(72,921)	**(61,489)**	61,489	–
Issue of shares to acquire unvested shares in Circle Partnership Limited in respect of Project Reset (note 25)	–	–	–	–	–	1,105	–	**1,105**	–	**1,105**
Capitalised costs in relation to Project Reset (note 23)	–	(1,250)	–	–	–	–	–	**(1,250)**	–	**(1,250)**
Issue of shares in respect of awards to non-executive directors (note 23)	1	–	–	–	–	14	–	**15**	–	**15**
Other share-based charges (note 25)	–	–	–	–	–	572	–	**572**	–	**572**
At 31 December 2014	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**1,842**	**(244,517)**	**34,374**	**–**	**34,374**

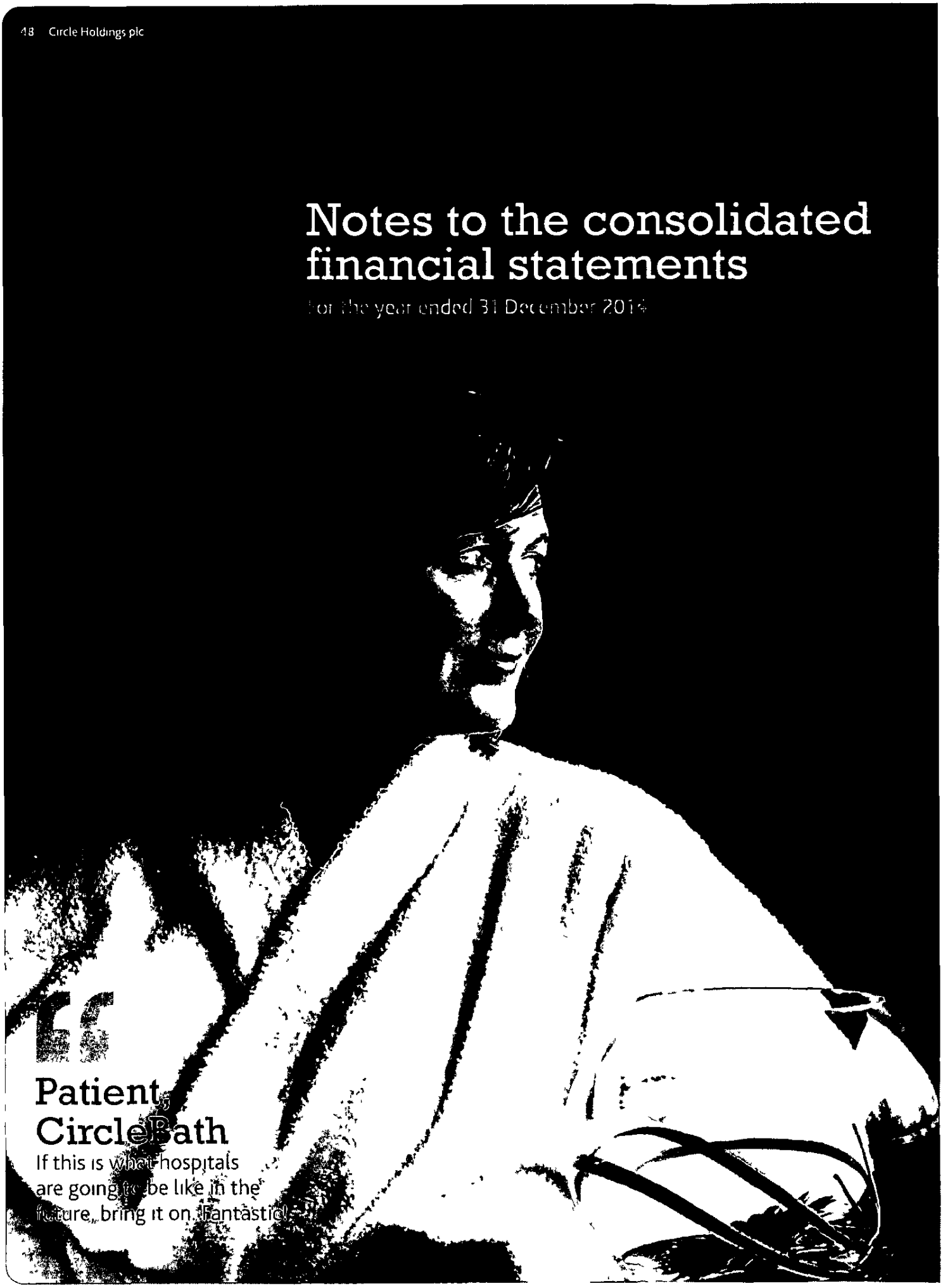
Consolidated statement of cash flows

For the year ended 31 December 2014

	Note	2014 £ 000	2013 £ 000
Cash flows from operating activities			
Net cash outflow from operating activities	29	**(8,361)**	(22,062)
Interest paid		**(1,536)**	(2,400)
Interest received	10	**–**	2,035
Tax paid		**–**	–
Net cash used in operating activities		**(9,897)**	(22,427)
Cash flows from investing activities			
Additional consideration paid for Windsor Hand Surgery		**–**	(366)
Purchase of computer software	13	**(112)**	(57)
Purchase of property, plant and equipment		**(1,383)**	(881)
Net cash used in investing activities		**(1,495)**	(1,304)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	22	**27,500**	–
Capitalised costs in relation to fundraising	22	**(1,280)**	–
Capitalised costs in relation to Group restructuring		**(1,250)**	–
Repayment of borrowings	30	**–**	(430)
Repayment of finance lease	30	**(1,660)**	(1,471)
Interest received	10	**181**	–
Movement in restricted cash			
– Release of minimum balance – GE Capital Equipment Finance Limited ('GE')	30	**1,800**	1,300
– Committed cash in respect of Hinchingbrooke deposit	30	**2,000**	–
Net cash (outflow)/inflow from financing activities		**27,291**	(601)
Net increase in unrestricted cash and cash equivalents		**15,899**	(24,332)
Unrestricted cash and cash equivalents at the beginning of the year		**8,597**	32,929
Unrestricted cash and cash equivalents at the end of the year		**24,496**	8,597
Cash and cash equivalents consist of			
Cash at bank and in hand		**24,496**	12,397
Restricted cash			
– Letter of credit – GE	18	**–**	(1,800)
– Hinchingbrooke deposit	18	**–**	(2,000)
Unrestricted cash at bank and in hand		**24,496**	8,597

Notes to the consolidated financial statements

For the year ended 31 December 2014



Patient, CircleBath

If this is what hospitals are going to be like in the future, bring it on. Fantastic!

General information

Circle Holdings plc (the 'Company'), its subsidiaries and joint venture (together the 'Group') provide healthcare services in the UK

The Company is a public limited company and is incorporated in Jersey; however, it is resident in the UK for tax purposes. The registered office is 12 Castle Street, St Helier, Jersey, JE2 3RT.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union and IFRIC interpretations, Companies (Jersey) Law 1991, on a going concern basis and under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments). In their preparation, management must make certain critical accounting estimates and exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement, assumption or estimates which are significant to the consolidated financial statements are set out at the end of note 2.

Items included in the results of each of the Group's subsidiaries and joint venture 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 presented has been rounded to the nearest thousand.

New standards, amendments and interpretations

These consolidated financial statements are prepared in accordance with IFRSs, as issued by the International Accounting Standards Board ('IASB'), and as adopted by the European Union as at 31 December 2014. The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014, but have not had material impact on the group:

- IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- IFRS 11, 'Joint arrangements', focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. This has no impact on the Group, as equity accounting is already applied to its joint venture.

Notes to the consolidated financial statements
Continued

- IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities, and other off-balance sheet vehicles There are no interests in other entities to disclose for the year ended 31 December 2014

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014, and have not been applied in preparing these consolidated financial statements None of these are expected to have a significant effect on the consolidated financial statements of the Group

- Annual improvements 2012 – these amendments include changes from the 2010–12 cycle of the annual improvements project, that affect seven standards
  - IFRS 2, 'Share-based payment'
  - IFRS 3, 'Business combinations'
  - IFRS 8, 'Operating segments'
  - IFRS 13, 'Fair value measurement'
  - IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets'
  - Consequential amendments to IFRS 9, 'Financial instruments', and IAS 37, 'Provisions, contingent liabilities and contingent assets'
  - IAS 39, 'Financial instruments – recognition and measurement' Effective date is for annual periods beginning on or after 1 July 2014

- IFRS 15, 'Revenue from contracts with customers', is a converged standard from the IASB and FASB on revenue recognition The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally Effective date is expected to be annual periods beginning on or after 1 January 2017

The above amendments are not expected to materially impact the Group's financial statements in future periods

Going concern

The directors consider it to be appropriate for the financial statements to be prepared on a going concern basis, based on the assumptions considered in the *Directors' report* on page 27

Basis of consolidation

i Subsidiaries

The results of subsidiaries (defined as entities over which the Group has the power to govern the financial and operating policies of the subsidiary) are consolidated from the date on which control of the net assets and operations of the acquired company are effectively transferred to the Group Similarly, the results of subsidiaries disposed of cease to be consolidated from the date on which control of the net assets and operations are transferred out of the Group

The Group applies the acquisition method to account for business combinations 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

ii Joint ventures

The Group has an interest in a joint venture A joint venture is a contractual arrangement, whereby, two or more parties undertake an economic activity that is subject to joint control, and involves the establishment of a separate entity in which each venture has an interest The Group recognises its interest in joint ventures using equity accounting, which requires the interest in the joint venture to be carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of its net assets and liabilities, less distributions received and impairments in the value of individual investments If the joint venture is in a net liability position, the Group recognises a provision for its constructive and legal obligations in relation to the joint venture An exceptional credit which arose upon wind-up of the joint venture activities has been presented in the exceptionals (note 6)

iii Non-controlling interests

Non-controlling interests in the results and equity of the Group's subsidiary undertakings are recorded in the consolidated income statement and balance sheet, based upon the proportion of the non-controlling interest's ownership of the Group's subsidiary undertakings This arose in CircleHealth because of the portion of shares issued to employees, clinicians and consultants via the Circle Partnership share scheme, which have vested unconditionally Following the completion of Project Reset, Circle Partnership Limited ('CPL') is now a 100% owned subsidiary of Circle Holdings plc and, therefore, as at 31 December 2014, there is no interest outside the Group

The results of the subsidiaries and joint venture are measured as at the same reporting date as the parent company, using consistent accounting policies Intragroup transactions and balances are eliminated on consolidation

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating

decision-maker, who is responsible for allocating resources and assessing performance of the operating segments A change in the presentation of segmental information is explained further in note 3

Revenue

Revenue, which is measured as the fair value of consideration received for the activity performed, represents the total amounts derived primarily from the provision of healthcare services in the UK, after deducting relevant discounts and value added tax (where services provided are not exempt) Revenue is recognised on completion of the patient's appointment and can be broken down into the following

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 tariff Patients choose their preferred provider under the national Choose and Book system Following the patients' treatment and subsequent discharge from hospital, the Group will invoice the clinical commissioning group ('CCG') directly at tariff for the medical procedure performed Additional one-off payments are recognised in the period that the treatment is conducted No provider is guaranteed any volume or exclusivity

For non-fixed payments at treatment centres, 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

The new Bedford musculoskeletal ('MSK') contract value has a term of five years The contract creates a 'prime provider', which takes responsibility for co-ordinating and managing the rest of the system The main contracting parties are Bedford CCG and local care providers The contract revenue is spread over the term of the contract on a straight-line basis, as activity is expected to increase by demographic growth only over the five-year contract period Additional revenue has been recognised, only to the extent that there is a high probability of receiving the revenue, and where it can be measured accurately Additional revenue has been recognised in the financial statements relating to groups of patients that fall outside the initial contract scope

Circle bears separate risk over the revenue and costs, meaning that an agency relationship between Circle, Bedford CCG and the providers does not exist As such, Circle has recognised the revenue and cost separately in the profit and loss account

Private and self-pay

Payment is based on procedures performed, either at contractually agreed insurance prices or self-pay rates, which are determined by the specific procedure undertaken

In the case of private revenue, the insurance companies pay the consultants directly, and Circle recognises revenue for use of the hospital, consumables and other clinical services

For self-pay, Circle recognises that all the revenue and cost of the consultant is charged to cost of sales

