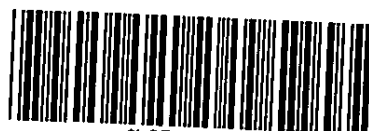


Annual Report and financial statements

For the year ended 31 December 2012

Registered number 100016 (Jersey)

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COMPANIES HOUSE

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 continuously to 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.

Contents

Highlights

Financial highlights

- Revenue under management* on continuing facilities** up 170.5% to £170.4 million (2011: £64.6 million)
- Group revenue on continuing facilities** up 13.4% to £73.2 million (2011: £64.6 million)
- EBITDA*** loss before exceptional items on continuing activities improved 8.4% to £14.2 million (2011: loss of £15.5 million)
- Basic and diluted loss per share of 25.7p (2011: 64.4p loss per share)
- £47.5 million equity fundraising (before fees)
- Repayment of £14.1 million loan to James Caird Asset Management ('JCAM')

Operational highlights

- Patient procedures in continuing facilities** up 20.9% to 147,291
- Outstanding quality metrics with continuing high rates of patient satisfaction and average patient recommendation of 99.6% across all Circle owned continuing facilities
- Patient volumes at flagship hospital CircleBath increased 39.7% with the continual growth in new specialities
- New private hospital CircleReading opened in August 2012, on time and on budget
- Selected as the preferred bidder by NHS commissioners to provide renewed services at the Nottingham NHS Treatment Centre for a further five years commencing from July 2013
- Independent recognition of improvements in clinical performance and patient experience at Hinchingsbrooke Health Care NHS Trust ('Hinchingsbrooke'). Projected annual deficit cut from £10 million to £3.7 million

- Invited to tender for an innovative £150 million, five year Integrated Musculoskeletal ('MSK') Service contract in Bedfordshire
- Engaged in strategic discussions regarding a potential financing solution for the independent hospital development pipeline

- * Includes revenue generated at Hinchingsbrooke which is managed by the Group, but not included in the Group's consolidated revenue
- ** Defined as those continuing as at 31 December 2012, which excludes Circle's Burton NHS Treatment Centre
- *** Defined as Earnings Before Interest, Tax, Depreciation, and Amortisation

Business model

Profile

Circle is an employee co-owned hospital Group with an ambition to transform UK Healthcare by re-defining quality for patients and value for our stakeholders. Circle forms the largest partnership of healthcare professionals in Europe with over 2,500 partners. Circle is co-founded, co-run and co-owned by clinicians. This model empowers the consultants and healthcare professionals who work for Circle to put patients first in everything that they do.

Circle has a clear social mission to redefine secondary healthcare delivery in the UK. We aim to achieve this through our unique operating model, ('Circle Operating System') which puts healthcare professionals back in charge of the delivery of healthcare. It has been successfully applied and proven to achieve high levels of patient care and efficiency through co-ownership and active participation in managing operations.

A key target for Circle is the circa £82 billion UK secondary acute healthcare market. The directors believe that current concerns over the quality of some NHS hospitals could increase the share of the NHS market available to the non-state sector, which would allow Circle to tender for further NHS contracts in the future. In addition, Circle's state-of-the-art, new-build independent hospitals in Bath and Reading allow it to attract patients from both the NHS and independent markets.

Chairman's Statement

Overview of the year

I am pleased to report that 2012 has been another year of progress for the Group. Thanks to the dedication of our management and clinical teams, we delivered a successful first year in our ground-breaking Hinchingsbrooke contract, and were delighted to hear recently that we have been given preferred bidder status to retain our operation of the Nottingham NHS Treatment Centre for a further five years. Our second new-build hospital, CircleReading, had an auspicious opening, with full accreditation from all regulators and private medical insurers. CircleBath has seen consistent growth in patient volumes and has significantly expanded its service with several new specialties now on offer. While the Company has yet to break into overall profitability, I believe that we have a proven concept in clinical performance terms and are on a path towards sustainability from a financial perspective.

These developments were facilitated by a substantial £47.5 million equity fund-raise to finance our operating plans. The Board has been gratified by the continuing confidence demonstrated both by our current investors and our new cornerstone investor, Invesco. We are currently reviewing financing offers for a new CircleManchester hospital as well as positioning ourselves to bid for further NHS franchise management contracts. We are encouraged by the emergence of these and other NHS opportunities, including individual service lines and the delivery of integrated hospital and community care.

Leadership and Board changes

Earlier this year Circle's CEO and co-founder, Ali Parsa, moved to a Non-Executive role on the Board in order to pursue other entrepreneurial ambitions, and we asked the then Head of Mobilisation, Steve Melton, to assume the position of Interim Chief Executive. Over the past three months Steve has led the team with distinction and the Board was delighted recently to confirm his appointment to the CEO role on a formal and continuing basis. The Board and I would like to express gratitude for Ali's invaluable contribution over many years, and admiration for his founding vision and drive. Circle's talented executive team and strong platform is a legacy of his stewardship.

In other Board changes, we said farewell to Jamie Wood, and welcomed Tony Bromovsky to the Board. Tony brings with him a wealth of business and entrepreneurial experience and is already making a substantive contribution as an integral Board member.

The Partnership

The contribution of our Partnership of clinicians and staff is fundamental to our success. Our enviable track record on quality is down to their dedication to delivering the best possible patient care, and our reputation for efficient operations is due to their active participation in the management of their facilities. At Circle, 'partnership' has always meant working together as a team, with shared values, towards common goals, trusting clinicians on the front line, and giving everyone a stake in our success.

The Board is eager to ensure the continued engagement and motivation of clinicians and staff, and is therefore consulting with its shareholders around the efficacy of the current partnership incentivisation.

The Board has noted that the Group structure is relatively complex, reflecting various challenges faced in the early years, which included designing an effective employee ownership mechanism and incorporating a property development capability. Some progress has been made on this front, with the decrease in the number of legal entities and with Circle Holdings being brought onshore for tax purposes at the time of the AIM-listing in 2011. However, the Board remains highly focused on structural simplification and improved transparency across the Group.

Looking forward

We believe that our common-sense approach of putting doctors and nurses in charge of tackling the problems that the NHS faces – tighter budgets, a growing elderly population, and an ever increasing focus on the quality of care provided by the current structure – means we are well placed for the future. With increased scrutiny of NHS hospitals facing quality and financial challenges, we believe opportunities will emerge for players who can help the NHS achieve its aims with new solutions that increase efficiency, improve quality and change culture.

Our focus in the year ahead is to build on the strong foundations we have laid by demonstrating how we can transform the quality and costs of care through empowerment of frontline doctors and nurses. While this will continue to demand investment, we are confident that patients – and all other stakeholders – will see the value, innovation and service that our approach delivers against a backdrop of tighter budgets in the NHS, alongside the demographic challenge posed by an ageing population.

Our vision, model and platform are now well established, and I am confident that the Company can deliver on its plans in the year ahead.

Michael Kirkwood, CMG
Chairman
17 April 2013

Chief Executive Officer's report

Business review

It is a privilege to present the Group's Chief Executive statement. I would like to join the Chairman in paying tribute to the enormous contribution of my predecessor, Ali Parsa. Our rapid growth and current track record in innovative healthcare delivery owe much to his founding vision and entrepreneurial drive.

In 2012 Circle made significant progress in our mission to transform healthcare in the UK. With the start of our contract to run Hinchingsbrooke Hospital, the opening of our second new-build hospital, and successful participation in a re-tendering process for our Nottingham NHS Treatment Centre contract, we are showing how our approach of putting doctors and nurses in charge raises the quality of care, delivers value and sparks innovation. We are pleased to report that overall performance remains in line with market expectations, with better than projected consolidated revenues and operating profits before exceptional items for the year ended 31 December 2012.

Performance

We were delighted to be selected as the preferred bidder to provide renewed services at the Nottingham NHS Treatment Centre for a further five years. This result is a vote of confidence in our model of clinical leadership and employee engagement, and testament to the talent and commitment of our frontline clinicians, who were heavily involved in the assembly of our bid. Following our Hinchingsbrooke win last year, this contract cements our first-mover advantage in independent NHS provision of services through an innovative approach to integrating hospital and community care.

CircleBath has seen steady growth in revenue and patient volumes, with year on year increases of 28% and 40%, respectively. Whilst a strategy to increase private revenues substantially has seen some progress, there is now a renewed focus on securing improved margins.

Our second new-build hospital, CircleReading, opened in August 2012, and has had a strong first five months, delivering the majority of its committed private revenue and gaining significant market share. It has created a £10 million run-rate business within six months of opening. At the same time, it has quickly matched other Circle facilities in achieving high levels of patient satisfaction. Lessons from the commissioning of CircleBath are being applied continuously to CircleReading operations.

In regard to our NHS hospital contract, the year ended 31 December concluded the first eleven months of operations at Hinchingsbrooke, and we were gratified that our model has delivered strong performance across a range of indicators. The projected annual deficit of £10 million will this year be reduced to £3.7 million, in line with market expectations. Through our transformation programme, we have also secured approximately 7% annualised savings against a £100 million budget, including a 50% decrease in locum costs.

In the year ahead, we will be focusing on overcoming Hinchingsbrooke's historic financial problems by achieving a sustainable break-even position, and making CircleBath and CircleReading economically sustainable by continuing to grow revenues and patient volumes.

Quality

The strong thread running through all of our current facilities and future plans is our commitment to providing the best possible patient care. Our founding credo describes us as 'the agents of our patients', and speaks of 'exceeding their expectations every time'. Our proudest achievement is the consistently high levels of patient satisfaction recorded in feedback, which averages 99.6% in Circle built and commissioned facilities. We were delighted that CircleBath was awarded the Bath Business Award for 'Customer Service' for the second consecutive year, beating stiff competition from luxury hotels in the region.

In our Hinchingsbrooke contract we have made improving patient care our top priority. During our first few months, we focused on fixing areas of patient care that we judged to be sub-standard or unsafe. Since then, the hospital has consistently ranked amongst the top of the regional health authority's independent ratings of 46 in the Midlands and East region, including top ten for patient experience. In addition, it has been named as one of the five most improved hospitals in the country for patient safety, with a 60% year on year reduction in clinical incidents. We have also established a new culture of transparency that has achieved a 13-fold increase in the number of patient feedback forms. We ensure all concerns are addressed promptly by publishing feedback verbatim online in a 'TripAdvisor' style initiative, and so far this has led to the scrapping of parking fines, an overhaul of menus, the installation of free patient television systems, and the introduction of bedside handovers on nursing shifts.

Strategy and Outlook

We remain focused on a strategy of transforming healthcare by innovating in both the public and private spheres of UK healthcare. Our experience to date shows that many opportunities exist to improve the provision of healthcare in the UK. At Hinchingsbrooke, in a relatively short space of time we have shown what can be achieved by putting doctors and nurses in charge: the quality of care goes up, the costs of bureaucracy go down, and an environment is created which stimulates innovation and initiative.

We won our bid to renew the Nottingham NHS Treatment Centre contract on the back of innovative proposals for integrating care between the Treatment Centre and the community, and believe that the contract will enable us to gain unique expertise in this area.

On top of that, we are participating in the Competition Commission inquiry into the private healthcare industry, and remain optimistic that its recommendations will tackle many of the barriers to entry that we have encountered in the hospital sector.

A clear strategy, proven results and, above all, our ability to unleash innovation by putting doctors and nurses in charge, mean we are confident that Circle will continue to grow in the years ahead.



Steve Melton
Chief Executive Officer
17 April 2013

Operational overview

Private

CircleBath

CircleBath, the Group's first new-build independent hospital which opened in March 2010, has performed well on many fronts. Having completed its third year of operations, CircleBath has continued to show impressive growth with the number of patients treated in 2012 up to 46,340, an increase of 39.7% (2011: 33,174). Revenues grew by 28.1% to £15,644,000 (2011: £12,217,000), driven by an increase in the number of specialties offered to private and NHS patients. Spinal and neurosurgery have seen the greatest growth following their introduction in the early part of 2012. In addition, there has been an increase in new consultant partners from a wider catchment area.

At the same time, high levels of patient satisfaction have been maintained with an average recommendation of 99.9% for the year ended 31 December 2012 (2011: 98.3%). True to the Group's belief that "hospitals can be better", the Group is pleased that for a second year running, CircleBath has been awarded the Bath Business Award for "Customer Service", beating stiff competition from some of the best five star hotels in the country. Furthermore, CircleBath was the only independent healthcare finalist in the cancer leadership category of the Nursing Times awards.

In 2012, CircleBath has continued to play an active role in both the healthcare and local community. CircleBath became a training site for student nurses, student radiographers and student physiotherapists and ran, with enthusiastic involvement from staff and Consultant Partners, a number of successful work experience programmes and internships aimed at young people thinking about a career in healthcare.

CircleReading

CircleReading, Circle's second new-build independent hospital, opened in August 2012 on time and on budget. It has had a strong first five months, delivering a significant portion of its committed revenue, and produced record revenues of just under £1,000,000 in the month of November.