Revenue under management

For accounting purposes, the Group is not deemed to control the Hinchingbrooke Health Care NHS Trust ('Hinchingbrooke') and, therefore, does not consolidate the net assets and results of the Trust Until such time that surpluses are generated by Hinchingbrooke, the Group has not recognised any income associated with the running of the contract and, meanwhile, revenue generated by Hinchingbrooke will be presented as proforma 'revenue under management', which is a non-statutory term Under the terms of the contract, the Group had agreed to make working capital contributions of up to £5,000,000

Other miscellaneous income

Other miscellaneous income primarily relates to car parking revenue and delicatessen revenue This income is recognised at the point of sale

Exceptional items

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

The exceptional loss in the year ended 1 December 2014 was £5,341,000 (2013 gain of £3,860,000)

The exceptional finance cost of £625,000 (2013 income of £1,113,000) is further explained in note 6

Finance costs

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

On certain loans, interest is rolled up into the principal This is taken into account when calculating the effective interest rate

Notes to the consolidated financial statements
Continued

Finance income
Finance income is accrued by reference to the principal outstanding and the effective interest rate applicable

Intangible assets
Intangible assets comprise

i Goodwill
Goodwill represents the excess of the cost of acquisition of a business combination over the Group's share of the fair value of identifiable assets, liabilities, and contingent liabilities of the business acquired at the date of acquisition 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

ii Computer software
Computer software (defined as software that is not considered an integral part of the hardware equipment) represents third-party costs incurred in relation to the Group's information technology ('IT') systems

iii Other intangible assets
Other intangible assets comprise third-party know-how costs which meet the criteria of IAS 38, 'Intangible assets'

Impairment and amortisation
Assets that have an indefinite useful life such as goodwill, or intangible assets that are still in their development phase, are not subject to amortisation, but are tested annually for impairment, or more frequently if there are indications of impairment Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount

The recoverable amount is the higher of an asset's fair value less cost to sell, and value in use

Goodwill is initially recognised at cost After initial recognition, goodwill is measured at cost less any accumulated impairment losses The value in use is calculated using an appropriate pre-tax discount rate Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold

Computer software and other intangible assets are stated at historic cost less accumulated amortisation and impairment losses Once the asset is complete, amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, and the charge is taken to administrative expenses The intangible asset is assessed for impairment whenever there is an indication that the asset may be impaired

The useful economic life of the Group's intangible assets is as follows

Computer software	Three years
New-build programme 'know-how'	Five years

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

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

Leasehold land	Life of lease
Leasehold improvements	Shorter of lease life or expected useful life (five to ten years)
Clinical equipment	Three to five years
Furniture, fittings and office equipment (including commissioning costs)	Three to ten 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
i Commissioning costs in course of construction
Commissioning costs comprise staff, property, consultancy and operational costs directly related to the commissioning of new-build hospitals Such costs are capitalised 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 above

ii Development costs in course of 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

Leases

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

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

Inventories

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

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

Trade receivables

Trade receivables represent amounts due from customers arising from the performance of services or sale of goods Trade receivables are initially recognised at fair value and, subsequently, measured at amortised cost, which includes an allowance for impairment where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the contract The allowance for impairment is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate The movement in the allowance for impairment is taken to administrative expenses

Trade receivables are presented as current where collection is expected within one year or less, otherwise they are presented as non-current

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, overnight deposits, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities Restricted cash which is included in this balance is tied up, subject to contractual arrangements

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 expected within one year or less, they are classified as 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

Current and deferred income taxation

Tax expense comprises current and deferred tax The charge for current income tax is based on the results for the period, 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

Notes to the consolidated financial statements
Continued

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

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

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

Derivative financial instruments
The Group has previously entered into derivative financial instrument arrangements to manage its exposure to interest rate risk The Group's criteria for entering into such arrangements, namely interest rate swaps, are that the instrument must be related to an asset or a liability and it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa At 31 December 2013, there were no remaining derivative financial instrument arrangements, and no new arrangements entered into during 2014

Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are classified as current or non-current based on the timing of cash flows Derivatives are subsequently remeasured to fair value at each balance sheet date, and the movement is recognised immediately in the income statement, in finance income or finance costs accordingly

Provisions for other liabilities and charges
Provisions in respect of dilapidations, onerous leases and under-declared VAT are recognised when the Group has a present obligation in respect of a past event, when it is probable that an outflow of resources will be required to settle the obligation and it can be reliably estimated Provisions are discounted where the time value of money is considered to be material, using an appropriate pre-tax 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

Loans and borrowings
All non-convertible loans and borrowings are recognised initially at fair value, net of directly attributable transaction costs Subsequent to initial recognition, loans and borrowings are carried at amortised cost, with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowing, using the effective interest rate method

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 date

Warrants
A warrant is an instrument issued by the Company which gives the holder the right to purchase shares in the company at a specific price at a future date An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities A warrant is treated as a financial liability if

- it is a non-derivative and the Group is obliged to deliver a variable number of its shares, or
- it is a derivative that will be settled other than by a fixed amount of cash or other assets for a fixed number of the Company's own shares

Transaction costs are apportioned between the liability and equity components of the instrument based on the allocation of proceeds to the liability and equity components when the instruments are first recognised

Equity warrants
The proceeds on issue of equity warrants are included within shareholders' equity, net of transaction costs The fair value of the equity component is not remeasured in subsequent years The fair value of warrants is credited to equity, with the debit being charged to the income statement, or taken to liabilities where the warrants are linked to a loan

Equity warrants are valued using an appropriate valuation methodology on a diluted pricing basis, based on the relevant share price at the time of issue, or based on an assessment of the market price at the time of issue

Share-based charges

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

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

And excluding

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

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are expected to be satisfied

Where modifications to existing share options occur, a difference between the revised charge and the existing charge will be made

Dividends

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

Share capital

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

Treasury shares

Following Project Reset, The Circle Partnership Benefit Trust (the 'CPBT') was issued with shares in the Company The Trust is consolidated in the financial statements and, accordingly, shares held by the Trust are recognised at cost as a debit to equity in the Treasury share reserve

Significant accounting judgements and 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 following judgements and estimates have the most significant effect on the amounts recognised in the consolidated financial statements

Judgements

The key judgements 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
Under the new Nottingham NHS Treatment Centre contract, 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 three months when the CCGs then approve the activity levels Revenue is recognised based on activity performed in the month, which had not been approved at the end of the year

The Bedford MSK contract entitles 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 In addition to this, the contract allows for one-off payments from Bedford CCG to Circle, in respect of treating inherited activity outside the initial scope of the contract A judgement has been taken on the income per procedure, which is expected to be recovered from the CCG with reference to the income recovered from similar procedures

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 Tax
The recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future years Based on this, management has not recognised the deferred tax assets arising

ii Provisions
Provisions are assessed annually in accordance with the Group's accounting policy Provisions are recognised where it is probable that an outflow of economic benefits will occur as a result of a past event or transaction, and a reliable estimate of the outflow can be made In the event that estimates are wrong, this may impact the financial statements in future years

Notes to the consolidated financial statements
Continued

iii Valuation of property, plant and equipment
Freehold and leasehold land are held at cost less accumulated impairment losses These were subject to valuations at 31 December 2012 by third-party professional valuers to assess for any indications of impairment The valuations were based on a number of factors, including intended usage for the site, potential rental value and, where applicable, the length of the lease In the event that estimates are wrong, this may impact the financial statements in future years

iv Share-based charges
Share-based charges are based on the share and warrant valuations calculated using several assumptions (for example share price volatility and time constraints) included within an option pricing model In the event that estimates are wrong, this may impact the charge in future years

v 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

vii Allowance for impairment of trade receivables
An allowance for impairment of trade receivables is made, based on the difference between the asset's carrying amount and the present value of estimated cash flows In the event that estimates are wrong, this may impact the financial statements in future years

viii 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 10% and assumptions in terms of volume and cost savings In the event that these estimates are wrong, this may impact the financial statements in future years

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

3 Segmental reporting

The chief operating decision-maker has been identified as the Board The Board reviews the Group's internal reporting in order to assess performance and allocate resources, and has divided the Group into three reportable business segments based on the Group's management and internal reporting structure The Board assesses the performance of the segments based on revenue, gross profit, EBITDA before exceptional items, and operating (loss)/profit Measures of assets and liabilities for each reportable segment is not reviewed by the Board in the Group's internal reporting All measures are prepared on a basis consistent with that of the consolidated income statement Revenue charged between segments has been charged at arm's length and eliminated from the Group financial statements

Revenue from external customers in the segmental analysis is also measured in a manner consistent with the income statement This is split by hospital rather than by patient Circle hospital services include CircleReading, CircleBath and CircleNottingham Other Circle services include other non-hospital management services, such as the contract with Bedfordshire CCG to provide MSK to patients in Bedfordshire Geographic factors are not considered, as all of the Group's operations take place within the United Kingdom

Reporting segments have been reclassified from prior years, and 2013 has been restated, as this is deemed to be more representative of the Group's current internal reporting The introduction of the Bedfordshire MSK contract during the year marked the introduction of a new operating segment, its economic characteristics being different to those of the hospital sites CircleReading, CircleBath and CircleNottingham are hospitals that are managed in a similar way and have similar economic characteristics, meeting the IFRS 8 criteria for aggregation

3 Segmental reporting continued

2014	Circle hospital services £ 000	Other Circle services £ 000	All other segments and unallocated items £'000	Total Group £ 000
Revenue from external customers	89,407	21,557	19	110,983
Cost of sales	(60,212)	(20,161)	–	(80,373)
Gross profit	**29,195**	**1,396**	**19**	**30,610**
Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(32,075)	(2,547)	(6,415)	(41,037)
EBITDA before exceptional items	**(2,880)**	**(1,151)**	**(6,396)**	**(10,427)**
Depreciation and amortisation charge	(2,448)	(2)	(452)	(2,902)
Operating loss before exceptional items	**(5,328)**	**(1,153)**	**(6,848)**	**(13,329)**
Share-based charges in respect of awards and warrants issued (includes National Insurance contributions costs)	–	–	(1,756)	(1,756)
Impairment of non-current assets	–	–	(2,907)	(2,907)
Provision for receivables	–	–	(5,000)	(5,000)
Other exceptional items	–	–	4,322	4,322
Operating loss	**(5,328)**	**(1,153)**	**(12,189)**	**(18,670)**
Finance income				181
Finance costs				(911)
Exceptional finance income				(625)
Provision for joint venture deficit				(130)
Loss before taxation				**(20,155)**
Other information				
Capital additions	2,070	29	210	2,309

Notes to the consolidated financial statements
Continued

3 Segmental reporting continued

2013 restated	Circle hospital services £ 000	Other Circle services £ 000	All other segments and unallocated items £ 000	Total Group £ 000
Revenue from external customers	**84,200**	**–**	**52**	**84,252**
Cost of sales	(56,858)	–	3	(56,861)
Gross profit	**27,342**	**–**	**49**	**27,391**
Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(32,079)	–	(9,124)	(41,203)
EBITDA before exceptional items	**(4,737)**	**–**	**(9,075)**	**(13,812)**
Depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(3,363)	–	(551)	(3,914)
Operating loss before exceptional items	**(8,101)**	**–**	**(9,625)**	**(17,726)**
Share-based charges in respect of awards and warrants issued	–	–	(369)	(369)
Increase in onerous lease provision	(35)	–	614	579
Impairment of non-current assets	3,578	–	(3,732)	(154)
Provision for receivables	–	–	(6,348)	(6,348)
Other exceptional items	(136)	–	10,288	10,152
Operating loss	**(4,694)**	**–**	**(9,172)**	**(13,866)**
Finance income				2,035
Finance costs				(2,774)
Exceptional finance costs				1,113
Provision for joint venture deficit				(1,738)
Loss before taxation				**(15,230)**
Other information				
Capital additions	1,711	–	87	1,798

4 Revenue

i Revenue

	2014 £'000	2013 £ 000
Provision of healthcare services	**110,547**	83,873
Other miscellaneous income	**436**	379
	110,983	84,252

ii Revenue under management

On 1 February 2012, the Group commenced the operation to run Hinchingbrooke

For accounting purposes, the Group was not deemed to control Hinchingbrooke and, therefore, did not consolidate the net assets and results of the company

In the 12 months to 31 December 2014, Hinchingbrooke revenue increased to £110 1 million, supported by increased outpatient and accident and emergency attendances, and admissions

In January 2015, Circle announced its intention to terminate the Franchise Agreement dated 10 November 2011 Please refer to the *Directors' report* for further details