CircleReading has welcomed 11,599 patients to the hospital, generating revenues of £3,221,000 predominately from privately-insured and self-pay patients. NHS activity commenced in the fourth quarter of 2012 and is expected to increase steadily during 2013.

An operating loss of £7,477,000 was recorded for 2012. Included in this loss are the pre-opening costs of commissioning the hospital, which were substantially lower than budget following efficiencies learned and executed from the commissioning of Circle's first new-build hospital, CircleBath.

At the same time, CircleReading has achieved high levels of patient satisfaction, with an average patient recommendation of 99.6% in 2012.

The Group is now focused on growing its private and self-pay activity whilst also delivering a steady increase in NHS patient procedures.

NHS

Nottingham NHS Treatment Centre

Circle's Nottingham NHS Treatment Centre, one of the largest day case centres in Europe, has continued to perform well in 2012. Revenue has increased by 4.2% to £53,317,000 (2011 £51,185,000), despite a modest increase of 0.8% in overall volumes. At the same time, operating profit has increased by 14.2% to £2,729,000 (2011 £2,390,000).

As with Circle's independent facilities, the Nottingham NHS Treatment Centre has achieved high quality metrics, with patient recommendation averaging 99.4% in 2012 and unplanned transfers being 4.5 times lower than the national Independent Sector Treatment Centre threshold.

Furthermore, Circle is delighted to have been selected as the preferred bidder by NHS commissioners to provide renewed services at the Treatment Centre for a further five years from July 2013, subject to completion of the final contract. The decision to award preferred bidder status to Circle follows a seven month tender process managed by NHS Midlands and East's Strategic Projects Team on behalf of Principia Rushcliffe Clinical Commissioning Group, and is a testament to the Company's model of clinical leadership and employee engagement.

The Group is planning to adopt an innovative integrated care pathway approach with some elements undertaken in a community setting. In addition, the Group intends to introduce a ten-bed inpatient facility to enhance services currently offered by certain specialties.

Hinchingbrooke Health Care NHS Trust

On 1 February 2012, the Group commenced operations at Hinchingbrooke, the first NHS hospital to be managed by the independent sector. The contract will see the Group manage an estimated £1 billion of revenue over the ten year contract period. Under the terms of the contract, the Group has agreed to make working capital contributions of up to £5,000,000 and will share surpluses generated over the term of the contract with the Trust. The contract allows either party to terminate if Hinchingbrooke incurs more than £5,000,000 in aggregate deficits, at which point the Group is also required to pay a further £2,000,000 in termination costs to Hinchingbrooke.

The Group is pleased to report strong performance across a range of indicators. The projected underlying annual deficit of £10,000,000 in the financial year ending 31 March 2013, that was originally projected by the Trust, has been reduced to £3,700,000, which is broadly in line with our expectations. At the same time, the Trust has delivered significant improvements in patient satisfaction, Accident and Emergency waiting times and follow-up times for cancer treatment.

We will now continue our unrelenting focus on improving the Trust's finances and quality of care to achieve our goal of making Hinchingbrooke one of the top 10 District General Hospitals in the country.

Chief Financial Officer's report

Financial review

Introduction

We are delighted with the progress made by the Group in pursuing its objectives, and the ensuing results for the year. The Group has delivered results with better than projected consolidated revenues and operating profits before exceptional items. The commencement of the contract to manage Hinchingsbrooke in February, together with the opening of CircleReading in August, were two important events in the evolution of the Group. These significant milestones, combined with the £47,500,000 (before fees) fundraising in June puts the Group on a solid trajectory to continue to deliver on its plans for the coming years.

Group Results

Revenue under management of £170,400,000 and revenue from continuing facilities of £73,200,000 mark a significant uplift on the previous year's results. The Group ends the year with a cash position of £38,000,000 (including £5,100,000 of restricted cash).

	Year to 31 December 2012 £'000	Year to 31 December 2011 £'000
Revenue under management* (continuing facilities**)	170,403	64,618
Group revenue (continuing facilities**)	73,246	64,618
Group revenue	73,246	74,607
Earnings before interest, tax, depreciation and amortisation ('EBITDA') before exceptional items*** (note 6)	(14,180)	(13,633)
Total operating loss before exceptional items*** (note 6)	(17,974)	(17,133)
Operating loss	(29,306)	(18,546)
Loss and total comprehensive loss for the financial year	(30,424)	(32,311)
Net assets	42,727	26,184

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

** Defined as those continuing as at 31 December 2012, which excludes Circle's Burton NHS Treatment Centre

*** Exceptional items in the year ended 31 December 2012 of £11,332,000 (2011: £1,413,000) consist largely of impairments to property, plant and equipment, write-off of the debtor balance with the joint venture, provisions in respect of VAT, write-off of CircleReading pre-opening expenses, revaluation of finance lease payments, share-based charges in respect of warrants and shares issued, increases in onerous lease provisions and restructuring costs incurred during the year.

The Group has continued to deliver growth in its core operations, with revenue of £73,246,000 delivering a year on year increase of 13.4% in continuing facilities primarily resulting from the on-going growth at CircleBath and the Nottingham NHS Treatment Centre, endorsing the concept of clinician engagement in healthcare. Our new facility, CircleReading, started impressively, exceeding planned patient attendances in the five months after opening, and contributed revenues of £3,221,000.

Patient procedures (excluding Hinchingsbrooke)

	Continuing facilities Year to 31 December 2012	Continuing facilities Year to 31 December 2011	Change
	Number	Number*	
Day case and inpatients	35,801	32,850	9.0%
Outpatients	111,490	89,008	25.3%
Total procedures	147,291	121,858	20.9%

* The number of procedures in the year to 31 December 2011 exclude Circle's Burton NHS Treatment Centre, to enable a comparison of the Group's continuing facilities (defined as those existing at 31 December 2012)

Overall patient procedures in continuing Circle facilities increased by 20.9% to 147,291 procedures. CircleBath continued to show significant growth with the number of procedures up 39.7% to 46,340 (2011: 33,174). The increase in patient procedures in continuing facilities is also attributable to the impressive performance of CircleReading, which has performed 11,599 procedures since opening in August 2012. Circle's Nottingham NHS Treatment Centre continued to see strong patient volumes, with total day case procedures increasing by 3.5% to 27,700. Crucially, the increases in patient numbers visiting Circle facilities have been achieved while also increasing patient satisfaction, which now averages 99.6%.

Group EBITDA (before exceptional items) on continuing facilities improved by 8.4% from a loss of £15,500,000 to a loss of £14,200,000, primarily driven by improved operating results at CircleBath, Circle's Nottingham NHS Treatment Centre and further cost efficiencies in the Group.

The Group generated an operating loss before exceptional items of £17,974,000, an increase of 4.9% on the previous year's result. The increase in the Group's operating result was impacted by the loss of the contract to run the Burton NHS Treatment Centre in July 2011 and CircleReading overhead costs prior to its opening.

Loss before tax was up 7.6% to £30,430,000 and the loss per share now stands at 25.7 pence, improved from a loss per share in 2011 of 64.4 pence.

Exceptional Items

The Group recognised some key exceptional items in the year:

After a review of its treatment of VAT for prior periods, the Group has made a £1,500,000 provision relating predominantly to inaccuracies in the 2008-10 period. The Group continues to conduct further analysis with the aim of finalising its position during 2013 and is in consultation with HM Revenue and Customs ('HMRC') on the outcomes of this review.

Furthermore, the Group has impaired the carrying value of its land in Manchester by £2,200,000 and made a provision of £1,600,000 for historic balances due from its Bath property joint venture. In compliance with accounting standards that require the Group to consider the current value of discounted cash flows over the near term, the Group has written off the commissioning asset.

(approximately £2,100,000) relating to its CircleReading facility as a one-off exceptional item (note 14) The overall cash commissioning cost for CircleReading has remained unchanged and under budget for 2012

Exceptional finance income of £866,000 (2011 expense of £10,097,000 predominantly due to the AIM-listing) was recorded Exceptional finance charges were primarily due to costs associated with the repayment of the JCAM loan offset by fair value adjustments on interest rate swaps in the year

Financing

In June 2012 the Group successfully raised £47,500,000 (before fees) by way of equity funding The proceeds from this fundraise have been used, in part, to pay down the entire £14,100,000 loan owed to JCAM, and complete the commissioning of CircleReading and the commencement of the Hinchingsbrooke contract Funds have also been used for the general working capital requirements of the Group, in particular CircleBath The Group is encouraged by the emergence of further NHS opportunities and would consider the requirements for further capital depending on the opportunities presented

The Group continues to seek financing for Circle Manchester and the independent hospital development pipeline and are currently in discussions with real-estate investors for a potential financing solution

Cashflow

Net cash outflow from operating activities reduced by 27.9% to £16,989,000 (2011 outflow of £23,575,000) reflecting the improvement in the underlying performance of the Group Net debt has also fallen from £42,354,000 to £23,471,000 at year end, despite funding CircleReading's start-up phase

During the year, the Group invested £1,400,000 in developing the Circle Operating System and supporting the development of the IT infrastructure across all sites to improve the stability and effectiveness of clinical and management information

The Group's interest expense in the year was reduced by 50.4% to £2,998,000 (2011 £6,040,000) following the repayment of the JCAM loan, which had been accruing interest at 25% per annum

Restructuring

The Group continues to focus on meeting its objectives in line with the current strategy and recently undertook a restructure of its head office to ensure the cost base remains in line with operational requirements This will result in projected annual run-rate savings between £2,000,000 and £3,000,000, with an expected restructure charge of £500,000 in 2013

The Group completed the migration of specialist surgical services from its CircleWindsor clinic to its CircleReading facility in March 2013

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 above 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 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 eight years.

Contract risk

Contract risk is the risk that the Group is unable to renew the NHS contracts at the end of their fixed tenure. The Group aims to mitigate this risk by maintaining good relationships with contracting parties and actively pursuing contract renewals and extensions ahead of time. The Group has recently been selected as the preferred bidder by NHS commissioners to provide renewed services at the Nottingham NHS Treatment Centre for a further five years commencing from July 2013. The Group also commenced a 10 year contract in February 2012 to run Hinchingsbrooke Health Care NHS Trust in Huntingdonshire.

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 private patients is anticipated to increase, the Group will be increasingly subject to pricing changes from private insurance companies.



Paolo Pieri
Chief Financial Officer
17 April 2013

Board of Directors

Michael Kirkwood, CMG, Non-Executive Chairman (b), (c)*

Michael 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 and a Non-Executive Director of UK Financial Investments Limited (UKFI), AngloGold Ashanti Limited, Eros International plc 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 and Audit Committee Chair of 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 former H M Lieutenant for the City of London in 2004, Michael was appointed a Companion of the Order of St Michael & St George (CMG) in the Queen's 2003 Birthday Honours.

Steve Melton, Chief Executive Officer

Steve was appointed as the interim Chief Executive Officer in December 2011 after previously holding the role of Head of Mobilisation and Operations since joining Circle in 2008. This appointment was confirmed on a formal and continuing basis in April 2013. Steve has over 22 years of experience leading large scale operations. Prior to Circle, he was the Supply Chain Director at Argos, where he led a number of operational improvement programmes. Previously, he was Supply Chain Director at Scottish Courage Limited, managing over 3,000 staff and a £165,000,000 cost base. He began his career on Unilever's Management Trainee Programme, and has held a number of roles at Unilever, Elida Faberge and ASDA. Steve holds an MA (First Class) in Chemical Engineering from the University of Cambridge.

Paolo Pieri, Chief Financial Officer

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

Massoud Fouladi, Chief Medical Officer

Massoud is a co-founder of Circle. As Chief Medical Director, his vision has been to build a co-owned and clinically-led partnership of doctors, nurses, managers and other healthcare professionals. 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. As a consultant in East Kent, he was involved in redesigning ophthalmic services for the region, which became a national model for service redesign. In 2001, he 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.

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

Lorraine is Chairman of London and Continental Railways Limited, Inventa Partners Limited and Tri-Air Developments Limited. She is also a Board member of the Olympic Delivery Authority. 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 an 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.

Tony Bromovsky, Non-Executive Director (Non-Independent)

Tony joined the Board of Circle Holdings plc in November 2012. Tony is also a director of Kilda Investments Limited (since 1991), a corporate finance company he set up that advised on and arranged investments in a variety of ventures in Eastern Europe, and (since 2012) is a director of Local World Limited, a local media business that has a portfolio of market-leading print and digital brands. Prior to this, Tony was a director of BHE Limited, a UK healthcare company set up in 1999 that secured and managed a number of long-term LIFT contracts for the development of major infrastructure projects in partnership with the NHS.

Tony started his career as a commodities trader for Louis Dreyfus in 1974, followed by similar roles at Woodhouse Drake and Carey and Drexel Burnham Lambert, where he was Senior Vice President and Director of Commodities Trading. During this period he was also Deputy Chairman of the London Commodity Exchange. Tony graduated from the University of Toronto in 1972 with an Honours degree in General Arts.