5 Operating loss

	Note	2014 £ 000	2013 £ 000
Operating loss is stated after charging/(crediting)			
Charge recognised in respect of amounts recoverable on contracts	17	–	1,181
Amortisation of intangible assets	13	**451**	443
Depreciation of property, plant and equipment	14	**2,451**	2,290
Auditors' remuneration (see below)		**564**	486
Movement in provision for bad debts	17	**(73)**	129
Operating lease rental		**11,579**	13,669
Exceptional operating items	6	**5,341**	(3,860)
Auditors' remuneration payable to PricewaterhouseCoopers LLP			
Fees payable to Company's auditors for the parent Company and consolidated financial statements		**94**	90
Fees payable to the Company's auditors for other services			
– The audit of Company's subsidiaries		**203**	203
– Audit-related assurance services		**234**	–
– Tax advisory services		**33**	150
– All other non-audit services		–	43
		564	486

Notes to the consolidated financial statements
Continued

6 EBITDA and exceptional items
Exceptional operating items

	Note	2014 £'000	2013 £'000
Impairment of property, plant and equipment	14	**2,907**	152
Impairment of Hinchingbrooke working capital contributions		**5,000**	–
Share-based charges	25	**651**	368
Deconsolidation of Health Properties Edinburgh		–	(4,384)
Revaluation of finance lease payments		–	136
Provision for under-declared VAT in prior periods	21	**(226)**	115
Restructuring costs		**1,105**	312
Decrease in provision for onerous leases, including dilapidations	21	–	(579)
Provision for debtor with Health Properties (Bath) Limited ('HP Bath')		–	40
Gain on the wind-up of joint venture activities (net of professional fees)		**(4,750)**	–
Other exceptional expense/(income)		**654**	(20)
		5,341	(3,860)

The Group has provided for the carrying costs on the current design development costs, which were historically spent on its Manchester and Birmingham sites as it re-evaluates the model appropriate for these markets This impairment to assets under construction has resulted in an exceptional charge of £2,907,000 in the profit and loss account

A provision has been made in relation to Hinchingbrooke working capital contributions of £5,000,000 Further explanation is provided in the *Directors' report* in regards to the current status of the Franchise Agreement

A share-based charge for the share options awarded to the Group's Chief Financial Officer amounted to £651,000, including National Insurance contribution costs Further details are included in note 25

During the year, the Group released a provision in relation to VAT, following the completion of HM Revenue and Customs' ('HMRC') VAT enquiries

Other exceptional costs incurred related to advisory fees to assist the Group's consideration of potential acquisitions

Project Reset
Project Reset entailed the enhancement of our partnership incentive scheme and involved a significant restructure All of the steps in respect of Project Reset, the Group's organisational restructuring, have now been completed and the Company now owns 100% of CPL, Circle Health Limited, and the Group's operating entities

Under the terms of Project Reset, the Company issued 38,855,367 ordinary shares of £0 02 each in the Company to the CPBT, which are to be used to satisfy options to be granted under the Company's new share incentivisation plans in accordance with the terms previously approved by the Company's shareholders

6 EBITDA and exceptional items continued

In addition, Circle Holdings plc issued 23,093,930 convertible shares of £0 02 each in the Company, to the trustee of the CPBT, split in two equal tranches, which shall automatically convert after 18 months and 36 months, respectively, into ordinary shares The convertible shares cannot be traded or sold until they have converted into ordinary shares

The unvested shares in CPL were accelerated as part of Project Reset and exchanged for 2,231,770 Circle Holdings plc convertible shares at £0 02 each, resulting in an exceptional share-based charge of £1,105,000

The CPBT was also issued with shares in the Company The Trust is consolidated in the financial statements and, accordingly, shares held by the Trust are recognised at cost as a debit to equity in the Treasury share reserve

Project Reset transaction costs amounted to £1,250,000, all of which have been taken to share premium as costs directly attributable to the issuance of shares

Health Properties (Bath) Limited

The Group made a gain on the wind-up of the joint venture activities of the Group's sole joint venture, HP Bath, incorporated in Jersey, of £4,750,000 The freehold interest in the Bath Hospital land was sold, and associated loans wound up during 2014

HP Bath sold its freehold interest in the land and the building on which the Group's CircleBath hospital operates for £28,250,000 in July 2014 to MPT The proceeds from the sale were used to repay all of the amounts owed to HP Bath's senior lender, Santander, and some, but not all, of the amounts owed to its other secured lender, LB UK RE Holdings Limited ('LB UK RE') As a result of the shortfall owed to LB UK RE, the Group paid it an additional £625,000 pursuant to a guarantee arrangement (note 6) No other amounts were paid or owed by the Group as a result of the disposal of the land and the satisfaction of the secured loans to Santander and LB UK RE The unsecured shareholder loan and additional amounts totalling 1,621,000 (2013 £1,615,000) owed by HP Bath to the Group, which previously had been fully impaired, will be extinguished as part of the voluntary wind-up of HP Bath in 2015

Prior to the sale of the freehold interest in the land, HP Bath entered into a new 15-year lease with CircleBath Under the terms of the new lease, annual rent was reduced to £2,500,000 initially (2013 3,232,000), subject to annual increases based on RPI and a 2–5% floor-cap At the same time, HP Bath entered into a new rent deposit deed with CircleBath that increased the rental deposit to £2,500,000 (2013 £1,586,000) This deposit will reduce to £1,250,000 once CircleBath has achieved an EBITDAR-to-rent ratio of 1 75 1 in two consecutive quarters Both the new lease and the rent deposit deed were transferred to MPT, the buyer of the CircleBath freehold, on 1 July 2014

Exceptional finance items

	2014 £'000	2013 £ 000
Financing costs paid in respect of the final recourse guarantee in relation to the wind-up of activities in HP Bath	**625**	–
Gain on fair value of interest rate derivative	–	(1,113)
	625	(1,113)

The interest rate derivative expired in July 2014 upon the repayment of the associated loan

Notes to the consolidated financial statements
Continued

7 Employee information
Staff costs

	Note	2014 £ 000	2013 £ 000
Wages and salaries		**25,695**	22,076
Share-based charges	25	**14**	368
Social security costs		**2,404**	2,014
Other pension costs	27	**1,492**	1,184
		29,605	25,642

Share-based charges were charged to operating items

Monthly average number of employees

	2014 Number	2013 Number
Administrative	**451**	407
Clinical	**523**	347
	974	754

The average number of employees includes directors on a service contract

8 Directors' emoluments

	2014 £'000	2013 £ 000
Aggregate emoluments	**1,612**	1,036

Directors' emoluments relate to the non-executive and executive directors, who are remunerated by Circle Holdings plc and Circle Health Limited The directors had retirement benefit contributions during the year of £70,000 (2013 £97,000) Included within both years are share-based charges for the non-executive directors, as detailed in the *Directors' remuneration report* Additionally, there is an exceptional share-based charge of £572,000 (excluding National Insurance contributions) (note 25)

8 Directors' emoluments continued

Compensation of key management personnel

The Group made payments to key management personnel, defined as the key executive partners of the business, for services provided to the Group as follows

	2014 £'000	2013 £ 000
Short-term employment benefits	1,338	747

All key management personnel were also directors of the company in the year, and therefore, their remuneration has also been disclosed within aggregate emoluments of the previous section

9 Finance costs

	2014 £ 000	2013 £ 000
Interest on Barclays plc ('Barclays') loan	–	1,466
Interest on AIB loan	–	317
Finance lease interest	895	973
Unwind of discount on unsecured loan note and deferred consideration	–	18
Other bank charges	16	–
	911	2,774

10 Finance income

	2014 £'000	2013 £'000
Bank interest receivable	118	65
Interest receivable on operating financial asset	–	1,970
Other interest income	63	–
	181	2,035

Notes to the consolidated financial statements
Continued

11 Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year Diluted loss per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of all potentially dilutive ordinary shares Share warrants and options in issue represent the only category of dilutive ordinary shares for the Group The following table sets out the computation for basic and diluted net loss per share for the year

	2014	2013
Loss and total comprehensive loss for the year attributable to owners of the parent (£000's)	**(8,055)**	(6,678)
Weighted average number of ordinary shares in issue (number)	**186,911,084**	130,748,362
Basic and diluted loss per ordinary share (pence)	**(4 3)**	(5 1)

There is no difference in the weighted average number of ordinary shares used for basic and diluted net loss per ordinary share, as the effect of all potentially dilutive ordinary shares outstanding is anti-dilutive

12 Taxation

i Analysis of income tax charge in year

	2014 £ 000	2013 £ 000
Current tax		
UK corporation tax	–	–
Deferred tax		
Originating and reversal of timing differences	–	–
Income tax charge	–	–

ii Factors affecting the current tax charge for the year

Although the parent company is registered in Jersey, it became resident for UK tax purposes during 2011, and is subject to UK corporation tax The tax assessed on the Group's loss before taxation differs from the average standard rate of UK corporation tax of 21 5% (2013 23 25%) The differences are explained below

12 Taxation continued

	2014 £'000	2013 £ 000
Loss before taxation	**(20,155)**	(15,230)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 21 5% (2013 23 25%)	**(4,333)**	(3,541)
Effects of		
Expenses not deductible for tax purposes	**1,407**	124
Income not taxable for tax purposes	**–**	(153)
Temporary differences for which no deferred tax recognised	**175**	(993)
Tax losses for which no deferred tax recognised	**3,862**	4,820
Effect of Jersey tax at 0%	**(1,111)**	(257)
Total income tax charge for the year	**–**	**–**

iii Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 23% to 21%, with effect from 1 April 2014 Legislation was enacted to reduce the main rate of corporation tax from 21% to 20% (and will become unified with the small companies rate), with effect from 1 April 2015

The reductions in tax rate to 21% and, subsequently, to 20% were substantively enacted for the purposes of IAS 12, 'Income taxes', on 2 July 2013 As these rate changes have been substantively enacted at the balance sheet date, their effects have been included in these financial statements

iv Deferred tax

UK 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

	2014 £ 000	2013 £'000
At 1 January	**–**	–
Recognised during the year	**–**	–
At 31 December	**–**	–

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

	2014 £ 000	2013 £'000
Tax losses carried forward	**29,480**	26,558
Deductible temporary differences	**4,129**	3,928
	33,609	30,486

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

Notes to the consolidated financial statements
Continued

13 Intangible assets

	Goodwill £'000	Computer software £'000	Other intangible assets £ 000	Total £'000
Cost				
At 1 January 2013	8,183	1,744	166	10,093
Additions	–	57	–	57
As at 1 January 2014	8,183	1,801	166	10,150
Additions	–	112	–	112
As at 31 December 2014	**8,183**	**1,913**	**166**	**10,262**
Accumulated amortisation and impairment				
At 1 January 2013	3,212	480	33	3,725
Amortisation charge for the year	–	410	33	443
As at 1 January 2014	3,212	890	66	4,168
Amortisation charge for the year	–	432	19	451
Impairment charge for the year	–	–	81	81
As at 31 December 2014	**3,212**	**1,322**	**166**	**4,700**
Net book amount				
At 31 December 2014	**4,971**	**591**	**–**	**5,562**
At 31 December 2013	4,971	911	100	5,982
At 1 January 2013	4,971	1,264	133	6,368

The amortisation charge for the year is included in the income statement within administrative expenses before exceptional items

13 Intangible assets continued

i Goodwill

Goodwill acquired in a business combination is allocated to the cash-generating units ('CGUs') that are expected to benefit from that business combination CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes The carrying amount of goodwill has been allocated to the following CGU

	2014 £ 000	2013 £ 000
Circle's Nottingham NHS Treatment Centre	**4,971**	4,971

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 CGUs are determined based on value-in-use calculations, using 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 Cash flows are discounted back to present value, using a risk-adjusted pre-tax discount rate of 10%, which represents an internally computed rate, based on gearing levels and loan interest rates

The financial plans reflect past experience and incorporate assumptions in terms of volumes and tariff deflation Volume increase is reasonably assumed to be 3%, and tariff deflation at 1 5% year-on-year The value-in-use calculations are sensitive to changes in the key assumptions used, however, management's sensitivity analysis shows that a reasonable change in key assumptions will not cause an impairment in the goodwill related to Circle's Nottingham NHS Treatment Centre

ii Computer software

Computer software represents third-party costs incurred in relation to the Group's IT systems

iii Other intangible assets

Other intangible assets include the development of 'know-how' for a new programme to build hospitals within a shortened time frame This is achieved by utilising standard build components which have been manufactured off-site at a reduced cost, and reducing the amount of build time on-site During 2014, this was fully impaired