Tim Bunting, Non-Executive Director (Non-Independent)

Tim has been a General Partner of Balderton Capital since 2007. He was previously a partner of Goldman Sachs where he spent 18 years. At Goldman Sachs, Tim held various roles including Global Head of Equity Capital Markets (2002-2005) and Vice Chairman of Goldman Sachs International (2005-2006). Tim is a governor of Wellington College and the Wellington Academy and a trustee of the Rainbow Trust children's charity and the Paul Hamlyn Foundation. Tim is a graduate of the University of Cambridge.

Peter Cornell, Non-Executive Director (Independent) (a), (b), (c)

Peter is a partner of Metric Capital and a director of Cornell Partners Limited. He was previously the Managing Director for stakeholder relations at Terra Firma and global Managing Partner of Clifford Chance, one of the world's leading international law firms with over 3,500 lawyers in 30 offices. In his career at Clifford Chance, Peter managed offices in Asia, the UK, the US and continental Europe. Peter has an honours degree in Economics & History from the University of Exeter. He was elected 'Lawyer of the Year' by Legal Business in 2007. He was formerly a Council Member of the BVCA and Vice-Chairman of the BVCA's Global Buyout Committee. He is currently a member of the International Advisory Board of the Madrid Business School.

Ali Parsa, Non-Executive Director (Non-Independent)

Ali is a social entrepreneur who co-founded Circle in 2004. Ali stepped down from the position of Chief Executive Officer at the end of 2012. Prior to Circle, Ali was an Executive director of Goldman Sachs' European technology investment banking team. He also worked at Merrill Lynch and Credit Suisse First Boston.

He has a PhD in Engineering Physics from the University of London. Ali won the award for Entrepreneurial Achievement in the 2010 Independent Healthcare Awards and was named in the 100 most influential people in UK healthcare in the Health Service Journal's annual survey in 2010 and by the Times as one of the 100 people to watch in 2012. Ali is a member of the Employee Ownership Association National Council, chairman of the CBI Healthcare Panel and a member of the CBI Public Sector Services Board.

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

Andrew 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 plc 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 Senior Independent Non-Executive 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 2012

The Group financial statements consolidate the financial statements of Circle Holdings plc (the 'Company') and its subsidiary undertakings ('subsidiaries'), including the Group's quasi subsidiary undertaking, Circle Partnership Limited ('Circle Partnership') and the Group's joint venture of Health Properties (Bath) Limited ('Health Properties Bath'), drawn up to 31 December 2012. 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. This empowerment is driven through Circle Partnership, which is co-owned by the clinicians and employees working at Circle facilities. CPL owns 49.9% of the Group's operating subsidiaries.

Business review

The information that fulfils the requirements of the Business review can be found in the Operating and financial review on pages 7 to 12. Information on environmental matters, employees, community and social issues is given in the report on corporate governance on pages 20 to 24.

Results and dividends

The loss and total comprehensive loss for the financial year attributable to owners of the parent amounted to £25,426,000 (2011: £28,693,000). The Directors do not recommend the payment of any dividends (2011: £nil).

Cash flow

The total cash balance at 31 December 2012 is £38,029,000 (2011: £26,004,000) of which £32,929,000 (2011: £22,729,000) relates to unrestricted cash. Net cash used in operating activities totalled £16,536,000 (2011: £26,161,000).

Share capital and control

As at 31 December 2012, the Company's authorised share capital comprised 250,000,000 (2011: 100,000,000) ordinary shares of £0.02 each, of which 130,706,657 (2011: 62,771,049) (note 23) 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 ordinary 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 2012, the Group had 51 equivalent days (2011: 51 days) of purchases outstanding and the Company had 33 equivalent days (2011: 19 days).

At 31 December 2012, trade creditors in the Group and Company were £9,128,000 and £250,000 respectively (2011 £9,646,000 and £143,000)

Going Concern

The Directors have prepared cash flow forecasts for a period of 18 months from the date of signing the financial statements for the year ended 31 December 2012. These forecasts have been prepared on the cash flows from the existing operating businesses to include the following assumptions

- CircleBath and CircleReading revenue and margin growth assumptions, and
- Awarding of the new Nottingham NHS Treatment Centre contract on revised terms

If sensitivities to the Group business forecasts were to materialise, management believe that it could mitigate these by undertaking some combination of the following

- Utilisation of contingencies built into the business plan,
- Head office cost savings, and
- The sale of some property asset holdings

While the Directors are confident that the Group and Company can continue to meet their working capital requirements over the next 12 to 18 months, any significant deviations from the forecasts will impact on the sufficiency of working capital and this represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern

Nevertheless, the Directors believe that, based on its current business plan, the Group and Company have adequate resources to continue in operational existence. As such, the Directors consider it appropriate for these financial statements to be prepared on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern

Events after the Balance Sheet date

Hinchingbrooke Health Care NHS Trust

Under the terms of the Hinchingbrooke franchise agreement, Circle Hinchingbrooke Limited is required to make support payments to Hinchingbrooke Health Care NHS Trust in the event that the Trust projects a negative cashflow position. In accordance with this obligation, the Group made a support payment to the Trust of £3.7m at the end of January 2013 to ensure the Trust remains in surplus for the financial year ending 31 March 2013.

Nottingham NHS Treatment Centre Contract Win

The Group has been selected as the preferred bidder by NHS commissioners to provide renewed services at the Nottingham NHS Treatment Centre for a further five years commencing from July 2013. The Group's appointment is subject to completion of final contract terms, which is expected by the end of the second quarter of 2013. The decision to select Circle as the preferred bidder follows a seven month tender process managed by NHS Midlands and East's Strategic Projects Team on behalf of Principia Rushcliffe Clinical Commissioning Group. The expected contract value for delivering core services will be circa £15 million annually with additional services expected to be provided under the Any Qualified Provider framework.

AIB / Edinburgh loan

Allied Irish Bank ('AIB') and Health Properties (Edinburgh) Limited ('Health Properties Edinburgh') have agreed a series of steps where AIB will take possession of the Edinburgh property and Health Properties Edinburgh will thereafter be dissolved on a consensual basis. This agreement was reached following discussions with AIB and taking into consideration the value of the property and the fact that the Circle Group holds no equity in the property. Current expectation is that Health Properties Edinburgh will be dissolved during the fourth quarter of 2013.

West London

Nations Healthcare West London LLP ('Nations') has exercised their right to terminate the lease of 1010 Great West Road ('the Property') on 4 April 2013. Circle is awaiting acknowledgment from the receivers of the Property (appointed by Lloyds Bank in February 2012) in respect of this.

Future developments

Operationally, the intention during the coming year is to increase the patient volumes treated at each of the operating facilities, to raise the quality of care provided and to ensure that all facilities are of a world class standard.

Directors

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

Steve Melton	Chief Executive Officer (appointed 3 April 2013)
Massoud Fouladi	Chief Medical Officer
Paolo Pieri	Chief Financial Officer
Michael Kirkwood, CMG	Non-Executive Chairman
Lorraine Baldry, OBE	Senior Non-Executive Director (Independent)
Peter Cornell	Non-Executive Director (Independent)
Andrew Shilston	Non-Executive Director (Independent)
Ali Parsa	Non-Executive Director (Non-Independent)
Tim Bunting	Non-Executive Director (Non-Independent)
Jamie Wood	Non-Executive Director (Non-Independent) (resigned 18 June 2012)
Tony Bromovsky	Non-Executive Director (Non-Independent) (appointed 22 November 2012)

Biographies of the current Directors are detailed on pages 13 to 15 and Directors' beneficial interests in the Group's share capital and warrants are detailed on pages 27 to 28 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 £2,000 (2011: £26,000) 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.

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 20 to 24.

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.

As with all medical providers, clinical risk is the paramount consideration. The Group has an integrated governance structure which is overseen by the Chief Medical Officer, Dr Massoud Fouladi, 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, whilst 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') (chaired by Dr Massoud Fouladi). The IGC prepares quarterly written risk assurance reports to the boards of the relevant Circle Group companies and the Company's Audit and Risk Committee.

Additionally, the Group's hospitals, clinics and treatment centres are subject to Care Quality Commission ('CQC') reviews on a regular basis, including a review of training and risk management procedures used at the sites.

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. 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
17 April 2013

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 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 Nominations Committee. In addition, the Board has authorised a Market Disclosure Committee and the IGC, with the latter reporting 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 Chair and other members of the committees are listed in the Board of Directors biographies on pages 13 to 15.

The Board

The Board of Directors comprises a Non-Executive Chairman, three independent Non-Executive Directors, three non-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 13 to 15. 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, 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 process, both operational and financial, and they are free from any business or personal relationships (other than as declared in the case of non-independent Non-Executive Directors) 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.

The Board and its subcommittees meet at regular intervals throughout the year and has reserved for its 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 ('KPIs') 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 pages 16 to 19.

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 ('Circle Health'). 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 25 to 28.

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, in consultation with the Circle Partnership, the succession plans for the Chief Executive Officer. The Nominations Committee meets at least once a year and whenever necessary to fulfil its responsibilities.

The Code recommends that a majority of the Nominations Committee be Non-Executive Directors and the Group complies with the requirements of the Code in this regard.

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	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Ad hoc & short notice meetings
Lorraine Baldry, OBE	9	4	6	2	6
Tony Bromovsky ¹	1	n/a	n/a	n/a	-
Tim Bunting ²	9	n/a	1	n/a	6
Peter Cornell	9	4	6	2	6
Massoud Fouladi	9	n/a	n/a	n/a	6
Michael Kirkwood, CMG	9	n/a	6	2	6
Ali Parsa	9	n/a	n/a	n/a	6
Paolo Pieri	9	4	n/a	n/a	6
Andrew Shilston ³	9	4	5	1	6
Jamie Wood ⁴	4	n/a	n/a	n/a	6
Total meetings held	9	4	6	2	6

¹ Tony Bromovsky was appointed to the Board on 22 November 2012.

² Tim Bunting stood down from the Remuneration Committee on 1 February 2012.

³ Andrew Shilston was appointed to the Remuneration and Nomination Committees on 1 February 2012.

⁴ Jamie Wood resigned from the Board on 18 June 2012.

⁵ Steve Melton was appointed as a Director on 3 April 2013 and has therefore been excluded from the above table.

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 tele-conference 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 offsite 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.

The Company's principal subsidiary, Circle Health, is co-owned by the Group's employees and clinicians who work in the Group's facilities. The Group encourages the involvement of employees in the performance of the Group through participation in the share scheme operated by Circle Partnership, a related Company incorporated in the British Virgin Islands, which holds 49.9% of the share capital of Circle Health, the balance of which is indirectly owned by the Company. For further details see note 24 to the financial statements.

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.

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
17 April 2013

Directors' remuneration report

Introduction

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 13 to 15 and the role of the Remuneration Committee is set out in the report on corporate governance on page 21

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 March 2012. Previously no pension contributions had been made.

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 ownership plan

Circle Partnership Limited is an employee share ownership plan and currently owns 49.9% of the shares in Circle Health Limited. It enables the participants (including Executive Directors and Ali Parsa) who contribute to the success and growth in value of Circle Health to be owners of the business. The participants are issued shares in Circle Partnership, which are held by the Circle Partnership Benefit Trust. Under the scheme, shares are awarded on deferred payment terms with the purchase price for the shares becoming payable upon the occurrence of certain events, including the completion of a sale of the shares by a participant. The subscription price for the shares is the Fair Market Value ('FMV') as determined by an independent valuation.

Share issue to Non-Executive Directors

On 18 June 2012 the Group issued, at nominal value, an aggregate of 78,465 ordinary shares of £0.02 each in the capital of the Company ('Ordinary Shares') to the following Non-Executive Directors pursuant to individual share awards (the 'Share Awards'). The Ordinary Shares were issued as follows:

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 unvested at 31 December 2012
Michael Kirkwood, CMG	94,157	31,386	62,771

Lorraine Baldry, OBE	47,078	15,693	31,385
Peter Cornell	47,078	15,693	31,385
Andrew Shilston	47,078	15,693	31,385

The Ordinary Shares once vested cannot be sold or transferred until one year following the end of the Non-Executive Directors' term of service. The Share Awards also provide that the remaining Ordinary Shares will vest in equal tranches in June 2013 and June 2014. Authority to issue such further Ordinary Shares was approved by shareholders at the AGM held on 18 June 2012. The named Non-Executive Directors do not hold any other interests in the ordinary share capital of the Company.

Share warrants

Health Trust (Jersey), a family trust of which Ali Parsa is a beneficiary, 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. They vest evenly over a 24 month period from May 2011 and are exercisable from the date they vest.

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.

Other than payments made to Ali Parsa in relation to the cessation of his employment, there have been no further payments made during the year in relation to compensation for loss of office.

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 are 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. 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.

2012	Annual contracted salaries / fees	Actual salaries / fees	Pension Scheme	Share- based charges	Actual taxable and other benefits*	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
Ali Parsa	415	415	70	11	564	1,060
Massoud Fouladi	156	156	26	2	-	184
Paolo Pieri	188	188	31	-	1	220
Non-Executive						
Michael Kirkwood, CMG	100	100	-	38	-	138
Lorraine Baldry, OBE	53	53	-	19	-	72
Peter Cornell	40	40	-	19	-	59
Andrew Shilston	48	48	-	19	-	67
Tony Bromovsky	40	3	-	-	-	3
Tim Bunting	-	-	-	-	-	-
Jamie Wood	-	-	-	-	-	-
	<u>1,040</u>	<u>1,003</u>	<u>127</u>	<u>108</u>	<u>565</u>	<u>1,803</u>

* Included within actual taxable and other benefits during the year is a payment to Ali Parsa in relation to the cessation of his employment with the Company. This payment includes 12 months base salary of £400,000, a termination payment of £71,000, a contribution of £85,000 to his personal pension plan to which previous employer contributions have been made

2011	Annual contracted salaries / fees	Actual salaries / fees	Pension Scheme	Share- based charges	Actual taxable and other benefits	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
Ali Parsa	400	168	-	-	1	169
Massoud Fouladi	152	152	-	-	-	152
Paolo Pieri	183	107	-	-	-	107
Non-Executive						
Michael Kirkwood, CMG	100	50	-	-	-	50
Lorraine Baldry, OBE	53	30	-	-	-	30
Peter Cornell	40	20	-	-	-	20
Andrew Shilston	48	16	-	-	-	16
Tim Bunting	-	-	-	-	-	-
Jamie Wood	-	-	-	-	-	-
	<u>976</u>	<u>543</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>544</u>

Capita charged the Group £nil in the year to 31 December 2012 for Director responsibility fees (2011 £11,000). Note 33 provides further details of the fiduciary services provided by Capita to the Group during the year.

No Directors waived emoluments in respect of the year ended 31 December 2012 (2011: none)

Beneficial interests

2012	(Restated)** At 1 January 2012 (number)	Exchanged in the year*** (number)	Awards in year (number)	At 31 December 2012 (number)
Health Trust (Jersey)*	2,394,185	-	1,111,111	3,505,296
Massoud Fouladi	5,100,000	63,500	150,000	5,313,500
	<u>7,494,185</u>	<u>63,500</u>	<u>1,261,111</u>	<u>8,818,796</u>

* Health Trust (Jersey) is a family trust of which Ali Parsa is a beneficiary

** The number of shares in Circle Partnership held by Health Trust (Jersey) was restated to reflect the amount formally issued at 31 December 2011

*** As part of the wind up of the Health Properties Benefit Trust in 2011, Massoud Fouladi, a beneficiary of the trust, forfeited his shares in the scheme in exchange for 63,500 shares in the Circle Partnership share scheme. This offer was formally accepted by Massoud Fouladi on 30 August 2012

Shares in Circle Holdings plc

	Year	At 1 January (number)	Exchanged in year (number)	Incremental five-for-one split (number)	Exchanged in the year* (number)	Disposed on the year (number)	At 31 December (number)
Health Partners	2012	3,136,180	-	-	-	(5,000)	3,131,180
	2011	985,610	(179,187)	3,225,692	(895,935)	-	3,136,180

* On 15 March 2011, Health Partners entered into a Share Transfer Agreement whereby Health Partners transferred a percentage of its holding in Circle Holdings plc to the existing shareholders in exchange for shares in the Circle Partnership

Warrants in Circle Holdings plc

	Year	Exercise price (£)	At 1 January (number)	Awards in year (number)	At 31 December (number)
Health Trust (Jersey)*	2012	£1.52	2,340,765	-	2,340,765
	2011	£1.52	2,340,765	-	2,340,765

*Health Trust (Jersey) is a family trust of which Ali Parsa is a beneficiary

Lorraine Baldry, OBE
Chair, Remuneration Committee
17 April 2013

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 ('IFRS') as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles ('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 IFRS 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 Annual General Meeting.

A handwritten signature in black ink, appearing to be 'S. Melton', with a long horizontal stroke extending to the right.

Steve Melton
Chief Executive Officer
17 April 2013

Independent auditors' report
To the members of Circle Holdings plc

We have audited the Group financial statements of Circle Holdings plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities, set out on pages 29 to 30 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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 this opinion, 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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of the Group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991

Opinion on other matter

In our opinion the information given in the Directors' Report for the financial year for which financial statements are prepared is consistent with the financial statements.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern. While the Directors are confident that the Group can continue to meet their working capital requirements over the next 12 to 18 months, any significant deviations from their forecasts could impact on its ability to do so, and these conditions as explained in note 2 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion

- proper accounting records have not been kept, or
- the financial statements are not in agreement with the accounting records, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of Circle Holdings plc for the year ended 31 December 2012



Nigel Reynolds
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditors
London
17 April 2013

Circle Holdings plc

Consolidated income statement For the year ended 31 December 2012

	Notes	2012 £'000	2011 £ 000
Revenue	4	73,246	74,607
Cost of sales		(52,097)	(50,887)
Gross profit		21,149	23,720
Administrative expenses before exceptional items		(39,123)	(40,853)
Operating loss before exceptional items	6	(17,974)	(17,133)
Exceptional operating items	6	(11,332)	(1,413)
Operating loss	5	(29,306)	(18,546)
Finance income	10	3,513	3,454
Finance costs	9	(5,244)	(6,809)
Exceptional finance items	6	866	(10,097)
Provision for joint venture deficit	15	(259)	(926)
Loss before taxation		(30,430)	(32,924)
Income tax credit	12	6	613
Loss and total comprehensive loss for the financial year		(30,424)	(32,311)
Loss and total comprehensive loss for the year attributable to:			
– Owners of the parent		(25,426)	(28,693)
– Non-controlling interests	24	(4,998)	(3,618)
		(30,424)	(32,311)
Basic and diluted loss per ordinary share attributable to the owners of the parent (pence)			
	11	(25 7)	(64 4)

There is no other comprehensive income arising in the Group or joint venture (2011: £nil) and therefore no separate Statement of other comprehensive income has been prepared

Circle Holdings plc

Consolidated balance sheet

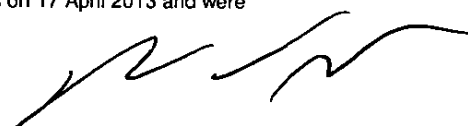
As at 31 December 2012

	Note	2012 £'000	2011 £'000
Non-current assets			
Intangible assets	13	6,368	5,391
Property, plant and equipment	14	24,876	20,594
Trade and other receivables	17	662	43,961
		<u>31,906</u>	<u>69,946</u>
Current assets			
Inventories	16	1,298	901
Trade and other receivables	17	57,079	19,788
Cash and cash equivalents	18	38,029	26,004
		<u>96,406</u>	<u>46,693</u>
Total assets		<u>128,312</u>	<u>116,639</u>
Current liabilities			
Trade and other payables	19	(15,111)	(15,303)
Loans and other borrowings	20	(50,836)	(22,099)
Provisions	21	(2,468)	(924)
		<u>(68,415)</u>	<u>(38,326)</u>
Non-current liabilities			
Trade and other payables	19	(2,257)	-
Loans and other borrowings	20	(10,664)	(46,259)
Provision for joint venture deficit	15	(2,947)	(2,688)
Provisions	21	(189)	(707)
Derivative financial instruments	22	(1,113)	(2,475)
		<u>(17,170)</u>	<u>(52,129)</u>
Total liabilities		<u>(85,585)</u>	<u>(90,455)</u>
Net assets		<u>42,727</u>	<u>26,184</u>
Share capital	23	2,614	1,255
Share premium	23	193,145	148,548
Other reserves	23	22,182	22,182
Warrant reserve	25	22,390	21,475
Share-based charges reserve	26	96	-
Retained deficit		<u>(170,612)</u>	<u>(147,106)</u>
Equity attributable to owners of the parent		<u>69,815</u>	<u>46,354</u>
Non-controlling interests	24	(27,088)	(20,170)
Total equity		<u>42,727</u>	<u>26,184</u>

The financial statements on pages 33 to 92 were approved by the Board of Directors on 17 April 2013 and were signed on its behalf by



Steve Melton
Chief Executive Officer



Paolo Pien
Chief Financial Officer

Circle Holdings plc

Registered number 100016 (Jersey)

Circle Holdings plc

Consolidated statement of changes in equity For the year ended 31 December 2012

	Share capital £'000	Share premium £'000	Other reserve £'000	Warrant 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 2011	425	111,680	-	19,878	-	(128,049)	3,934	(9,157)	(5,223)
Loss and total comprehensive loss for the year	-	-	-	-	-	(28,693)	(28,693)	(3,618)	(32,311)
Transactions with									
Issue of shares (note 23)	535	40,674	-	-	-	2,241	43,450	-	43,450
Issue of shares under warrants (note 23)	295	-	22,182	-	-	-	22,477	-	22,477
Share-based charges (note 26)	-	-	-	1,597	-	-	1,597	-	1,597
Capitalised costs in relation to fundraising	-	(3,806)	-	-	-	-	(3,806)	-	(3,806)
Effect of shares vesting in the year (note 24)	-	-	-	-	-	1,438	1,438	(1,438)	-
Shares issued to Health Partners (note 24)	-	-	-	-	-	2,204	2,204	(2,204)	-
Winding up of Health Properties Benefit Trust (note 24)	-	-	-	-	-	835	835	(835)	-
Effect of Nations Healthcare Group restructure (note 24)	-	-	-	-	-	2,383	2,383	(2,383)	-
Effect of anti-dilutive shares issued to Health Partners (note 24)	-	-	-	-	-	535	535	(535)	-
At 1 January 2012	1,255	148,548	22,182	21,475	-	(147,106)	46,354	(20,170)	26,184
Total comprehensive loss for the year	-	-	-	-	-	(25,426)	(25,426)	(4,998)	(30,424)
Transactions with owners									
Issue of shares (note 23)	1,357	46,143	-	-	-	-	47,500	-	47,500
Issue of shares in respect of awards to Non-Executive Directors (note 23)	2	-	-	-	96	-	98	-	98
Share based charges in respect of warrants issued (note 26)	-	-	-	915	-	-	915	-	915
Capitalised costs in relation to fundraising (note 23)	-	(1,546)	-	-	-	-	(1,546)	-	(1,546)
Effect of shares vesting in the period (note 24)	-	-	-	-	-	1,920	1,920	(1,920)	-
At 31 December 2012	2,614	193,145	22,182	22,390	96	(170,612)	69,815	(27,088)	42,727

Circle Holdings plc

Consolidated statement of cash flows For the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Net cash outflow from operating activities	30	(16,989)	(23,575)
Interest paid		(2,998)	(6,040)
Interest received	10	3,513	3,454
Tax paid		(62)	-
Net cash used in operating activities		(16,536)	(26,161)
Cash flows from investing activities			
Additional consideration paid for Circle Clinic Windsor	19	(10)	(10)
Purchase of computer software	13	(1,401)	(185)
Proceeds from disposal of property, plant and equipment		40	-
Proceeds on cessation of contract to run Circle's Burton NHS Treatment Centre		-	2,500
Purchase of property, plant and equipment		(2,746)	(10,530)
Net cash used in investing activities		(4,117)	(8,225)
Cash flows from financing activities			
Net proceeds from issuance of warrants	23	-	295
Proceeds from issuance of ordinary shares	23	47,502	52,545
Capitalised costs in relation to fundraising	23	(1,546)	(3,806)
Repayment of borrowings	31	(12,604)	(5,922)
Proceeds from borrowings	31	-	5,000
Repayment of finance lease	31	(674)	(44)
Movement in restricted cash			
- Release of minimum balance – GE Capital Equipment Finance Limited ('GE') and DoH	31	-	600
- Release of DoH performance bond	31	-	500
- Committed cash in respect of future interest on Allied Irish Bank ('AIB') loan	31	175	(175)
- Committed cash in respect of Hinchingsbrooke deposit	31	(2,000)	-
Net cash inflow from financing activities		30,853	48,993
Net increase in unrestricted cash and cash equivalents		10,200	14,607
Unrestricted cash and cash equivalents at the beginning of the year		22,729	8,122
Unrestricted cash and cash equivalents at the end of the year		32,929	22,729
Cash and cash equivalents consist of.			
Cash at bank and in hand		38,029	26,004
Restricted cash			
- Minimum balance – GE and DoH	18	(1,300)	(1,300)
- Letter of Credit – GE	18	(1,800)	(1,800)
- Committed cash in respect of future interest on AIB loan	18	-	(175)
- Hinchingsbrooke deposit	18	(2,000)	-
Unrestricted cash at bank and on hand		32,929	22,729

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012

1 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 ('IFRS') 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 derivative financial instruments and the fair valuing of certain loans. 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 IFRS, as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union as at 31 December 2012. The following new standards are effective for accounting periods beginning 1 January 2012 but have not had a material impact on the results or financial position of the Group.