Assets held under finance lease have the following net book amounts

	2014 £'000	2013 £'000
Computer software	**382**	523
	382	665

Notes to the consolidated financial statements
Continued

14 Property, plant and equipment

	Freehold and leasehold land £ 000	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture fittings and office equipment £ 000	Total £ 000
Cost						
At 1 January 2013	19,701	3,404	2,796	8,005	15,917	49,823
Additions	–	4	510	1,043	184	1,741
Reclassifications	–	(101)	–	101	–	–
Disposals	(7,859)	–	(90)	(303)	(167)	(8,419)
At 1 January 2014	11,842	3,307	3,216	8,846	15,934	43,145
Additions	–	69	137	1,558	432	2,197
Disposals	–	–	–	(42)	–	(42)
At 31 December 2014	11,842	3,376	3,353	10,363	16,366	45,300
Accumulated depreciation and impairment						
At 1 January 2013	6,709	165	2,248	1,531	14,294	24,947
Depreciation charge for the year	35	–	95	1,506	654	2,290
Impairment charge for the year	–	–	152	–	–	152
Disposals	(4,359)	–	(90)	(303)	(167)	(4,919)
At 1 January 2014	2,385	165	2,405	2,734	14,781	22,470
Depreciation charge for the year	35	–	104	1,826	486	2,451
Impairment charge for the year	–	2,907	–	–	–	2,907
Disposals	–	–	–	(26)	–	(26)
At 31 December 2014	2,420	3,072	2,509	4,534	15,267	27,802
Net book amount						
At 31 December 2014	**9,422**	**304**	**844**	**5,829**	**1,099**	**17,498**
At 31 December 2013	9,457	3,142	811	6,112	1,153	20,675
At 1 January 2013	12,992	3,239	548	6,474	1,623	24,876

14 Property, plant and equipment continued

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

Freehold and leasehold land were valued at 31 December 2012 by a third-party valuer Management believes these to be appropriate on the basis that there have not been decreases in land values in the areas since The Group has provided for the carrying costs on the current design development costs, which were historically spent on its Manchester site as it re-evaluates the model appropriate for that market This impairment to assets under construction has resulted in an exceptional charge of £2 8 million in the profit and loss account In addition, assets under construction of £125,000 was provided for in relation to the Birmingham site, as the Group implements new plans for Birmingham

Assets held under finance leases have the following net book amounts

	2014 £'000	2013 £'000
Leasehold land	**4,272**	4,307
Clinical equipment	**4,686**	5,406
Furniture, fittings and office equipment	**469**	649
	9,427	10,362

The additions during the year comprise lease agreements with Shawbrooke Bank Limited and Close Leasing Limited to finance the purchase of clinical equipment at CircleReading and CircleNottingham hospitals

Freehold and leasehold land can be split into the following net book amounts

	2014 £'000	2013 £ 000
Freehold	**5,150**	5,150
Leasehold	**4,272**	4,307
	9,422	9,457

Notes to the consolidated financial statements
Continued

15 Provision for joint venture deficit

	2014 £ 000	2013 £'000
At 1 January	**(4,685)**	(2,947)
Increase in the year	**(130)**	(1,738)
Gain on wind-up of activities in HP Bath	**4,815**	–
At 31 December	**–**	(4,685)
Group's share of net liabilities of joint venture (38 7%)		
Non-current assets	–	11,455
Current assets	–	1,024
	–	12,479
Current liabilities	–	(1,058)
Non-current liabilities	–	(16,106)
	–	(17,164)
Group's share of net liabilities	**–**	(4,685)
Group's share of results of joint venture (38 7%)		
Revenue	**716**	1,420
Operating expenses	**(21)**	(2,142)
Finance costs	**(825)**	(1,016)
Group's share of loss after tax of joint venture	**(130)**	(1,738)

During 2014, the activities of HP Bath were wound up For a more detailed explanation, please refer to note 6

16 Inventories

	2014 £'000	2013 £'000
Consumables	**1,806**	1,645

At 31 December 2014, an amount of £nil (2013 nil) has been provided against the gross cost of inventories
The cost of inventories recognised as an expense in the year is £13,096,000 (2013 £10,334,000)

17 Trade and other receivables

		Current		Non-current	
	Note	2014 £'000	2013 £ 000	2014 £'000	2013 £ 000
Trade receivables		**10,906**	5,232	–	–
Less allowance for impairment of trade receivables		**(187)**	(260)	–	–
Net trade receivables		**10,719**	4,972	–	–
Prepayments and accrued income		**4,843**	3,981	**2,500**	140
Other receivables		**1,108**	3,645	–	3,700
Amounts owed by joint venture	32	**13**	1,586	–	–
		16,683	14,184	**2,500**	3,840

The directors consider the carrying amount of trade and other receivables to approximate to their fair value Long-term receivables are discounted where the time value of money is considered to be material, using a risk-adjusted post-tax discount rate of 10%

Following the sale of the freehold interest in the Bath hospital land, HP Bath entered into a new rent deposit deed with CircleBath, which increased the rental deposit to £2,500,000 (2013 £1,586,000)

The Group has recharged expenses and accrued interest to HP Bath to give a total receivable of £1,621,000 at 31 December 2014 (2013 £1,615,000) This was fully impaired in the previous year, as the balance was not considered to be recoverable

Notes to the consolidated financial statements
Continued

17 Trade and other receivables continued

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

	2014 £'000	2013 £'000
At 1 January	**260**	131
(Release)/increase in the year	**(73)**	129
At 31 December	**187**	260

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

	2014 £'000	2013 £'000
Not past due	**3,660**	2,352
Past due 0–30 days, but not impaired	**4,493**	1,105
Past due 31–60 days, but not impaired	**748**	487
Past due by more than 60 days, but not impaired	**1,818**	1,028
	10,719	4,972

Trade receivables are non-interest bearing and credit terms are generally 30 days
The above receivables are overdue, but not impaired, because management believes they are fully recoverable

The movement in amounts recoverable on contracts is as follows

	Note	2014 £'000	2013 £ 000
At 1 January		**–**	1,181
Recognised in income statement	5	**–**	(1,181)
At 31 December		**–**	–

Amounts recoverable on contracts are extinguished following the end of the previous Nottingham contract in June 2013

18 Cash and cash equivalents

	Note	2014 £'000	2013 £'000
Cash and cash equivalents		**24,496**	12,397
Less restricted balances			
– Letter of credit – GE Capital Equipment Finance Limited ('GE')	a	–	(1,800)
– Hinchingbrooke deposit	b	–	(2,000)
Restricted cash		–	(3,800)
Unrestricted cash and cash equivalents		**24,496**	8,597

The directors consider the carrying amount of cash and cash equivalents approximate to their fair value

There is no unrestricted cash in 2014 Included in the 2013 Group cash balance are the following amounts which were not freely available to the Group

a As part of the contractual agreement with GE to provide operating leases to CircleBath, Circle International plc had to provide a counter indemnity to Barclays by way of a fixed charge over a deposit which was released at the end of 2014 when the operating leases expired (2013 £1,800,000 on deposit)

b In July 2014, an amount of £2,000,000 was released from escrow in Circle Hinchingbrooke Limited, in accordance with the terms of the Hinchingbrooke framework agreement

19 Trade and other payables

		Current		Non current	
	Note	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade payables		**6,666**	5,240	–	–
Deferred income		**787**	380	–	–
Accruals		**12,319**	5,318	**2,074**	2,169
Social security and other taxation		**1,319**	655	–	–
Amounts owed to joint venture	32	–	34	–	–
Amounts owed to other related parties	32	**165**	191	–	–
		21,256	11,818	**2,074**	2,169

Trade payables, accruals and amounts owed to joint ventures and other related 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

Notes to the consolidated financial statements
Continued

20 Loans and other borrowings

	Current		Non-current	
	2014 £'000	2013 £'000	2014 £ 000	2013 £ 000
Secured finance leases (i)	**1,922**	1,547	**8,869**	9,982
	1,922	1,547	**8,869**	9,982

i Finance leases

Finance leases comprise various lease agreements with Close Leasing Limited, Shawbrooke Bank Limited and GE, to finance the purchase of IT assets, fixtures, fittings and furniture, and medical equipment, for the commissioning of CircleReading hospital and the 125-year lease for land in Birmingham entered into with Pebble Mill Investments Limited ('Pebble Mill') in November 2011 In addition, there are various lease agreements for medical equipment for CircleBath hospital with Shawbrooke Bank Limited At the end of 2014, CircleNottingham also signed three new finance leases for medical equipment with GE

	2014 £'000	2013 £ 000
Gross finance lease liabilities – minimum lease payments		
Falling due		
– No later than one year	**2,711**	2,450
– Later than one year and no later than five years	**5,837**	7,268
– Later than five years	**9,691**	10,059
	18,239	19,777
Future finance charges on finance leases	**(7,448)**	(8,248)
	10,791	11,529
The breakdown of the present value of finance leases		
Falling due		
– No later than one year	**1,922**	1,547
– Later than one year and no later than five years	**4,028**	5,261
– Later than five years	**4,841**	4,721
	10,791	11,529

20 Loans and other borrowings continued

The Group signed a finance lease commitment with GE on 11 June 2012 for a total facility of £5,000,000 to lease medical equipment over a five-year period On 13 July 2012, the Group signed a finance lease commitment with Close Leasing Limited for a total facility of £2,000,000 to lease IT equipment and fixtures, fittings and furniture over a five-year period

In August 2014, CircleReading signed a finance lease commitment for a facility of £60,000 over a five-year period In addition, in September 2014, the Group signed a finance lease commitment with GE Capital Equipment Limited for a total facility of £813,000 to lease medical equipment at CircleNottingham over a three-year period

The Pebble Mill site lease liabilities are unsecured, but are guaranteed by Circle Holdings plc The Group can terminate the lease on 1 August 2046 or 1 August 2071, by giving at least six months' written notice to the landlord In addition, the Group has two opportunities to reduce the annual rent the first buy-down right is within a period of five years from the date of the lease, and the second buy-down right is within a period of six months prior to the first lease break date in 2046 Both instances require payment of a premium calculated in accordance with a formula set out in the lease and adjusted using the RPI index There are no covenants or restrictions on the Group imposed by this lease, and there are no contingent rents The value of the finance lease creditor is £4,946,000 (2013 £4,994,000)

iv Maturity profile

Under the terms of the loans, the amounts fall due as follows

2014	Less than one year £ 000	Between one to two years £'000	Between two to three years £ 000	Greater than four years £ 000	Total £ 000
Finance leases	1,922	2,011	1,967	4,891	10,791
	1,922	**2,011**	**1,967**	**4,891**	**10,791**

2013	Less than one year £ 000	Between one to two years £'000	Between two to three years £'000	Greater than four years £ 000	Total £'000
Finance leases	1,547	1,707	1,824	6,451	11,529
	1,547	**1,707**	**1,824**	**6,451**	**11,529**

Notes to the consolidated financial statements
Continued

21 Provisions for other liabilities and charges

	2014 £ 000	2013 £'000
Current	–	605
Non-current	**50**	50
	50	655

	Dilapidations £'000	Onerous leases £'000	Under-declared VAT £ 000	Total £ 000
At 1 January 2013	672	485	1,500	2,657
Charged/(released) to the income statement	(238)	(341)	115	(464)
Utilised during the year	(275)	(144)	(1,119)	(1,538)
At 1 January 2014	159	–	496	655
(Released)/charge to the income statement	–	–	(226)	(226)
Utilised during the year	(109)	–	(270)	(379)
At 31 December 2014	**50**	**–**	**–**	**50**

Dilapidations
This provision relates to the expected cost of returning various leased properties to their former state when the Group exits the leases

Under-declared VAT
Management performed a review of the VAT accounting within the Group, in consultation with HMRC HMRC completed their assessment of management's position during 2014 Penalties and fines for under-declared VAT amounted to £1,389,000, all of which have now been paid The surplus provision of £226,000 was released during the year

22 Share capital, share premium and other reserves

Authorised

	2014 £'000	2013 £ 000
Ordinary shares of £0 02 each	6,500	5,000
Convertible shares (18 months) of £0 02 each	250,000	–
Convertible shares (36 months) of £0 02 each	310,000	–
	566,500	**5,000**

	Number	Number
Ordinary shares of £0 02 each	325,000,000	250,000,000
Convertible shares (18 months) of £0 02 each	12,500,000	–
Convertible shares (36 months) of £0 02 each	15,500,000	–
	353,000,000	250,000,000