- Amendment to IAS 12 'Income Taxes' - Deferred tax: Recovery of Underlying Assets. Limited scope amendment regarding recovery of underlying assets.

IFRS standards in issue, not yet effective as at 31 December 2012, but which will apply in the future are as follows:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- IFRS 10, 'Consolidated financial statements' - The standard will replace all the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and SIC-12 'Consolidation – special purpose entities' (applies to annual periods beginning on or after 1 January 2013, subject to endorsement by the EU).

Circle Holdings plc

Notes to the consolidated financial statements

For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

New standards, amendments and interpretations (continued)

- IFRS 11, 'Joint arrangements' and IAS 28 (revised 2011) 'Associates and joint ventures' - These standards provide for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (applies to annual periods beginning on or after 1 January 2014, subject to endorsement by the EU)
- IFRS 12, 'Disclosures of interests in other entities' - The standard requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and other off balance sheet vehicles (applies to annual periods beginning on or after 1 January 2014, subject to endorsement by the EU)
- IFRS 13, 'Fair value measurement' - The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs, excluding the fair value measurement of share-based charges (applies to annual periods beginning on or after 1 January 2013)

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 accounts to be prepared on a Going Concern basis based on the assumptions considered in the Directors' report on page 17

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 Circle Partnership Limited share scheme

The results of Circle Partnership Limited ('Circle Partnership') have been consolidated in these financial statements under SIC 12 'Consolidation special purpose entities'. The Circle Partnership share scheme is considered part of the Group owing to the nature of the scheme (as disclosed in note 24), whereby employees, clinicians and consultants who contribute to the growth in value of the Circle Health Group, subscribe for shares in Circle Partnership.

III 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

Basis of consolidation (continued)

iv 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 arises in Circle Health because of the portion of shares issued to employees, clinicians and consultants via the Circle Partnership share scheme which have vested unconditionally.

The results of the subsidiaries and joint venture are measured as at the same reporting date as the parent company using consistent accounting policies. Intra-group 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.

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:

- Contracts with guaranteed volumes and payments

Such contracts, namely the existing Nottingham ISTC long-term contract, offer guaranteed payments, based on medical procedures performed, subject to various contractual provisions which require an element of the revenue to be deferred until certain contractual obligations have been met. Profit is taken on the contract as the appointments are completed but adjusted to reflect the contractual terms in relation to underutilisation within contract quarters and years. Revenue is also accrued or deferred where treatment takes place ahead or behind contractual activity levels.

An element of this revenue is used to pay the costs of consultants.

- Any Qualified Provider

Such NHS contracts offer payment by result which replaced Extended Choice Network in 2011. Any Qualified Provider may compete for NHS work at a tariff. The mechanism for this is that the provider will publish available outpatient slots under the national Choose and Book system. The Group will invoice directly at that tariff for medical procedures performed, following completion of the patient's appointment.

Again, an element of this revenue is used to pay the costs of consultants.

- 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 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 Hinchingsbrooke Health Care NHS Trust ('Hinchingsbrooke') and therefore does not consolidate the net assets and results of the Trust. Until such time that surpluses are generated by Hinchingsbrooke, the Group will not recognise any income associated with the running of the contract and meanwhile revenue generated by Hinchingsbrooke will be presented as proforma 'Revenue under management' which is a non-statutory term.

- Other miscellaneous income

Other miscellaneous income primarily relates to car parking revenue, delicatessen revenue, property rental and advertising income.

Operating financial asset

An element of the Nottingham ISTC income is attributable to construction services and is therefore recognised in accordance with IAS 11 'Construction contracts', using the percentage of completion method. In the current operational phase of the contract, a financial asset is recognised to the extent that the operator receives a fixed payment from the client, irrespective of the extent of use.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

Operating financial asset (continued)

An element of income is allocated between interest receivable and the operating financial asset using the contracted rate of return. Pursuant to IAS 39, an impairment loss is recognised if the carrying amount of these assets exceeds the present value of future cash flows, discounted at the contracted rate of return. The remainder of the income is included within revenue in accordance with IFRIC 12 'Service concession arrangements' (IFRIC 12). The Group only recognises income in respect of the services provided, as it fulfils its contractual obligations and in line with the fair value of the consideration receivable.

The underlying asset, namely the Treatment Centre, is not deemed to be an asset of the Group under IFRIC 12 because its residual ownership is deemed to lie principally with the DoH. To the extent that there is an unconditional right to receive cash, the construction costs of the Treatment Centre are recorded as a financial asset under the heading 'Operating financial asset' within 'Trade and other receivables' and recognised at amortised cost.

Operating financial assets are presented as current where collection is expected within one year or less, otherwise they are presented as non-current.

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.

Exceptional items in the year ended 31 December 2012 of £11,332,000 (2011: £1,413,000) consist largely of impairments to property, plant and equipment, provision of the debtor balance with the joint venture, provisions in respect of VAT, write-off of CircleReading pre-opening expenses, revaluation of finance lease payments, share-based charges in respect of warrants and shares issued, increases in onerous lease provisions and restructuring costs incurred during the year.

Exceptional finance income of £866,000 (2011: expense of £10,097,000) were incurred due to fair value adjustments of interest rate swaps in the period and costs associated with the repayment of JCAM loan.

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.

Finance income

Finance income is accrued by reference to the principal outstanding and the effective interest rate applicable. Finance income arises on the operating financial asset, recognised at the effective interest rate of the project and includes interest received from cash balances held.

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 systems.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

iii Other intangible assets

Other intangible assets comprise third party 'know-how' costs which meet the criteria of IAS 38 'Intangible assets'. 'Know-how' costs are incurred in creating a 'new build programme' to standardise the design of future world class hospitals by building them within a shortened time frame utilising standard build components which have been manufactured off site.

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 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	– 3 years
New build programme 'know-how'	– 5 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 (5-10 years)
Clinical equipment	– 3 to 5 years
Furniture, fittings and office equipment, (including commissioning costs)	– 3 to 10 years

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

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

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 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.

Amounts recoverable on contracts

Amounts recoverable on contracts are accounted for under IAS 11 and IAS 18. All costs incurred in advance of a contract being awarded are written off to the income statement, until the date that, in the opinion of the Directors, it is virtually certain that the contract has been secured. Once the Directors consider virtual certainty has been achieved and the contract is expected to result in future net cash inflows, all future costs incurred up to the time the contract becomes operational are carried as amounts recoverable on contracts, within 'trade and other receivables'. Once the contract is operational, the balance is accounted for as part of the accounting for the contract as a whole in accordance with IAS 11 and IAS 18, and recognised in the income statement over the contract term.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

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 includes cash in hand, deposits, held at call with banks, overnight deposits, other short-term highly liquid investments with original maturities of three months or less 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

Current and deferred income taxation

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 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.

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.

Compound financial instruments

Compound financial instruments issued by the Group comprise convertible loans that can be converted to share capital at the option of the holder. The number of shares to be issued is calculated based on the outstanding loan commitment at the date of conversion.

The liability component of a compound instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

Compound financial instruments (continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition except on conversion or expiry.

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 re-measured 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

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.

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

Revenue is recognised on completion of a patient's appointment. However, the Nottingham ISTC contract has certain claw-back clauses based on total contracted volumes over the quarter, which means that judgements must be made to accrue a certain amount of income in the balance sheet. This includes the recoverability of revenue recognised in excess of the minimum payments received.

ii Consolidation of Circle Partnership Limited share scheme

Circle Partnership is a special purpose entity which has been created to operate as an employee share ownership plan. The results of this entity have been consolidated into the Group financial statements under SIC 12 'Consolidation: special purpose entities' on the basis that the entity is controlled by the Group.

iii Amounts recoverable on contracts

Amounts recoverable on contracts which have been capitalised in accordance with IAS 11 and IAS 18, are being amortised over the life of the contract. Estimates of future income may be inaccurate, such that profits may not arise to support their carrying value.

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 majority of deferred tax assets arising.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

Significant accounting judgements and estimates (continued)

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.

iii Valuation of property, plant and equipment

Freehold and leasehold land were subject to valuations at 31 December 2012 by third party professional valuers. 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.

vi Fair value of financial instruments

The Group's interest rate swaps are fair valued with their corresponding movement being recognised directly in the income statement. These fair values are not based on quoted prices in active markets but on estimates of observable market data. In the event that these estimates are wrong, this may impact the charge in the income statement.

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 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 and 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

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 to date 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. These are all measured 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. Geographic factors are not considered as all of the Group's operations take place within the United Kingdom.

Overall, the Directors consider that the Group is principally a provider of medical services, that treats privately insured, self-pay and NHS patients. As the Group grows, a significant proportion of the independent hospitals' revenue is likely to derive from NHS patients. Consequently, in the future, the Board may manage the business as a single segment, as the distinction between the type of patient and where they are treated becomes less marked. This would lead to an equivalent change in the disclosures below.

	Circle Independent £'000	Circle NHS £'000	All Other Segments and Unallocated Items £'000	Total Group £'000
2012				
Revenue from external customers	19,696	53,317	233	73,246
Cost of sales	(14,524)	(37,554)	(19)	(52,097)
Gross Profit	5,172	15,763	214	21,149
Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(14,386)	(10,717)	(10,226)	(35,329)
EBITDA before exceptional items	(9,214)	5,046	(10,012)	(14,180)
Depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(987)	(2,293)	(514)	(3,794)
Share-based charges in respect of awards and warrants issued	-	-	(1,011)	(1,011)
Revaluation of finance lease payments	-	-	(572)	(572)
CircleReading pre-opening expenses	(1,069)	-	-	(1,069)
Provision for under declared VAT in prior periods	-	-	(1,500)	(1,500)
Restructuring costs	-	-	(650)	(650)
Increase in onerous lease provision	-	-	(239)	(239)
Profit on disposal	(1)	12	29	40
Impairment of non-current assets	(2,120)	-	(2,636)	(4,756)
Provision of debtor with Health Properties Bath	-	-	(1,575)	(1,575)
Operating (loss) / profit	(13,391)	2,765	(18,680)	(29,306)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

3 Segmental reporting (continued)

2012	Circle Independent	Circle NHS	All Other Segments and Unallocated Items	Total Group
Operating (loss) / profit (continued)	(13,391)	2,765	(18,680)	(29,306)
Finance income				3,513
Finance costs				(5,244)
Exceptional finance costs				866
Provision for joint venture deficit				(259)
Loss before taxation				(30,430)

2012	Circle Independent	Circle NHS	All Other Segments and Unallocated Items	Total Group
Other information				
- Capital additions	10,104	447	1,275	11,826

2011	Circle Independent £'000	Circle NHS £'000	All Other Segments and Unallocated Items £'000	Total Group £'000
Revenue from external customers	13,224	61,175	208	74,607
Cost of sales	(10,631)	(40,245)	(11)	(50,887)
Gross Profit	2,593	20,930	197	23,720
Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(11,056)	(14,441)	(11,856)	(37,353)
EBITDA before exceptional items	(8,463)	6,489	(11,659)	(13,633)
Depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(480)	(2,765)	(255)	(3,500)
Share-based charges in respect of warrants issued	-	-	(1,597)	(1,597)
AIM listing costs not capitalised	-	-	(293)	(293)
Increase in onerous lease provision	(150)	(50)	(799)	(999)
Profit on cessation of contract to run Circle's Burton NHS Treatment Centre	-	1,493	-	1,493
Other exceptional items	(63)	-	46	(17)
Operating (loss) / profit	(9,156)	5,167	(14,557)	(18,546)
Finance income				3,454
Finance costs				(6,809)
Exceptional finance costs				(10,097)
Provision for joint venture deficit				(926)
Loss before taxation				(32,924)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

3 Segmental reporting (continued)

2011	Circle Independent £'000	Circle NHS £'000	All Other Segments and Unallocated Items £'000	Total Group £'000
Other information				
Capital additions	285	1,005	13,652	14,942

4 Revenue

i Revenue

	2012 £'000	2011 £'000
Provision of healthcare services	72,760	74,339
Other miscellaneous income	486	268
	73,246	74,607

ii Other Income

On 1 February 2012, the Group commenced the operation to run Hinchingsbrooke Health Care NHS Trust, which will see the Group manage an estimated £1 billion of revenue over the ten year contract period. Under the terms of the contract, the Group has agreed to make working capital contributions of up to £5,000,000 and will share surpluses generated over the term of the contract with the Trust. The contract allows either party to terminate if Hinchingsbrooke incurs more than £5,000,000 in aggregate deficits, at which point the Group is also required to pay a further £2,000,000 in termination costs to Hinchingsbrooke (currently held in escrow).

For accounting purposes, the Group is not deemed to control Hinchingsbrooke and therefore does not consolidate the net assets and results of the company. Until such time as surpluses are generated by Hinchingsbrooke, the Group will not recognise any income associated with the running of the contract; meanwhile revenue generated by Hinchingsbrooke will be presented as proforma 'revenue under management' which is a non-statutory term.

In the eleven months from 1 February 2012, Hinchingsbrooke revenue has totalled £97.2 million, supported by increased out-patient and Accident & Emergency attendances, and admissions. During this time, the Group has focused on quality and safety as a priority and made some financial improvements. Trading in 2012 has been behind plan, however plans to help recover this are now being implemented.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

5 Operating loss

Operating loss is stated after charging	2012	2011
	£'000	£'000
Charge recognised in respect of amounts recoverable on contracts (note 17)	2,027	2,253
Amortisation of intangible assets (note 13)	282	57
Depreciation of property, plant and equipment (note 14)	1,485	1,190
Auditors' remuneration (see below)	552	397
Expense for bad debts	10	22
Operating lease rental	10,132	10,800
Exceptional operating items (note 6)	11,332	1,413

Auditor's remuneration payable to PricewaterhouseCoopers LLP	2012	2011
	£'000	£'000
Fees payable to Company's auditors for the parent Company and consolidated financial statements	88	109
Fees payable to the Company's auditors for other services		
– The audit of Company's subsidiaries	197	171
– Audit-related assurance services	39	-
– Tax advisory services	178	117
– Other assurance services	-	888
– All other non-audit services	50	-
	552	1,285

Assurance services relating to the listing on AIM were capitalised within equity (note 23)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

6 EBITDA and exceptional items

Exceptional operating items

	2012	2011
	£'000	£'000
Disposal of intangible assets (note 13)	142	-
Impairment of property, plant and equipment (note 14)	4,614	30
Share-based charges in respect of warrants issued (note 26)	915	1,597
Share-based charges in respect of awards to Non-Executive Directors (note 26)	96	-
Revaluation of finance lease payments	572	-
CircleReading pre-opening expenses	1,069	-
Provision for under declared VAT in prior periods (note 21)	1,500	-
Restructuring costs	650	-
AIM listing costs not capitalised	-	293
Profit on cessation of contract to run Circle's Burton NHS Treatment Centre	-	(1,493)
Increase in provision for onerous leases, including dilapidations (note 21)	239	999
Provision of debtor with Health Properties Bath (note 33)	1,575	-
Other exceptional income	(40)	(13)
	11,332	1,413

The revaluation of the finance lease payments has arisen due to the delay in developing the Birmingham hospital site, which will result in a higher rent being paid until such time that the site is developed

The pre-opening costs associated with opening the CircleReading hospital and the early months of trading losses until patient attendances increased have been included as an exceptional item

Restructuring costs shown above relate to the resignation of the Chief Executive Officer, Ali Parsa, during the year. These costs represent the total liability to Circle arising from the settlement agreement reached

Exceptional finance items

	2012	2011
	£'000	£'000
Shareholder warrant expense - November 2010 warrants (note 25)	-	7,373
- March 2011 warrants (note 25)	-	3,506
Accelerated finance charge due to early repayment of JCAM loan	325	-
Costs associated with the repayment of JCAM loan	171	-
Issue costs associated with warrant liability	-	237
Gain on fair value of interest rate derivative (note 22)	(1,362)	(1,019)
	(866)	10,097

The loan owed to JCAM on 20 June 2012 was repaid in full during the year with the above costs arising as a result

Operating loss and EBITDA before exceptional items

	2012	2011
	£'000	£'000
Operating loss before exceptional items	(17,974)	(17,133)
Depreciation	1,485	1,190
Amortisation of intangibles	282	57
Charge recognised in respect of amounts recoverable on contracts	2,027	2,253
EBITDA before exceptional items	(14,180)	(13,633)

This information is included here as it provides useful information to the reader of the financial statements for understanding operational performance

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

7 Employee information

Staff costs	2012 £'000	2011 £'000
Wages and salaries	17,485	16,922
Share-based charges (note 26)	1,011	1,597
Social security costs	1,657	1,699
Other pension costs (note 28)	779	228
	<u>20,932</u>	<u>20,446</u>

Share-based charges in respect of warrants issued were charged to exceptional operating items in 2012 and 2011 (note 6)

Monthly average number of full time equivalent employees	2012 Number	2011 Number
Administrative	340	323
Clinical	243	208
	<u>583</u>	<u>531</u>

The average number of employees includes Directors on a service contract

8 Directors' emoluments

	2012 £'000	2011 £'000
Aggregate emoluments	<u>1,803</u>	<u>544</u>

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

The Directors had retirement benefit contributions during the year of £127,000 (2011 £nil)

Included within both years are share-based charges for Ali Parsa and the Non-Executive Directors, in which associated share-based charges have arisen. Ali's share-based charges are in Health Trust (Jersey), whom Ali is a beneficiary

Included within the year is a payment to Ali Parsa in relation to the cessation of his employment with the Company. This payment includes 12 months base salary of £400,000, a termination payment of £71,000, a contribution of £85,000 to his personal pension plan to which previous employer contributions have been made and a further £6,000 in relation to personal expenses

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

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

	2012 £'000	2011 £'000
Short-term employment benefits	<u>1,486</u>	<u>624</u>

As of May 2011, all key management personnel were also Directors of the Group and therefore from that date their remuneration has also been disclosed within aggregate emoluments of the previous section

Included within the above for both years is an amount for Ali Parsa, who is a beneficiary of Health Trust (Jersey), in which an associated share-based charge arises. Note 26 provides more details

Amounts have been included for Steve Melton from 5 December 2012 when he was appointed Interim Chief Executive Officer of the Group. Comparative information has not been provided for Steve Melton as he was not one of the key management personnel of the Group for the year ended 31 December 2011

9 Finance costs

	2012 £'000	2011 £'000
Interest on Barclays plc ('Barclays') loan	2,236	2,246
Interest on JCAM (i) loan	2,017	4,122
Interest on AIB loan	371	359
Finance lease interest	583	57
Unwind of discount on unsecured loan note and deferred consideration	37	25
	<u>5,244</u>	<u>6,809</u>

(i) James Caird Asset Management loan facility of £13,300,000 repaid in June 2012

During the year, £nil of directly attributable interest arising on the Vinci Construction loan (note 20) was capitalised (2011: £296,000)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

10 Finance income

	2012 £'000	2011 £'000
Bank interest receivable	136	77
Interest receivable on operating financial asset	3,377	3,377
	<u>3,513</u>	<u>3,454</u>

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 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

	2012	2011
Loss and total comprehensive loss for the year attributable to owners of the parent (£000's)	(25,426)	(28,693)
Weighted average number of ordinary shares in issue (number)	99,065,631	44,547,591
Basic and diluted loss per ordinary share (pence)	<u>(25.7)</u>	<u>(64.4)</u>

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 Tax

i Analysis of income tax credit in year

	2012 £'000	2011 £'000
Current tax		
UK corporation tax	-	32
Adjustment in respect of previous periods	(6)	-
Deferred tax		
Originating and reversal of timing differences	-	94
Effect of change of tax rate	-	60
Recognition of previously unrecognised temporary difference	-	(799)
Income tax credit	<u>(6)</u>	<u>(613)</u>

Circle Holdings plc

Notes to the consolidated financial statements

For the year ended 31 December 2012 (continued)

12 Tax (continued)

ii Factors affecting the current tax credit 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 24.5% (2011: 26.5%). The differences are explained below.

	2012 £'000	2011 £'000
Loss before taxation	(30,430)	(32,924)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	(7,455)	(8,721)
Effects of:		
Expenses not deductible for tax purposes	2,253	3,492
Capital allowances in advance of depreciation	(46)	81
Other temporary differences	(803)	(270)
Tax losses not utilised	5,920	4,850
Effect of Jersey tax at 0.0%	131	694
Deferred tax previously not recognised	-	(799)
Adjustment to tax charge in respect of previous periods	(6)	-
Change in tax rate	-	60
Total income tax credit for the year	(6)	(613)

iii Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 26.0% to 24.0% with effect from 1 April 2012. Legislation was enacted to reduce the main rate of corporation tax from 24.0% to 23.0% with effect from 1 April 2013.

On 5 December 2012, a reduction in the main rate of corporation tax from 23% to 21% with effect from 1 April 2014 was announced. A further rate change was announced on 20 March 2013 in the 2013 Budget Statement. The main rate of corporation tax will be reduced and unified with the small profits rate of corporation tax from 1 April 2015. The new unified corporation tax main rate will be 20%. Legislation will be introduced in Finance Act 2013 to enact these rate changes. As these rate changes had not been substantively enacted at the balance sheet date, their effects have not been included in these financial statements.

The proposed rate changes may affect future tax charges and reduce the deferred tax liabilities. In addition, the utilisation of any tax losses for which no deferred tax asset has been recognised may affect future tax charges.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

12 Tax (continued)

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

	2012 £'000	2011 £'000
At 1 January	-	(645)
Recognised during the year	-	645
At 31 December	-	-

The net deferred tax asset / (liability) comprises

	2012 £'000	2011 £'000
Tax losses carried forward	9,763	7,205
Depreciation in advance of capital allowances	-	595
Short-term temporary differences	(9,763)	(7,800)
	-	-

The deferred tax is presented net since the entities concerned have a right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2012 £'000	2011 £'000
Deferred tax assets	9,763	10,751
Deferred tax liabilities	(9,763)	(10,751)
	-	-

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

	2012 £'000	2011 £'000
Tax losses carried forward	26,251	25,888
Depreciation in advance of capital allowances	3,161	2,741
Short-term temporary differences	2,303	1,061
	31,715	29,690

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

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

13 Intangible assets

Cost	Goodwill	Computer software	Other intangible assets	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	8,271	333	166	8,770
Additions	-	185	-	185
Post-acquisition goodwill adjustment	(88)	-	-	(88)
At 1 January 2012	8,183	518	166	8,867
Additions	-	1,401	-	1,401
Disposals	-	(175)	-	(175)
At 31 December 2012	8,183	1,744	166	10,093

Accumulated amortisation and impairment	Goodwill	Computer software	Other intangible assets	Total
	£'000	£'000	£'000	£'000
At 1 January 2011	3,179	207	-	3,386
Amortisation charge for the year	-	57	-	57
Impairment charge for the year	33	-	-	33
At 1 January 2012	3,212	264	-	3,476
Amortisation charge for the year	-	249	33	282
Disposal	-	(33)	-	(33)
At 31 December 2012	3,212	480	33	3,725

Net book amount				
At 31 December 2012	4,971	1,264	133	6,368
At 31 December 2011	4,971	254	166	5,391
At 1 January 2011	5,092	126	166	5,384

The amortisation charge for the year is included within the income statement within Administrative expenses before exceptional items. An analysis by line item can be seen in note 5.

Goodwill

Goodwill acquired in a business combination is allocated to the 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 CGUs:

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

13 Intangible assets (continued)

	2012 £'000	2011 £'000
Circle's Nottingham NHS Treatment Centre	<u>4,971</u>	<u>4,971</u>

Goodwill is subject to impairment testing annually, or more frequently where there are indications that the goodwill may be impaired. The recoverable amounts of all CGUs are determined based on value in use calculations, using pre-tax cash flow projections based on management approved five year financial forecasts. 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 next five years. Cash flows beyond this period are extrapolated based on estimated growth rates that do not exceed the long term growth rate. Cash flows are discounted back to present value using a risk adjusted pre-tax discount rate of 9.3%, which represents an internally computed rate, based on gearing levels and loan interest rates.

The management approved budgets for Circle's Nottingham NHS Treatment Centre are based on historic performance and the knowledge that Circle is the preferred bidder for contract renewal in July 2013 for a further five years. The value in use calculations are sensitive to changes in the key assumptions used, most notably the pre-tax discount rate of 9.3% and the long-term growth rate of 2%, however it is estimated that a reasonable change in key assumptions will not cause an impairment in the goodwill related to Circle's Nottingham NHS Treatment Centre. The Goodwill has been carried forward to the new contract as the view of management is that this is a continuation of the existing activities of the CGU.

ii Computer software

Computer software represents third party costs incurred in relation to the Group's information technology systems. Included within this category is £nil (2011: £175,000) spent on Manhattan, a relational database software with specific abilities for facilities management which was fully disposed of during the year. The write-off appears as an income statement line within exceptional operating items in note 6.

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 the year, the programme reached full development and the amortisation has now commenced over a five year period.