Allotted and fully paid up

		Shares Number	Share capital £'000	Share premium £ 000	Treasury shares £ 000	Other reserves £ 000	Total £'000
Ordinary shares							
At 1 January 2013		130,706,657	2,614	193,145	–	22,182	217,941
Shares issued – 20 June 2013 (net of costs)	£0 02	78,465	2	–	–	–	2
At 1 January 2014		130,785,122	2,616	193,145	–	22,182	217,943
Fundraise – 9 January 2014 (net of costs)	£0 02	55,000,000	1,100	25,120	–	–	26,220
Shares issued – 16 June 2014 (net of costs)	£0 02	62,769	1	–	–	–	1
Project Reset – ordinary shares issued – 8 December 2014 (net of costs)	£0 02	38,855,367	777	7,560	(9,587)	–	(1,250)
Project Reset – convertible shares issued – 8 December 2014 (net of costs)	£0 02	23,093,930	462	10,970	–	–	11,432
At 31 December 2014		**247,797,188**	**4,956**	**236,795**	**(9,587)**	**22,182**	**254,346**

Notes to the consolidated financial statements
Continued

22 Share capital, share premium and other reserves continued

Fundraise

On 9 January 2014, the Group issued, at nominal value, 55,000,000 ordinary shares of £0 02 each in the capital of the Company as part of the equity raise

Transaction costs incurred during the 2014 equity raise totalled £1,280,000, all of which have been taken to share premium

Shares awarded to non-executive directors

On 16 June 2014, the Group issued, at nominal value, an aggregate of 62,769 ordinary shares of £0 02 each in the capital of the Company to non-executive directors pursuant to individual share awards

Project Reset

Under the terms of Project Reset, the Company issued 38,855,367 ordinary shares of £0 02 each in the Company to the CPBT ordinary shares, which are to be used to satisfy options to be granted under the Company's new share incentivisation plans, in accordance with the terms previously approved by the Company's shareholders

In addition, Circle Holdings plc issued 23,093,930 convertible shares of £0 02 each in the Company, to the trustee of the CPBT, split in two equal tranches, which shall automatically convert after 18 months and 36 months, respectively, into ordinary shares The convertible shares cannot be traded or sold until they have converted into ordinary shares

The CPBT was also issued with shares in the Company The Trust is consolidated in the financial statements and, accordingly, shares held by the Trust are recognised at cost as a debit to equity in the Treasury share reserve

Project Reset transaction costs amounted to £1,250,000, all of which have been set against share premium as costs directly attributable to the issuance of shares

The following table details the movement in share capital (ordinary and convertible) in the year ending 31 December 2014 by major shareholder

	At 1 January 2014 Number	9 January 2014 (at £0 02 each) Number	16 June 2014 (at £0 02 each) Number	8 December 2014 (at £0 02 each) Number	Additional purchases/ (sales) Number	At 31 December 2014 Number
Lansdowne Partners	37,967,008	16,200,000	–	–	–	54,167,008
Invesco Perpetual	30,368,920	22,900,000	–	–	–	53,268,920
Odey Asset Management	27,542,881	–	–	–	(95,475)	27,447,406
Balderton Capital	12,756,534	4,000,000	–	–	–	16,756,534
BlueCrest Capital Management	9,252,685	–	–	–	–	9,252,685
BlackRock	6,997,555	–	–	–	(1,216,175)	5,781,380
Polar Capital	1,000,000	400,000	–	–	(400,000)	1,000,000
Circle Partnership Benefit Trust	–	–	–	61,949,297	–	61,949,297
Henderson	–	5,200,000	–	–	–	5,200,000
Numis	–	1,150,000	–	–	(1,150,000)	–
Singers	–	150,000	–	–	(150,000)	–
Broker Option	–	5,000,000	–	–	(5,000,000)	–
Other	4,899,539	–	62,769	–	8,011,650	12,973,958
	130,785,122	55,000,000	62,769	61,949,297	–	247,797,188

22 Share capital, share premium and other reserves continued

The following table details the movement in ordinary share capital in the year ending 31 December 2013 by major shareholder

	At 1 January 2013 Number	20 June 2013 (at £0 02 each) Number	Additional purchases/ (sales) Number	At 31 December 2013 Number
Lansdowne Partners	37,967,008	–	–	37,967,008
Invesco Perpetual	30,368,920	–	–	30,368,920
Odey Asset Management	27,878,787	–	(335,906)	27,542,881
Balderton Capital	12,756,534	–	–	12,756,534
BlueCrest Capital Management	9,252,685	–	–	9,252,685
BlackRock	7,178,555	–	(181,000)	6,997,555
Polar Capital	–	–	1,000,000	1,000,000
Health Trust	3,136,180	–	(3,136,180)	–
Other	2,167,988	78,465	2,653,086	4,899,539
	130,706,657	78,465	–	130,785,122

23 Non-controlling interest

	£ 000
At 1 January 2013	(27,088)
Effect of shares vesting in period	(7,310)
Non-controlling interest's share of losses	(8,552)
At 1 January 2014	(42,950)
Effect of shares vesting in period	(6,439)
Non-controlling interest's share of losses	(12,100)
Impact of Project Reset	61,489
As at 31 December 2014	–

Project Reset

Circle Health Limited (which has an authorised share capital of 100,000 ordinary shares of £0 10 nominal value that give equal rights to the voting, dividend and capital of the company), was 50 1% owned by Circle International plc and 49 9% owned by CPL Following the completion of Project Reset, CPL is now a 100% owned subsidiary of Circle Holdings plc Therefore, as at 31 December 2014, there is no interest outside the Group Project Reset is explained in note 6

Notes to the consolidated financial statements
Continued

24 Warrants

The Group issues warrants which give the holders the right to purchase shares for a specific price at a future date The warrants are treated either as equity instruments and recorded in the warrant reserve, or as financial liabilities and recorded in liabilities, depending on certain criteria, as outlined in the Group's accounting policies There are no remaining warrants issued as financial liabilities

Warrants treated as equity instruments

Movements in the warrant reserve during the year are as follows

	Note	2014 £'000	2013 £'000
At 1 January		**22,703**	22,390
Share-based charges in respect of warrants issued	25	–	313
At 31 December		**22,703**	22,703

The following table details all share warrants issued by the Group which are recognised in equity, none of which have been exercised to date

	Note	Exercise price £	Original warrants Number	Modified Number	Revised warrants Number	Warrant reserve At 1 January 2014 £ 000	Share based charges £'000	At 31 December 2014 £ 000
Beneficiary								
Warrants issued in 2008								
– Balderton Capital	b	£1 52	523,460	–	523,460	4,111	–	4,111
– Lansdowne Partners	b	£1 52	99,630	–	99,630	783	–	783
– JCAM		£10 31	238,930	–	238,930	1,616	–	1,616
Warrants issued in 2009								
– Balderton Capital	b	£1 52	172,355	–	172,355	675	–	675
– Lansdowne Partners	b	£1 52	172,355	–	172,355	479	–	479
– BlueCrest Capital Management	b	£1 52	75,510	–	75,510	296	–	296
Warrants modified in 2011								
– Health Trust (Jersey)	a b	£1 52	–	2,340,765	2,340,765	14,743	–	14,743
			1,282,240	**2,340,765**	**3,623,005**	**22,703**	**–**	**22,703**

24 Warrants continued

a The cancellation of the warrants issued to Health Trust (Jersey) and Health Trust (Jersey) option pool, and reissue of warrants to Health Trust (Jersey) are detailed in note 25

b In May 2011 after the initial public offering ('IPO'), the existing share warrants, which consisted of warrants issued in 2008 and 2009 to Health Trust (Jersey) and Health Trust (Jersey) option pool, were modified, adjusting both the exercise price and vesting conditions Under the terms of the modification, the existing share warrants were replaced with warrants issued exclusively to Health Trust (Jersey), of which Ali Parsa is a beneficiary, and the exercise price was set to the IPO price of £1 52 per new ordinary share issued The modified share warrants do not have any expiry date or any conditions attached A fair value assessment was completed based on the value of the existing warrants prior to IPO, and the fair value of the modified warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page The incremental fair value of the modification was recognised on a straight-line basis over a 24-month period from May 2011 until May 2013, in line with the revised vesting timetable (1/24 every month from May 2011)

25 Share-based charges

Shares and share warrants are issued to employees, clinicians and external investors who contribute to the success and growth in value of the Group The issuance of these warrants and shares, including the issue of shares to scheme participants and employees, qualifies as equity-settled share-based payment transactions, and falls within the scope of IFRS 2, 'Share-based payment' The impact on the income statement in respect of share-based charges is as follows Note there is no charge associated with the transaction where the employees subscribe for the shares at full market value

	Note	Type	2014 £ 000	2013 £ 000
Issued as part of Project Reset	a	Shares	**1,105**	–
Awarded to non-executive directors	b	Shares	**14**	55
Awarded to Health Trust (Jersey)	c	Warrants	–	313
Other share-based charges	d	Shares	**572**	–
			1,691	368

Notes to the consolidated financial statements
Continued

25 Share-based charges continued

a Project Reset

Project Reset is explained in note 6 Of the total number of CPL shares which were acquired by the Group, 5,118,739 were partially vested The unvested portion of these shares in CPL were accelerated as part of Project Reset, and exchanged for 2,231,770 Circle Holdings plc convertible shares at £0 02 each A share-based charge of £1,105,000 was recognised to record the incremental fair value of shares given to members of the CPL share scheme The charge was calculated based on the share price on 4 December 2014, the date of the Project Reset completion

b Non-executive directors

The Group operates an equity-settled, share-based compensation plan for its non-executive directors The entity receives services from these directors as consideration for shares in the Group The fair value of the services received in exchange for the grant of the awards is recognised as an expense The total amount to be expensed is determined by reference to the fair value of the awards granted

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest, based on the non-market vesting conditions It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity When the vesting conditions are met, the company issues new shares The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

c Health Trust (Jersey)

In May 2011, new share warrants were issued exclusively to Health Trust (Jersey), of which Ali Parsa is a beneficiary, replacing the share warrants previously issued to Health Trust (Jersey) and Health Trust (Jersey) option pool Under the terms of the new warrants, the exercise price was set to the IPO price of £1 52 per new ordinary share issued The 2,340,765 share warrants vested over a 24-month period from May 2011 until May 2013, and were exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date A fair value assessment was completed based on the value of the existing warrants prior to cancellation, and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined below

Modified warrant issue parameters (reflecting five-for-one share split)

Stock price	£1 52
Exercise price	£1 52
Expected volatility	50%
Risk-free interest rate	5%
Warrant life *	10 years
Fair value of warrant	£1 02

The incremental increase in the fair value was assessed at £1,478,000 and was charged to the income statement over the remaining vesting period, along with the residual charge relating to the fair value at the grant date of the initial warrants The share-based charge recognised in the income statement for the year to 31 December 2014 is £nil (2013 £313,000) There were no new warrant issues qualifying as share-based charges during 2014 (2013 £nil), and none of the warrants were exercised in 2014 (2013 £nil)

25 Share-based charges continued

Share-based charges reserve

	2014 £ 000	2013 £ 000
At 1 January	**151**	96
Share-based charges	**1,691**	55
At 31 December	**1,842**	151

d Other share-based charges

In December 2013, the Company agreed to grant to the Group's Chief Financial Officer options to subscribe for 2,200,000 ordinary shares at an exercise price of £0 02 per ordinary share This separate incentive arrangement was agreed, given he was not a participant of the previous share scheme, nor has he previously received as remuneration any shares or options in the Company since joining in 2010 The options were granted in December 2014, and a charge of £572,100 was recognised The options vest in two equal tranches, with the first tranche fully vesting on the date of grant A fair value assessment of the second tranche of share options was completed, based on the parameters disclosed below

Modified share option parameters

Stock price at grant date (1 December 2014)	£0 50
Exercise price	£0 02
Expected volatility*	50%
Risk-free interest rate	5%
Vesting period	One year
Fair value of share option	£0 50

* The historical volatility is assumed to be indicative of future trends, which may not necessarily be the actual outcome

** The life of the warrant is based on the expected term and is not necessarily indicative of exercise patterns that may occur

Notes to the consolidated financial statements
Continued

26 Capital commitments
At 31 December 2014, the Group had capital commitments as follows

	2014 £'000	2013 £'000
Contracted for but not provided in these financial statements	–	97

27 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 £1,492,000 (2013 £1,184,000) As at 31 December 2014, outstanding contributions totalled £140,000 (2013 £104,000)

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

	Plant and machinery		Land and buildings	
	2014 £'000	2013 £ 000	2014 £ 000	2013 £ 000
No later than one year	**730**	1,357	**9,985**	11,097
Later than one year and no later than five years	**1,272**	1,705	**37,995**	44,051
Later than five years	**–**	–	**151,493**	187,779
	2,002	3,062	**199,473**	242,927

On 1 July 2014, the Group amended an existing operating lease in respect of CircleBath hospital for an initial annual rent of £2,500,000 per year (2013 £3,232,000 per annum with RPI increases) The lease is for 15 years and is set to expire on 30 June 2029

29 Net cash outflow from operating activities

	Note	2014 £'000	2013 £'000
Loss before taxation		**(20,155)**	(15,230)
Provision for joint venture deficit		**130**	1738
Exceptional finance items		**625**	(1,113)
Finance costs		**911**	2,774
Finance income		**(181)**	(2,035)
Amortisation of intangible assets	13	**451**	443
Depreciation of property, plant and equipment	14	**2,451**	2,290
Charge recognised in respect of amounts recoverable under contract	17	**–**	1,181
Loss on sale of tangible fixed assets		**16**	–
Impairment of property, plant and equipment	14	**2,907**	152
Impairment of intangible assets	13	**81**	–
Share-based charges in respect of warrants issued	25	**–**	313
Share-based charges	25	**1,691**	55
Deconsolidation of Health Properties Edinburgh		**–**	(4,384)
Revaluation of Birmingham finance lease payments		**–**	136
Gain on the wind-up of joint venture activities		**(4,750)**	–
Provision for VAT	21	**(226)**	115
Decrease in provision for onerous leases	21	**–**	(579)
Provision of debtor with HP Bath		**–**	40
Movements in working capital			
– Increase in inventories		**(161)**	(347)
– Increase in trade and other receivables		**(1,159)**	(2,804)
– Increase/(decrease) in trade and other payables		**9,387**	(3,229)
– Decrease in provisions		**(379)**	(1,578)
Net cash outflow from operating activities		**(8,361)**	(22,062)

Notes to the consolidated financial statements
Continued

30 Reconciliation and analysis of net debt

	2014 £ 000	2013 £'000
Increase/(decrease) in unrestricted cash in the year	**15,899**	(24,332)
Decrease in restricted cash in the year	**(3,800)**	(1,300)
Repayment of borrowings	**–**	430
Repayment of loan notes	**–**	366
Repayment of finance lease	**1,660**	1,471
Movement in net debt from cash flow	**13,759**	(23,365)
Other non-cash movements	**922**	47,704
Movement in net debt	**12,837**	24,339
Net debt at 1 January	**868**	(23,471)
Net debt at 31 December	**13,705**	868

2014	At 1 January £'000	Cash flow £'000	Reclassifications £'000	Other non-cash changes £'000	At 31 December 2014 £ 000
Liquid resources					
Unrestricted cash	8,597	15,899	–	–	**24,496**
Restricted cash	3,800	(3,800)	–	–	–
Debt due within one year					
AIB	–	–	–	–	–
Barclays	–	–	–	–	–
Loan notes	–	–	–	–	–
Finance leases	(1,547)	1,660	(1,801)	(234)	**(1,922)**
Debt due after one year					
Finance leases	(9,982)	–	1,801	(688)	**(8,869)**
Net debt	868	13,759	–	(922)	**13,705**

30 Reconciliation and analysis of net debt continued

2013	At 1 January £'000	Cash flow £ 000	Reclassifications £ 000	Other non-cash changes £ 000	At 31 December 2014 £'000
Liquid resources					
Unrestricted cash	32,929	(24,332)	–	–	**8,597**
Restricted cash	5,100	(1,300)	–	–	**3,800**
Debt due within one year					
AIB	(7,380)	–	–	7,380	–
Barclays	(41,768)	430	–	41,338	–
Loan notes	(348)	366	–	(18)	–
Finance leases	(1,340)	1,471	(1,409)	(269)	**(1,547)**
Debt due after one year					
Finance leases	(10,664)	–	1,409	(727)	**(9,982)**
Net debt	(23,471)	(23,365)	–	47,704	**868**

31 Financial risk management

1 Financial risk factors

The Group's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate 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, levels of individual debt instruments and overall debt levels

Classes of financial instruments

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

Notes to the consolidated financial statements
Continued

31 Financial risk management continued

The following tables classify the Group's financial instruments according to IAS 39, 'Financial instruments, recognition and measurement'

	Note	Loans and receivables £ 000	Fair value through profit and loss £'000	Amortised cost £ 000	Total £'000
As at 31 December 2014					
Financial assets					
Trade and other receivables	17	11,840	–	–	11,840
Cash and cash equivalents	18	24,496	–	–	24,496
Total financial assets		**36,336**	**–**	**–**	**36,336**
Financial liabilities					
Trade and other payables	19	–	–	(6,831)	(6,831)
Finance lease liabilities	20	–	–	(10,791)	(10,791)
Total financial liabilities		**–**	**–**	**(17,622)**	**(17,622)**

	Note	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £ 000	Total £ 000
As at 31 December 2013					
Financial assets					
Trade and other receivables	17	10,203	–	–	10,203
Cash and cash equivalents	18	12,397	–	–	12,397
Total financial assets		**22,600**	**–**	**–**	**22,600**
Financial liabilities					
Trade and other payables	19	–	–	(5,465)	(5,465)
Finance lease liabilities	20	–	–	(11,529)	(11,529)
Total financial liabilities		**–**	**–**	**(16,994)**	**(16,994)**

a Market risk

Market risk is the risk that changes in market prices, such as interest rates or other price risks, and 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

31 Financial risk management continued

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 As at 31 December 2014, the Group, excluding the joint venture, does not hold any long-term loans Previously, the Group has managed this risk, where significant, by holding long-term loans and entering into interest rate swaps in order to fix the interest payable on these These swaps have now all expired The Group also manages the interest rate risk through financing assets through finance leases which have fixed rates of interest, rather than through loans

The following table summarises the fixed and variable rate loans

	Variable £'000	Fixed £'000	Interest free £ 000	Total £ 000
At 31 December 2014				
Loans and other borrowings	–	10,791	–	10,791
At 31 December 2013				
Loans and other borrowings	–	11,529	–	11,529

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 new Bedford MSK contract operates under a capitated 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

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

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

Notes to the consolidated financial statements
Continued

31 Financial risk management continued

c Liquidity risk

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

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

The Group has received strong support from its shareholders, who have provided equity cash funding when necessary to fund the Group's activities These funds have been utilised to support the business plans of the Group in accordance with the Group's financial projections, which are updated on a regular basis

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 one year £'000	Between one to two years £ 000	Between two to three years £'000	Between three to four years £ 000	Between four to five years £'000	Over five years £ 000
At 31 December 2014						
Trade and other payables	(6,831)	–	–	–	–	–
Finance lease	(2,710)	(2,649)	(2,295)	(516)	(378)	(9,691)
Net outflows	**(9,541)**	**(2,649)**	**(2,295)**	**(516)**	**(378)**	**(9,691)**
At 31 December 2013						
Trade and other payables	(5,465)	–	–	–	–	–
Finance leases	(2,450)	(2,450)	(2,390)	(2,033)	(395)	(10,059)
Net outflows	**(7,915)**	**(2,450)**	**(2,390)**	**(2,033)**	**(395)**	**(10,059)**

Included in the previous tables are the cash flows in respect of the Birmingham lease As outlined in note 20(iii), there are various buy-down options over the term of the lease, and management's intention has been reflected in the cash flows set out above

ii Capital risk management

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, start-up costs, and 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 CircleBath rental agreement with MPT are tested monthly No long-term debt exists elsewhere in the Group

32 Related party transactions

Subsidiaries and joint ventures

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital and quasi-subsidiaries are as follows

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
Circle International plc	Ordinary shares	Holding and management	100%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC registered)	100%	Jersey
Health Capital Limited	Ordinary shares	Holding and management	100%	United Kingdom
Circle Health Limited	Ordinary shares	Holding and management	100%	United Kingdom
Nations Healthcare Limited	'A' ordinary shares	Holding and management	100%	United Kingdom
CircleNottingham Limited	'C' preferred shares	Holding and management	n/a	United Kingdom
CircleNottingham Limited	Ordinary shares	Medical practice services	100%	United Kingdom
Circle (Welbeck) Limited	Ordinary shares	Finance company	100%	United Kingdom
Circle (Welbeck) Limited	Preference shares	Finance company	n/a	United Kingdom
Circle Hospital (Bath) Limited	Ordinary shares	Medical practice services	100%	United Kingdom
Circle Hospital (Reading) Limited	Ordinary shares	Medical practice services	100%	United Kingdom
Circle Hinchingbrooke Limited	Ordinary shares	Professional services	100%	United Kingdom
Circle Clinical Solutions Limited	Ordinary shares	Property development	100%	United Kingdom
Circle Birmingham Limited	Ordinary shares	Property development	100%	United Kingdom
Health Properties Management Limited	Ordinary shares	Property development	100%	United Kingdom
Health Properties (Bath) Limited*	'A' and 'B' ordinary shares	Property ownership and management	38 7%	Jersey
Health Properties (South Manchester) Limited	Ordinary shares	Property ownership and development	100%	Jersey
Circle Partnership Limited	Ordinary shares	Employee share ownership plan	100%	British Virgin Islands

* Jersey Financial Services Commission

** Subsidiary held indirectly

Notes to the consolidated financial statements
Continued

32 Related party transactions continued

Trading transactions

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties Transactions entered into and trading balances outstanding are as follows

	Note	2014 Amounts owed by related party £'000	2014 Amounts owed to related party £'000	2013 Amounts owed by related party £'000	2013 Amounts owed to related party £ 000
HP Bath	a	**13**	–	1,586	(34)
Stonehage Fund Services Limited ('Stonehage')	b	–	–	–	–
Capita	c	–	**(1)**	–	(26)
Hinchingbrooke Health Care NHS Trust	d	**4,836**	**(164)**	4,095	(165)
		4,849	**(165)**	5,681	(225)

a Health Properties (Bath) Limited

HP Bath is a joint venture of the Group (note 15) which owned the Bath hospital that was sold during 2014

The Group has advanced £1,200,000 (2013 £1,200,000) to HP Bath by way of a shareholder loan which is unsecured and payable on demand In addition, the Group has recharged expenses and accrued interest to HP Bath to give a total receivable of £1,621,000 at 31 December 2014 (2013 £1,615,000) The prior year balance was fully impaired in the previous year, as the balance was not considered to be recoverable

An amount of £13,000 remains payable to the Group at 31 December 2014 (2013 £34,000)

b Stonehage Fund Services Limited

Stonehage, a management and fiduciary services company based in Jersey, has been appointed as the manager of the wholly owned subsidiary Health Estates Managers Limited A number of directors of subsidiary companies who served during 2014 were also employed by the ultimate controlling company of Stonehage or a company connected with it In total, Stonehage was paid £30,000 (2013 £40,000) for management and fiduciary services provided to companies within the Group The amount outstanding at 31 December 2014 was £nil (2013 £nil) Ian Crosby, a director of Stonehage, is also a director of the corporate trustee of Health Trust (Jersey) and of Health Estates Limited

c Capita

During 2014, the Group was charged £96,000 (2013 £113,000) by Capita for fiduciary services provided to companies within the Group during the year The amount outstanding at 31 December 2014 was £nil (2013 £26,000)

The Capita Group also provided IT data hosting services during the year The Group was charged £540,000 (2013 £555,000) for these services provided during the year The amount outstanding at 31 December 2014 was £1,750 (2013 £nil)

32 Related party transactions continued

d Hinchingbrooke Health Care NHS Trust

During the year, the Group has provided for a further £164,000 working capital contribution to the Trust, which has resulted in an aggregate £5 million receivable at the year-end In light of the Group's announcement of its intention to terminate the contract, the aggregate working capital contributions of £5 million are not recoverable and have been fully impaired In 2014, services to the value of £233,620 (2013 £145,000) have been recharged from CircleHealth to Hinchingbrooke, mainly relating to staff time for the provision of specialist services, in accordance with the project agreement In addition, as at 31 December 2014, Circle Clinical Solutions Limited (operating company of Bedford MSK contract) had a trade creditor balance with Hinchingbrooke of £352,000 (2013 nil) for the provision of clinical treatments

e Health Trust (Jersey)

Health Trust (Jersey) also holds 2,340,765 warrants in the Company (note 25)