Assets held under finance lease have the following net book amounts

	2012 £'000	2011 £'000
Computer software	<u>665</u>	-
	<u>665</u>	-

The additions during the year comprise lease agreements with Close Leasing Limited to finance the purchase of information technology assets for the hospital in CircleReading.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

14 Property, plant and equipment

Cost	Freehold and leasehold land £'000	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
At 1 January 2011	9,024	1,712	1,041	1,764	14,220	27,761
Additions	10,677	2,600	204	814	462	14,757
Disposals	-	(1,025)	(499)	(1,106)	(230)	(2,860)
At 1 January 2012	19,701	3,287	746	1,472	14,452	39,658
Additions	-	2,537	134	6,522	1,232	10,425
Reclassifications	-	(2,201)	1,916	50	235	-
Disposals	-	(219)	-	(39)	(2)	(260)
At 31 December 2012	19,701	3,404	2,796	8,005	15,917	49,823
Accumulated depreciation and impairment	Freehold and leasehold land £'000	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and office equipment £'000	Total £'000
At 1 January 2011	4,493	1,077	539	935	12,778	19,822
Depreciation charge for the year	-	-	116	308	766	1,190
Impairment charge for the year	-	-	-	-	30	30
Disposals	-	(1,025)	(439)	(361)	(153)	(1,978)
At 1 January 2012	4,493	52	216	882	13,421	19,064
Depreciation charge for the year	35	-	179	615	656	1,485
Impairment charge for the year	2,181	314	1,853	47	219	4,614
Disposals	-	(201)	-	(13)	(2)	(216)
At 31 December 2012	6,709	165	2,248	1,531	14,294	24,947
Net book amount						
At 31 December 2012	12,992	3,239	548	6,474	1,623	24,876
At 31 December 2011	15,208	3,235	530	590	1,031	20,594
At 1 January 2011	4,531	635	502	829	1,442	7,939

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

The reclassification from Assets under construction to various asset categories of £2,201,000 (2011: £nil) shows the transfer of completed commissioning assets within CircleReading following the opening of the hospital in August 2012

Freehold and leasehold land have been valued at 31 December 2012 by a third party valuer. This has resulted in an impairment of the Manchester land of £2,181,000. Further impairments across various asset classes relate to the CircleReading Commissioning asset of £2,119,000 and Bournemouth site of £314,000, where using pre-tax cash flow projections based on management approved five year financial forecasts failed to support the asset carrying values. The impairment charge for the year is included in the income statement within Exceptional Operating Items (note 6)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

14 Property, plant and equipment (continued)

Assets held under finance leases have the following net book amounts

	2012 £'000	2011 £'000
Leasehold land	4,342	4,377
Clinical equipment	5,711	-
Furniture, fittings and office equipment	923	230
	10,976	4,607

The additions during the year comprise various lease agreements with Close Leasing Limited and GE Capital Equipment Finance Limited to finance the purchase of Information Technology ('IT') hardware assets, fixtures, fittings and furniture, for the commissioning of the CircleReading hospital

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

	2012 £'000	2011 £'000
Freehold	8,650	10,831
Leasehold	4,342	4,377
	12,992	15,208

15 Provision for joint venture deficit

	2012 £'000	2011 £'000
At 1 January	(2,688)	(1,762)
Increase in the year	(259)	(926)
At 31 December	(2,947)	(2,688)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

15 Provision for joint venture deficit (continued)

	2012 £'000	2011 £'000
Group's share of net liabilities of joint venture (38.7%)		
Non-current assets	13,572	13,571
Current assets	1,003	1,014
	14,575	14,585
Current liabilities	(1,113)	(15,902)
Non-current liabilities	(16,409)	(1,371)
	(17,522)	(17,273)
Group's share of net liabilities	(2,947)	(2,688)
	2012 £'000	2011 £'000
Group's share of results of joint venture (38.7%)		
Revenue	1,362	1,302
Operating expenses	(39)	(46)
Finance costs	(1,582)	(2,182)
Group's share of loss after tax of joint venture	(259)	(926)

The Group has one joint venture, Health Properties (Bath) Limited ('Health Properties Bath'), incorporated in Jersey, which owns the CircleBath hospital building and land, and has a 25 year lease with CircleBath. Of the total allotted share capital of 3,000 'B' shares and 100 'A' shares in Health Properties Bath, the Group holds 1,200 'B' ordinary shares, Health Estates Limited holds 1,800 'B' shares and LB UK RE Limited (in Administration) ('Lehmans') holds 100 'A' shares.

The 'A' shares and 'B' shares constitute different classes of shares for the purposes of law but, except as expressly provided for in the Articles of Health Properties Bath and a joint venture Agreement, confer upon the holders the same rights and rank pari passu in all respects. The maximum number of Directors shall, unless otherwise determined by a special resolution, be six, of whom three shall be 'A' Directors (representing the 'A' shareholders) and three shall be 'B' Directors (representing the 'B' shareholders). Health Estates Limited has formally agreed to vote in accordance with the Group and that the 'B' Directors of Health Properties Bath originally appointed by the Group will not change as a result of Health Estates Limited's shareholding. In the absence of certain types of events of default, no party to the joint venture has control as a resolution can only be made by the Board of Directors, with a majority of Directors.

As at 31 December 2012, the joint venture does not have any contingent liabilities or capital commitments. As at 31 December 2012, Group guarantees of up to £1,000,000 (2011: £1,000,000) were provided to Lehmans in respect of certain contractual obligations of Health Properties Bath.

The cross-default under Circle International plc's (a subsidiary of the Company) equipment lease with GE, triggered by non-repayment of the mezzanine loan provided to Health Properties Bath, was waived by GE on 22 May 2012 following the completion of the restructuring of Health Properties Bath's financings. Under the restructured terms, the Company has granted a final recourse guarantee to Lehmans in respect of the repayment of the mezzanine debt, with the Company's liability under the guarantee being capped at £625,000. The total guarantees provided to Lehmans are therefore £1,625,000 (2011: £1,000,000).

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

16 Inventories

	2012 £'000	2011 £'000
Consumables	<u>1,298</u>	<u>901</u>

At 31 December 2012, an amount of £90,000 (2011 £2,000) has been provided against the gross cost of inventories. The cost of inventories recognised as an expense in the year is £5,509,000 (2011 £5,338,000).

17 Trade and other receivables

	Current		Non-current	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade receivables	4,150	2,865	-	-
Less: allowance for impairment of trade receivables	(131)	(141)	-	-
Net trade receivables	<u>4,019</u>	<u>2,724</u>	<u>-</u>	<u>-</u>
Prepayments and accrued income	5,255	10,494	662	802
Other receivables	3,047	390	-	-
Operating financial asset	41,991	1,012	-	41,991
Amounts recoverable on contracts	1,181	2,040	-	1,168
Amounts owed by joint venture (note 33)	1,586	3,128	-	-
	<u>57,079</u>	<u>19,788</u>	<u>662</u>	<u>43,961</u>

The Directors consider the carrying amount of trade and other receivables to approximate to their fair value. Long-term receivables have been discounted where the time value of money is considered to be material using a risk adjusted pre-tax discount rate of 9.3%.

Operating financial assets are recognised to the extent that there is an unconditional right to receive cash from the construction of Circle's Nottingham NHS Treatment Centre through which the Group provides healthcare services. Due to the length of the payment plans, receivables are entered at the present value of amortised costs. The annual accumulation of interest on these discounted values is recorded as finance income (note 10) with the other portion being deducted from receivables. In accordance with the principles of IFRIC 12, beneficial ownership of the associated property asset lies with the purchaser of services and not with the Group as provider of those services.

Under the lease agreement for the Bath hospital a rental deposit of £1,586,000 (2011 £1,586,000) is held by the joint venture. This deposit is considered to be recoverable.

The Group has advanced £1,200,000 (2011 £1,200,000) to Health Properties 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 Health Properties Bath to give a total receivable of £1,575,000 at 31 December 2012 (2011 £1,508,000). This has been fully impaired during the year as the balance is not considered to be recoverable.

The JCAM loan was repaid in full on 20 June 2012, resulting in the release of £2,400,000 of an advanced payment of £6,240,000 made in 2011. The remainder had been used to settle interest accrued in the intervening period.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (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

	2012 £'000	2011 £'000
At 1 January	141	163
Released in the year	(10)	(22)
At 31 December	<u>131</u>	<u>141</u>

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

	2012 £'000	2011 £'000
Not past due	1,968	1,917
Past due 0-30 days, but not impaired	1,363	445
Past due 31-60 days but not impaired	286	131
Past due by more than 60 days but not impaired	402	231
	<u>4,019</u>	<u>2,724</u>

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

The movement in the operating financial asset is as follows

	2012 £'000	2011 £'000
At 1 January	43,003	44,015
Amounts received	(1,012)	(1,012)
At 31 December	<u>41,991</u>	<u>43,003</u>

At 31 December, the ageing analysis of the operating financial asset was as follows

	2012 £'000	2011 £'000
Due within 1 year	41,991	1,012
Due between 1 and 2 years	-	41,991
	<u>41,991</u>	<u>43,003</u>

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

17 Trade and other receivables (continued)

The movement in amounts recoverable on contracts is as follows

	2012 £'000	2011 £'000
At 1 January	3,208	5,461
Recognised in income statement (note 5)	(2,027)	(2,253)
At 31 December	<u>1,181</u>	<u>3,208</u>

18 Cash and cash equivalents

	Note	2012 £'000	2011 £'000
Cash and cash equivalents		<u>38,029</u>	<u>26,004</u>
Less restricted balances			
– Minimum balance – GE and DoH	a	(1,300)	(1,300)
– Letter of Credit – GE	b	(1,800)	(1,800)
– Committed cash in respect of future interest on AIB loan	c	-	(175)
– Hinchingsbrooke deposit	d	(2,000)	-
Restricted cash		<u>(5,100)</u>	<u>(3,275)</u>
Unrestricted cash and cash equivalents		<u>32,929</u>	<u>22,729</u>

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

Included in the Group cash balance are the following amounts which are not freely available to the Group

- a A condition of the ISTC contracts with the DoH and GE, who lease the medical equipment, is that a minimum balance of £1,300,000 (2011 £1,300,000) for Nations Healthcare (Nottingham) Limited is maintained at each month end
- b As part of the contractual agreement with GE to provide operating leases to CircleBath, Circle International plc has provided a counter indemnity to Barclays by way of a fixed charge over a deposit of £1,800,000 (2011 £1,800,000) credited to a deposit account with the bank. This will be released at the end of 2014 when the Operating leases expire
- c During 2011, the AIB loan facility was extended from March 2011 to June 2012. As a result, an amount of £354,000 was paid into a restricted deposit account in respect of future interest payable to AIB. The balance at 31 December 2012 amounted to £nil (2011 £175,000)
- d Under the terms of the Hinchingsbrooke Health Care NHS Trust contract which commenced in February 2012, Circle is required to pay up to £2,000,000 in termination costs to Hinchingsbrooke. As part of the contract agreement these funds have been deposited in an escrow account held with Barclays. The balance at 31 December 2012 amounted to £2,000,000 (2011 £nil)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

19 Trade and other payables

	Current		Non-current	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade payables	9,128	9,646	-	-
Deferred income	873	2,026	-	-
Accruals	4,101	2,841	2,257	-
Social security and other taxation	842	681	-	-
Amounts owed to joint venture (note 33)	34	34	-	-
Amounts owed to other related parties (note 33)	128	65	-	-
Contingent consideration	5	10	-	-
	15,111	15,303	2,257	-

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.

On the acquisition of Circle Clinic Windsor in 2008, contingent consideration arose, based on annual revenues over the five years from the date of acquisition and payable in annual instalments to David Evans. These balances were discounted to present value using a pre-tax rate of 9.3%, with the discount unwinding over the five years post-acquisition. During the year, the cash flow liabilities were reassessed based on actual and budgeted turnover over the remaining life of the agreement, less payments already made during the year (note 20).

Movements in the balance of contingent consideration during the year have been as follows:

	2012	2011
	£'000	£'000
At 1 January	10	35
Reassessment of future cash flows	-	(15)
Unwind of discount on acquisition	5	-
Payments made	(10)	(10)
At 31 December	5	10

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

20 Loans and other borrowings

	Current		Non-current	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Barclays	41,768	920	-	41,701
AIB	7,380	7,380	-	-
JCAM	-	13,614	-	-
Secured bank loans (i)	49,148	21,914	-	41,701
Unsecured loan notes (ii)	348	316	-	-
Secured finance leases (iii)	1,340	(131)	10,664	4,558
	50,836	22,099	10,664	46,259

i Secured bank loans

	Loan	Effective interest	Loan	2012	2011
	Note commenced	rate	facility	£'000	£'000
			£'000		
Barclays	a July 2005	5.0% (swapped)	44,474	41,768	42,621
AIB	b March 2008	LIBOR + 4.0%	7,380	7,380	7,380
JCAM	c August 2008	28.8%	13,300	-	13,614
				49,148	63,615

The Directors consider the carrying amount of the Group's borrowings to approximate to their fair value.

Details of the Group's loans and any associated breaches are included in the notes below.

- a The Barclays Private Finance Initiative ('PFI') loan is secured by way of a fixed and floating charge over the assets of Circle's Nottingham NHS Treatment Centre. Barclays also have a charge over the shares of Nations Healthcare (Nottingham) Limited that can be exercised in the event that it does not meet its financial obligation to Barclays. The loan is being repaid in quarterly instalments of £227,000 to £232,000, subject to the repayment re-scheduling as agreed under the Deed of Variation ('DoV').