In 2014, Health Trust (Jersey) held 5,296,795 shares (2013 5,066,642) of CPL pursuant to share transfer agreements dated 15 March 2011 and 24 May 2011, respectively, which provide for the issue of CPL shares to Health Trust (Jersey) in an amount equal to an aggregate 10% of the issued share capital of CPL up until the point of Project Reset However, following the completion of Project Reset on 4 December 2014, Health Trust (Jersey)'s shareholding in CPL was exchanged for 2,309,402 convertible shares in Circle Holdings plc The previous agreement for Health Trust (Jersey) to own an amount equal to an aggregate 10% of the issued share capital of CPL has now extinguished

The following are related parties by virtue of their significant shareholding Notes 23 and 25 provide further details

	Number of shares held	Percentage shareholding	Value of warrants held £
Balderton Capital	16,756,534	6 8%	4,786
BlueCrest Capital Management	9,252,685	3 7%	296
Invesco Perpetual	53,268,920	21 5%	–
Lansdowne Partners	54,167,008	21 9%	1,262
Odey Asset Management	27,447,406	11 1%	–
Circle Partnership Benefit Trust	61,949,297	25%	–

Tim Bunting and Tony Bromovsky served as non-executive directors of Circle Holdings plc They are appointees of Balderton Capital and Odey Asset Management, respectively No fees were charged for Mr Bunting's services to the Group Mr Bromovsky was paid £17,000 for his services rendered in 2014 in respect of his role as a non-executive director In addition, Kilda Investments Limited, of which Mr Bromovsky is a beneficiary, was paid £26,000 for Mr Bromovsky's services performed in relation to Project Reset, this was outside his capacity as a director Tim Bunting and Tony Bromovsky resigned as non-executive directors of Circle Holdings plc during 2014

Other than the above and the equity transactions detailed in notes 23 and 25, there have been no transactions with these related parties

33 Events after the balance sheet date

In January 2015, Circle announced its intention to terminate the Hinchingbrooke Franchise Agreement Please refer to the *Directors' report* for a detailed overview

Independent auditors' report

To the members of Circle Holdings plc

Report on the company financial statements

Our opinion

In our opinion, Circle Holdings plc's Company financial statements (the 'financial statements')

- give a true and fair view of the state of the company's affairs as at 31 December 2014,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'), and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

What we have audited

Circle Holdings plc's financial statements comprise

- the Company balance sheet as at 31 December 2014, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (UK GAAP)

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example, in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements These are cross-referenced from the financial statements and are identified as audited

Opinion on other matter

In our opinion, the information given in the *Directors' report* for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991, 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
- proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- we have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the *Statement of directors' responsibilities* set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for, and only for, the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland) An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Company's circumstances, and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

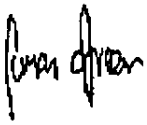
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures, or a combination of both

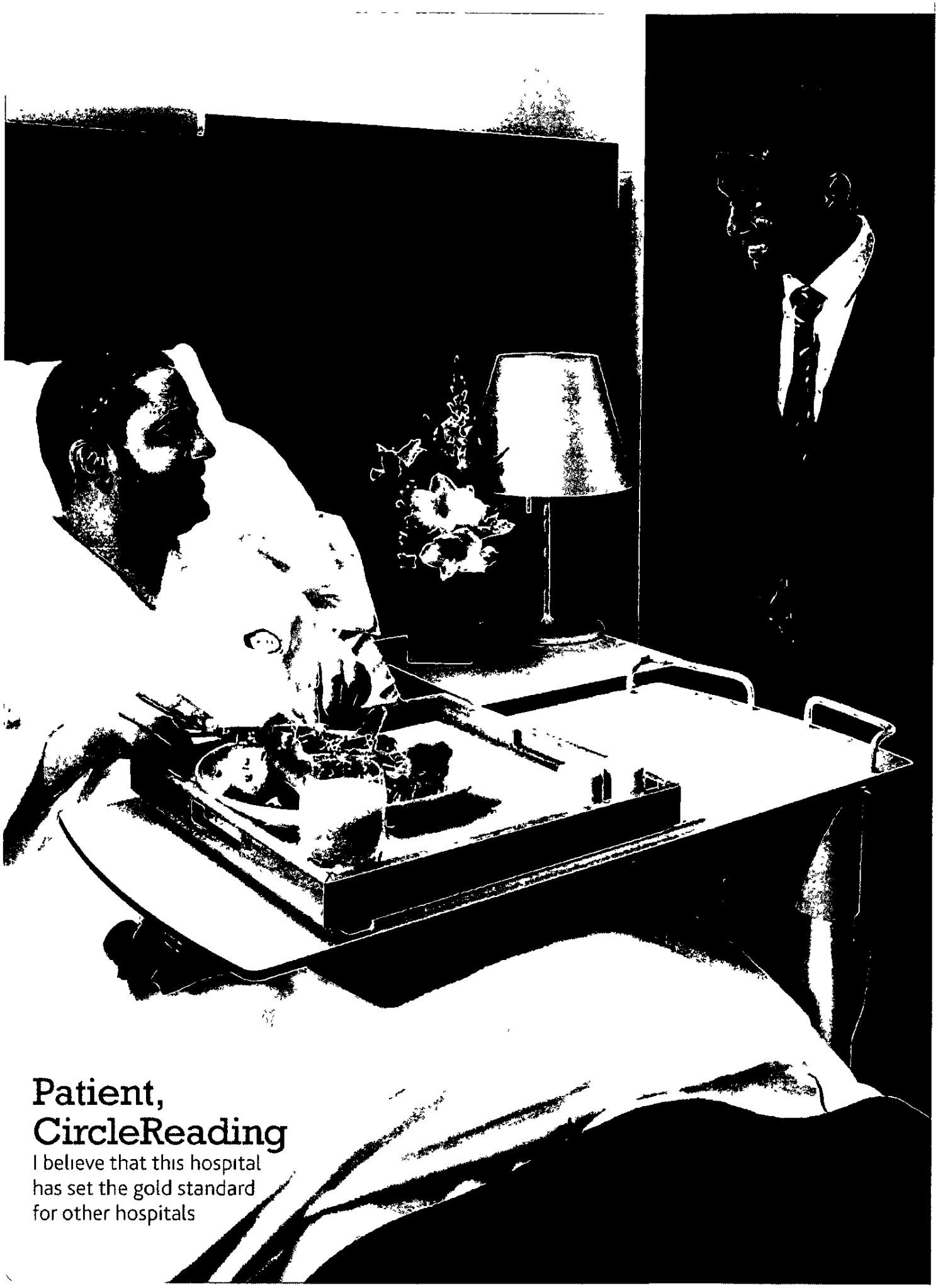
In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report

Other matter

We have reported separately on the Group financial statements of Circle Holdings plc for the year ended 31 December 2014



Simon O'Brien (Senior Statutory Auditor)
For and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Recognised Auditor
London
18 March 2015


Patient,
CircleReading
I believe that this hospital
has set the gold standard
for other hospitals

Company balance sheet

As at 31 December 2014

	Note	2014 £ 000	2013 £ 000
Fixed assets			
Investments	5	–	–
Current assets			
Debtors	6	**101,785**	81,191
Cash at bank and in hand		**14,180**	2,256
		115,965	83,447
Creditors – amounts falling due within one year	7	**(3,075)**	(568)
Net current assets		**112,890**	82,879
Total assets less current liabilities		**112,890**	82,879
Net assets		**112,890**	82,879
Capital and reserves			
Called up share capital	8	**4,956**	2,616
Share premium	8	**236,795**	193,145
Other reserves	8	**11,303**	11,303
Warrant reserve	9 11	**22,703**	22,703
Share-based charges reserve	9, 11	**1,842**	151
Treasury share reserve	9	**(9,587)**	–
Profit and loss account	9	**(155,122)**	(147,039)
Total shareholders' funds	10	**112,890**	82,879

The financial statements on pages 97 to 106 were approved by the Board of Directors on 18 March 2015 and were signed on its behalf by

Steve Melton
Chief Executive Officer

Paolo Pieri
Chief Financial Officer

Circle Holdings plc
Registered number 100016 (Jersey)

Notes to the Company financial statements

For the year ended 31 December 2014

1 Accounting policies

Basis of preparation

These financial statements are prepared for Circle Holdings plc (the 'Company') for the year ended 31 December 2014 The Company is the ultimate parent entity of the Circle Holdings plc Group (the 'Group') These financial statements are prepared under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently for both years presented, are set out below

Accounting convention

These financial statements have been prepared on a historical cost basis in accordance with the Companies (Jersey) Law 1991 and applicable UK accounting standards The Company has not prepared a separate profit and loss account and cash flow statement as it is not a requirement under Companies (Jersey) Law 1991

Going concern

The directors consider it to be appropriate for the Company financial statements to be prepared on a going concern basis, based on the assumptions considered in the *Directors' report* on page 27

Investments

Investments in subsidiaries and joint ventures 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

Deferred tax

Deferred tax is provided in full (without discounting) based on current tax rates and law, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax in the future, except as otherwise required by FRS 19, 'Deferred tax'

Warrants

A warrant is an instrument issued by a company, which gives the holder the right to purchase shares in that company at a specific price at a future date An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities A warrant is treated as a financial liability if

- it is a non-derivative and the entity is obliged to deliver a variable number of the company's own shares, or
- it is a derivative that will be settled other than by a fixed amount of cash or other assets for a fixed number of the company's own shares

Transaction costs are apportioned between the liability and equity components of the shares, based on the allocation of proceeds to the liability and equity components when the instruments are first recognised

i Equity warrants
The proceeds on issue of equity warrants are included within shareholders' equity, net of transaction costs The fair value of the equity component is not remeasured in subsequent years The fair value of warrants is credited to equity, with the debit being charged to the profit and loss account, or taken to non-current liabilities where the warrants are linked to a loan

Equity warrants are valued using an appropriate valuation methodology on a diluted pricing basis, based on the relevant share price at the time of issue, or based on an assessment of the market price at the time of issue

ii Financial liability warrants
Warrants issued that create a financial liability to the Company are presented as a liability in the balance sheet, measured initially at fair value, net of transaction costs and, subsequently, at amortised cost until extinguished on conversion or redemption The initial fair value of the warrant liability is determined using an appropriate valuation methodology

Capital contributions

Share-based incentive schemes for employees are operated by subsidiary undertakings that are settled by equity instruments in the Company The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, and is recognised over the vesting period, which ends on the date on which relevant employees become fully entitled to the warrants in the Company

The grant of these warrants in the Company to the employee of the subsidiary undertaking is treated as a capital contribution The fair value is recognised over the vesting period as an increase to the investment in subsidiary undertaking, with a corresponding credit to equity

2 Profit and loss

The result for the year is a loss of £8,083,000 (2013 loss of £5,721,000)

3 Operating costs

The Company incurred £28,000 (2013 £27,000) in relation to UK statutory audit fees for the year ended 31 December 2014

4 Directors' emoluments

During the year, £274,000 (2013 £289,000) was paid to directors of the Company, which includes amounts received in respect of share-based charges Remuneration was paid to other directors via subsidiary companies, total details of which are included in the *Directors' remuneration report* on page 36

5 Investments

Company

	Note	2014 £'000	2013 £'000
Cost			
At 1 January		**166,763**	166,450
Additions – Circle Partnership Limited		**13,066**	–
Wind-up of investment in CH Subco		**(1,800)**	–
Additions – capital contributions	12	–	313
At 31 December		**178,029**	166,763
Provision for impairment			
At 1 January		**166,763**	149,344
Provision in the year		**13,066**	17,419
Wind-up of investment in CH Subco		**(1,800)**	–
At 31 December		**178,029**	166,763
Net book amount			
At 31 December		–	–

The directors consider that the value of the company's fixed asset investments, which are listed below, is supported by their underlying assets

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
Circle International plc	Ordinary shares	Holding and management	100%	United Kingdom
Health Capital Limited	Ordinary shares	Holding and management	100%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC* registered)	100%	Jersey
CH Subco Limited	Ordinary shares	Finance company	100%	Jersey
Circle (Welbeck) Limited**	Preference shares	Finance company	n/a	United Kingdom

* Jersey Financial Services Commission

** Subsidiary held indirectly

Notes to the Company financial statements
Continued

6 Debtors

	2014 £'000	2013 £'000
Prepayments and accrued income	**35**	176
Other debtors	**59**	522
Amounts owed by Group undertakings	**101,691**	80,493
	101,785	81,191

Amounts owed by Group undertakings are a combination of interest-bearing and interest-free amounts, unsecured and receivable on demand

7 Creditors – amounts falling due within one year

	2014 £'000	2013 £ 000
Trade creditors	**133**	190
Amounts owed to Group undertakings	**2,636**	26
Accruals and deferred income	**306**	352
	3,075	568

8 Called up share capital
Authorised

	2014 £'000	2013 £'000
Ordinary shares of £0 02 each	**6,500**	5,000
Convertible shares (18 months) of £0 02 each	**250,000**	–
Convertible shares (36 months) of £0 02 each	**310,000**	–
	566,500	5,000

	2014 Number	2013 Number
Ordinary shares of £0 02 each	**325,000,000**	250,000,000
Convertible shares (18 months) of £0 02 each	**12,500,000**	–
Convertible shares (36 months) of £0 02 each	**15,500,000**	–
	353,000,000	250,000,000

8 Called up share capital continued

Allotted and fully paid up

		Shares Number	Called up share capital £ 000	Share premium £ 000	Other reserves £'000	Total £'000
Ordinary shares						
At 1 January 2013		130,706,657	2,614	193,145	11,303	207,062
Shares issued – 20 June 2013 (net of costs)	£0 02	78,465	2	–	–	2
At 1 January 2014		**130,785,122**	**2,616**	**193,145**	**11,303**	**207,064**
Fundraise – 9 January 2014 (net of costs)	£0 02	55,000,000	1,100	25,120	–	26,220
Shares issued – 16 June 2014 (net of costs)	£0 02	62,769	1	–	–	1
Project Reset – ordinary shares issued – 8 December 2014 (net of costs)	£0 02	38,855,367	777	7,560	–	8,338
Project Reset – convertible shares issued – 8 December 2014 (net of costs)	£0 02	23,093,930	462	10,970	–	–
At 31 December 2014		**247,797,188**	**4,956**	**236,795**	**11,303**	**241,623**

On 16 June, the Company issued, at nominal value, an aggregate of 62,769 ordinary shares of £0 02 each in the capital of the Company to non-executive directors pursuant to individual share awards

9 Reserves

	Note	Share premium £ 000	Warrant reserve £'000	Other reserves £'000	Treasury share reserve £ 000	Share-based charges reserve £'000	Profit and loss account £'000
At 1 January 2014		193,145	22,703	11,303	–	151	(147,039)
Loss for the financial year		–	–	–	–	–	(8,083)
Awards of shares to non-executive directors	12	–	–	–	–	14	–
Issue of shares in relation to fundraising		26,400	–	–	–	–	–
Issue of shares in respect of Project Reset		19,780	–	–	(9,587)	1,105	–
Capitalised costs in relation to Project Reset		(1,250)	–	–	–	–	–
Other share-based charges		–	–	–	–	572	–
Capitalised costs in relation to fundraising		(1,280)	–	–	–	–	–
At 31 December 2014		**236,795**	**22,703**	**11,303**	**(9,587)**	**1,842**	**(155,122)**

Notes to the Company financial statements
Continued

10 Reconciliation of movements in shareholders' funds

	Note	2014 £ 000	2013 £ 000
Loss for the financial year		**(8,083)**	(5,721)
Net proceeds on issue of ordinary share capital	8	**–**	2
Additions to warrant reserve	11	**–**	313
Awards of shares to non-executive directors	12	**14**	55
Issue of shares	12	**38,080**	–
Net addition to shareholders' funds		**30,011**	(5,351)
Opening shareholders' funds		**82,879**	88,230
Closing shareholders' funds		**112,890**	82,879

11 Warrants

The Company issues warrants which give the holders the right to purchase shares for a specific price at a future date The warrants are treated either as equity instruments and recorded in the warrant reserve, or as financial liabilities and recorded in liabilities, depending on certain criteria, as outlined in the Company's accounting policies There are no remaining warrants issued as financial liabilities

Warrants treated as equity instruments

Movements in the warrant reserve during the year are as follows

	Note	2014 £'000	2013 £ 000
At 1 January		**22,703**	22,390
Share-based charges in respect of warrants issued	12	**–**	313
At 31 December		**22,703**	22,703

11 Warrants continued

The following table details all share warrants issued by the Company which are recognised in equity, none of which have been exercised to date

	Note	Revised exercise price £	Original warrants, restated for five-for-one split Number	Modified Number	Revised warrants Number	At 1 January 2014 £ 000	Share-based charges £ 000	At 31 December 2014 £ 000
Beneficiary								
Warrants issued in 2008								
– Balderton Capital	b	£1 52	523,460	–	523,460	4,111	–	4,111
– Lansdowne Partners	b	£1 52	99,630	–	99,630	783	–	783
– JCAM		£10 31	238,930	–	238,930	1,616	–	1,616
Warrants issued in 2009								
– Balderton Capital	b	£1 52	172,355	–	172,355	675	–	675
– Lansdowne Partners	b	£1 52	172,355	–	172,355	479	–	479
– BlueCrest Capital Management	b	£1 52	75,510	–	75,510	296	–	296
Warrants modified in 2011								
– Health Trust (Jersey)	a	£1 52	–	2,340,765	2,340,765	14,743	–	14,743
			1,282,240	**2,340,765**	**3,623,005**	**22,703**	**–**	**22,703**

a The cancellation of the warrants issued to Health Trust (Jersey) and Health Trust (Jersey) option pool, and reissue of warrants to Health Trust (Jersey) are detailed in note 26 of the consolidated financial statements

b In May 2011 after IPO, the existing share warrants, which consisted of warrants issued in 2008 and 2009 to Health Trust (Jersey) and Health Trust (Jersey) option pool, were modified adjusting both the exercise price and vesting conditions Under the terms of the modification, the existing share warrants were replaced with warrants issued exclusively to Health Trust (Jersey), of which Ali Parsa is a beneficiary, and the exercise price was set to the IPO price of £1 52 per new ordinary share issued The modified share warrants do not have any expiry date or any conditions attached A fair value assessment was completed based on the value of the existing warrants prior to IPO, and the fair value of the modified warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page The incremental fair value of the modification was recognised on a straight-line basis over a 24-month period from May 2011 until May 2013, in line with the revised vesting timetable (1/24 every month from May 2011)

Notes to the Company financial statements
Continued

12 Capital contributions

Shares and share warrants are issued to employees and clinicians and external investors who contribute to the success and growth in value of the Group The issuance of these warrants and shares, including the issue of shares to scheme participants and employees, qualifies as equity-settled share-based payment transactions, and falls within the scope of IFRS 2, 'Share-based payment' The impact on the income statement in respect of share-based charges is as follows Note there is no charge associated with the transaction where the employees subscribe for the shares at full market value

	Note	Type	2014 £'000	2013 £'000
Issue of shares in relation to Project Reset	a	Shares	–	–
Awarded to Health Trust (Jersey)	b	Warrants	–	313
Awarded to non-executive directors	c	Shares	14	55
Other share-based charges	d	Shares	572	–
			586	368

a Circle Partnership Limited

In December 2014, Circle Holdings plc completed the acquisition of CPL as part of the Group's organisational restructuring Circle Holdings plc now owns 100% of Circle Health Limited and the Group's operating entities Of the total number of CPL shares available to be acquired by the Group, 5,118,739 were unvested The 5,118,739 unvested shares in CPL converted to 2,231,770 Circle Holdings plc convertible shares at £0 02 each A share-based charge of £1,105,000 was recognised to record the incremental fair value of shares given to members of the CPL share scheme

b Health Trust (Jersey)

In May 2011, new share warrants were issued exclusively to Health Trust (Jersey), of which Ali Parsa is a beneficiary, replacing the share warrants previously issued to Health Trust (Jersey) and Health Trust (Jersey) option pool Under the terms of the new warrants, the exercise price was set to the IPO price of £1 52 per new ordinary share issued The 2,340,765 share warrants vested over a 24-month period from May 2011 until May 2013, and were exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date A fair value assessment was completed based on the value of the existing warrants prior to cancellation, and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page

c Non-executive directors

The Group operates an equity-settled, share-based compensation plan for its non-executive directors The entity receives services from these directors as consideration for shares in the Group The fair value of the services received in exchange for the grant of the awards is recognised as an expense The total amount to be expensed is determined by reference to the fair value of the awards granted

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity When the vesting conditions are met, the company issues new shares The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

12 Capital contributions continued

d Other share-based charges

In December 2013, the Company agreed to grant to the Group's Chief Financial Officer options to subscribe for 2,200,000 ordinary shares at an exercise price of £0 02 per ordinary share This separate incentive arrangement was agreed, given he was not a participant of the previous share scheme, nor has he previously received as remuneration any shares or options in the Company since joining in 2010 The options were granted in December 2014, and a charge of £572,100 was recognised The options vest in two equal tranches, the first tranche fully vested on the date of grant A fair value assessment of the second tranche of share options was completed, based on the parameters disclosed below

Modified share option parameters

Stock price at grant date (1 December 2014)	£0 50
Exercise price	£0 02
Expected volatility*	50%
Risk-free interest rate	5%
Vesting period	One year
Fair value of share option	£0 50

Modified warrant issue parameters (reflecting five-for-one share split)

Stock price	£1 52
Exercise price	£1 52
Expected volatility*	50%
Risk-free interest rate	5%
Warrant life **	10 years
Fair value of warrant	£1 02

The incremental increase in the fair value was assessed at £1,478,000 and was charged to the income statement over the remaining vesting period, along with the residual charge relating to the fair value at the grant date of the initial warrants The share-based charge recognised in the income statement for the year to 31 December 2014 is £nil (2013 £313,000) There were no new warrant issues qualifying as share-based charges during 2014 (2013 £nil), and none of the warrants were exercised in 2014 (2013 £nil)

* The historical volatility is assumed to be indicative of future trends, which may not necessarily be the actual outcome

** The life of the warrant is based on the expected term and is not necessarily indicative of exercise patterns that may occur

Notes to the Company financial statements
Continued

13 Related party transactions

During the year, the Company entered into transactions, in the ordinary course of business, with other related parties Transactions entered into and trading balances outstanding are as below

Following the Group's reorganisation, transactions with some Group companies, which are now 100% owned by the Company, are eligible for exemption from disclosure under FRS 8, 'Related party disclosure', and have accordingly been removed from the list of related party transactions

	Note	2014 Amounts owed by related party £'000	2014 Amounts owed to related party £'000	2013 Amounts owed by related party £'000	2013 Amounts owed to related party £ 000
Capita	a	–	–	–	–

a Capita
During 2014, the Company was charged £96,000 (2013 £96,000) by Capita for fiduciary services provided to the Company during the year The amount outstanding at 31 December 2014 was £nil (2013 nil)

The following are related parties by virtue of their significant shareholding The Group financial statements provide more details

	Number of shares held	Shareholding	Value of warrants held £
Balderton Capital	16,756,534	6 8%	4,786
BlueCrest Capital Management	9,252,685	3 7%	296
Invesco Perpetual	53,268,920	21 5%	–
Lansdowne Partners	54,167,008	21 9%	1,262
Odey Asset Management	27,447,406	111%	–
Circle Partnership Benefit Trust	61,949,297	25%	–

Tim Bunting and Tony Bromovsky served as non-executive directors of Circle Holdings plc They are appointees of Balderton Capital and Odey Asset Management, respectively No fees were charged for Mr Bunting's services to the Group Mr Bromovsky was paid £17,000 for his services rendered in 2014 in respect of his role as a non-executive director In addition, Kilda Investments Limited, of which Mr Bromovsky is a beneficiary, was paid £26,000 for Mr Bromovsky's services performed in relation to Project Reset This was outside his capacity as a director Tim Bunting and Tony Bromovsky resigned as non-executive directors of Circle Holdings plc during 2014

Other than the above and the equity transactions detailed in notes 11 and 12, there have been no transactions with these related parties

14 Events after the balance sheet

In January 2015, Circle announced its intention to terminate the Hinchingbrooke Franchise Agreement Please refer to the *Directors' report* on page 27 for a detailed overview

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Patient, CircleReading

These guys take great pride and care in their work.
I highly praise hospitality for their outstanding work.

Company information

Non-executive directors
Michael Kiwanuka MBE
Lorraine Bailey OBE
Andrew Pinkerton
Justin Lewis
Lord Walton of Detchant

Executive directors
Steve Mellors
Maxwell Jordan
Paolo Prati

Company Secretary
Capita Company Secretarial Services
The Registry
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Beckenham
Kent BR3 4TU

Registrars
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Channel Islands

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Bankers
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