The Barclays PFI loan of £41,768,000 (2011: £42,621,000) is not under any defaults or cross-defaults as at 31 December 2012. This loan will be extinguished in full on 1 July 2013 when the Group exercises their unconditional right to receive cash from the construction of Circle's Nottingham NHS Treatment Centre. At this point the interest rate swap expires.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

20 Loans and other borrowings (continued)

i Secured bank loans (continued)

- b The AIB loan facility is a term loan facility secured on land owned in Edinburgh. The loan was originally for a one year term from 26 March 2008. The facility was extended twice during 2009, and subsequently during 2010 the facility was again extended until 31 March 2011, increasing the interest rate of the facility from LIBOR + 3.0% to LIBOR + 4.0%. In March 2011, a further extension of the loan maturity date was agreed, until 30 June 2012. The interest rate remains at LIBOR + 4.0% for the extension period but a requirement of the extension agreement was to pay the entire interest amount into a restricted deposit account (note 18(c)). Interest charged during the year has been taken to the income statement.

The loan is secured on the assets of Health Properties (Edinburgh) Limited ('Health Properties Edinburgh'). Health Properties Edinburgh is in default of the £7,380,000 loan from AIB having failed to repay the loan on the due date of 30 June 2012. The Directors of Health Properties Edinburgh and AIB are negotiating terms of a standstill with a view to handing back the Edinburgh land (carried at net book value of £3,500,000 in Freehold and leasehold land) to AIB. Having taken legal advice, the Directors believe that the loan is non-recourse to the Group.

- c The JCAM loan facility of £13,300,000, together with rolled up interest of £831,000 gave a total amount due at redemption of £14,131,000. This was repaid in full on 20 June 2012.

ii Unsecured loan notes

	Loan commenced	Effective interest rate	Loan facility £'000	2012 £'000	2011 £'000
Loan notes	July 2008	n/a	n/a	<u>348</u>	<u>316</u>

In relation to the acquisition of Circle Clinic Windsor, the Group has issued loan notes to the former owners David Evans and Pat Morrish that mature over five years from the date of acquisition and are dependent on performance over that period. The Directors believe the undiscounted values of these loan notes are £274,000 (2011: £273,000) and £91,000 (2011: £91,000) respectively. These are payable on 4 July 2013 and do not attract interest.

The Loan Note Instrument, which determines the unsecured loan notes and contingent consideration payable following the acquisition of Circle Clinic Windsor, sets out covenants and guarantees related to the acquisition. These covenants are currently in breach due to the net asset value of the guarantor, Circle International plc, falling below £3,000,000 in 2009 and not being remedied within 10 days of the original default. Owing to this breach, the balance had previously been classified as a current liability. Amounts are payable in July 2013.

Movements in the balance of loan notes during the year have been as follows:

	2012 £'000	2011 £'000
At 1 January	316	364
Reassessment of future cash flows	-	(73)
Unwind of discount	32	25
At 31 December	<u>348</u>	<u>316</u>

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

20 Loans and other borrowings (continued)

iii Finance leases

Finance leases comprise various lease agreements with Close Leasing Limited and GE Capital Equipment Finance Limited to finance the purchase of Information Technology ('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 is a three year lease for IT assets for the CircleBath hospital which were sold to Singers Healthcare Finance Limited ('Singers') in a sale and leaseback transaction in December 2010.

Gross finance lease liabilities - minimum lease payments	2012	2011
Falling due	£'000	£'000
- No later than 1 year	2,279	204
- Later than 1 year and no later than 5 years	12,240	4,706
- Later than 5 years	1,187	1,197
	15,706	6,107
Future finance charges on finance leases	(3,702)	(1,680)
	12,004	4,427
The breakdown of the present value of finance leases is as follows	2012	2011
Falling due	£'000	£'000
- No later than 1 year	1,340	(131)
- Later than 1 year and no later than 5 years	10,504	4,420
- Later than 5 years	160	138
	12,004	4,427

The Group signed a finance lease commitment with GE Capital Equipment Finance Limited 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.

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 of £4,920,000 (2011: £4,225,000). At 31 December 2011, the implicit interest rate and the profile of the annual rent in the early years of the lease liability initially gave rise to an interest charge greater than the rent payment, resulting in a debit balance in the less than one year category above.

The Singers finance lease liabilities are effectively secured as the rights to the leased asset revert to Singers in the event of a default. At the end of the initial hire period, the Group is entitled to extend the duration of the lease and pay an agreed secondary rental, or act as agent for the lessor in the sale of the equipment. There are no covenants or restrictions on the Group imposed by this lease, and there are no contingent rents.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

20 Loans and other borrowings (continued)

iv Maturity profile

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

2012	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years	Total £'000
Barclays	41,768	-	-	-	41,768
AIB	7,380	-	-	-	7,380
Loan notes	348	-	-	-	348
Finance leases	1,340	1,351	6,048	3,265	12,004
	50,836	1,351	6,048	3,265	61,500

2011	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years	Total £'000
Barclays	920	41,701	-	-	42,621
AIB	7,380	-	-	-	7,380
JCAM	13,614	-	-	-	13,614
Loan notes	316	-	-	-	316
Finance leases	(131)	4,402	18	138	4,427
	22,099	46,103	18	138	68,358

21 Provisions for other liabilities and charges

	2012 £'000	2011 £'000
Current	2,468	924
Non-current	189	707
	2,657	1,631

	Dilapidations £'000	Onerous leases (property) £'000	Onerous leases (equipment) £'000	Under declared VAT	Total £'000
At 1 January 2011	-	1,194	16	-	1,210
Charged to the income statement	450	549	-	-	999
Utilised during the year	-	(562)	(16)	-	(578)
At 1 January 2012	450	1,181	-	-	1,631
Charged to the income statement	-	239	-	1,500	1,739
Utilised during the year	-	(713)	-	-	(713)
Reallocation	222	(222)	-	-	-
At 31 December 2012	672	485	-	1,500	2,657

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

21 Provisions for other liabilities and charges (continued)

Dilapidations

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

Onerous leases (property)

A lease for a property in West London was taken on in 2006, but since the premises are no longer required by the Group, the site has been used to earn additional advertising revenue from the prime advertising space on top of the building and rental income from renting out office space. The provision of £195,000 (2011 £1,027,000) has been calculated based on the total net costs expected to be incurred by the Group until the first opportunity to exit the lease arrangement in April 2013.

A lease for a property in Ashford, Kent was inceptioned in 2008, but since the premises are no longer required by the Group, management intends to either sub-let the vacant premises or exit the lease early. Management is currently negotiating with potential tenants and the provision of £290,000 (2011 £154,000) has been calculated based on the total net costs expected to be incurred by the Group until the first opportunity to sub-let the property.

Under declared VAT

Management have performed a review of the VAT accounting within the Group and is in consultation with HM Revenue and Customs ('HMRC') on the outcomes of this review. HMRC are still assessing management's position. The Director's estimate this under declared VAT amounts to £1,500,000 including penalties and fines.

22 Derivative financial instruments

	Barclays interest rate swap £'000
At 1 January 2011	3,494
Gain in fair value credited to income statement	(1,019)
At 1 January 2012	2,475
Gain in fair value credited to income statement	(1,362)
At 31 December 2012	1,113
Effective interest rate	5.0%

At 31 December 2012, the notional amounts on the interest rate swap contract, which take the interest rate from floating to fixed, were £41,806,000 (2011 £42,727,000). Note 32 provides more details.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

23 Share capital and share premium

Authorised	2012 £'000	2011 £'000
Ordinary shares of £0.02 each	2,000	2,000
	Number	Number
Number of authorised shares	250,000,000	100,000,000

Allotted and fully paid up

		Shares (number)	Share capital £'000	Share premium £'000	Other reserve £'000	Total £'000
Ordinary shares						
At 1 January 2011		4,248,300	425	111,680	-	112,105
Shares issued - March 2011	£0.10	234,375	23	2,277	-	2,300
Shares issued - May 2011	£0.10	1,793,722	179	13,448	-	13,627
		6,276,397	627	127,405	-	128,032
Five-for-one share split	£0.02	31,381,984	627	127,405	-	128,032
Shares issued - June 2011 (net of costs)	£0.02	16,633,552	333	21,143	-	21,476
Shares issued from warrants - June 2011	£0.02	14,755,513	295	-	22,182	22,477
At 1 January 2012		62,771,049	1,255	148,548	22,182	171,985
Shares issued - 18 June 2012 (net of costs)	£0.02	78,465	2	-	-	2
Shares issued - 19 June 2012 (net of costs)	£0.02	67,857,143	1,357	44,597	-	45,954
At 31 December 2012		130,706,657	2,614	193,145	22,182	217,941

On 18 June 2012, the Group issued, at nominal value, an aggregate of 78,465 ordinary shares of £0.02 each in the capital of the Company to Non-Executive Directors pursuant to individual share awards.

On 19 June 2012, the Group received £47,500,000 (before fees) of equity investment. Of the total consideration received, £1,357,000 has been allocated to share capital (67,857,143 ordinary shares at £0.02 each) and £44,597,000 to share premium. In addition, the Group received £2,000 from the allocation of shares to Non-Executive Directors.

Transaction costs incurred during the 2012 equity raise totalled £1,546,000 (31 December 2011: £4,336,000), of which £1,546,000 (31 December 2011: £3,806,000) have been taken to share premium. The 2011 proceeds are net of a warrant liability of £9,332,000.

In March 2011, the Group received £7,500,000 of equity investment from existing shareholders. Of the total consideration received, £23,000 was allocated to share capital (234,375 ordinary shares at £0.10 each), £2,277,000 to share premium, £2,959,000 to financial liabilities, being the warrants attached to the shares issued (note 26), and £2,241,000 allocated to retained deficit.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

23 Share capital and share premium (continued)

The following table details the movement in share capital in the year ending 31 December 2012 by major shareholder

Number	At 1 January 2012	18 June 2012 (at £0.02 each)	19 June 2012 issue (at £0.02 each)	Additional purchases / (sales)	At 31 December 2012
Health Trust	3,136,180	-	-	-	3,136,180
Balderton Capital	10,613,677	-	2,142,857	-	12,756,534
Lansdowne Partners	18,170,570	-	19,796,438	-	37,967,008
BlackRock	8,051,993	-	-	(873,438)	7,178,555
BlueCrest Capital Management	9,252,685	-	-	-	9,252,685
Odey Asset Management	10,394,930	-	17,142,857	341,000	27,878,787
JCAM	479,800	-	-	(479,800)	-
Invesco Perpetual	-	-	28,571,420	1,797,500	30,368,920
Other	2,671,214	78,465	203,571	(785,262)	2,167,988
	62,771,049	78,465	67,857,143	-	130,706,657

The following table details the movement in share capital in the year to 31 December 2011 by major shareholder

Number	At 1 January 2011	March 2011 issue (at £32.00 each)	May 2011 issue (at £11.15 each)	Incremental five-for-one split	June 2011 issue (IPO)	June 2011 issue (warrants)	Health Partners Limited transfer	Additional purchases / (sales)	At 31 December 2011
Health Partners Limited	985,610	(179,187)	-	3,225,692	-	-	(895,935)	-	3,136,180
Balderton Capital	921,938	40,275	-	3,848,852	3,289,474	2,399,648	113,485	5	10,613,677
Lansdowne Partners	964,192	223,165	-	4,749,428	7,236,842	4,554,948	441,995	-	18,170,570
BlackRock	665,234	90,477	-	3,022,844	1,973,684	2,107,930	218,010	(26,186)	8,051,993
BlueCrest Capital Management	417,018	59,645	448,431	3,700,373	1,973,684	2,531,091	122,445	(2)	9,252,685
Odey Asset Management	-	-	1,345,291	5,381,166	506,579	3,161,896	-	(2)	10,394,930
JCAM	95,960	-	-	383,840	-	-	-	-	479,800
Other	198,348	-	-	793,392	1,653,289	-	-	26,185	2,671,214
	4,248,300	234,375	1,793,722	25,105,587	16,633,552	14,755,513	-	-	62,771,049

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

24 Non-controlling interest

	Circle Health £'000	Health Properties £'000	Total £'000
At 1 January 2011	(8,789)	(368)	(9,157)
Effect of shares vesting in period	(1,438)	-	(1,438)
Fair value of shares issued to Health Partners Limited	(2,204)	-	(2,204)
Winding up of Health Properties Benefit Trust	(1,203)	368	(835)
Effect of Nations Healthcare Group restructure	(2,383)	-	(2,383)
Effect of anti-dilutive shares issued to Health Partners Limited	(535)	-	(535)
Non-controlling interest's share of losses	(3,618)	-	(3,618)
At 1 January 2012	(20,170)	-	(20,170)
Effect of shares vesting in period	(1,920)	-	(1,920)
Non-controlling interest's share of losses	(4,998)	-	(4,998)
At 31 December 2012	(27,088)	-	(27,088)

Circle Health Limited

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), is 50.1% owned by Circle International plc and 49.9% owned by Circle Partnership, an entity that operates an employee share ownership plan which therefore represents an interest outside the Group (note 26). Circle Partnership has an authorised share capital of 100,000,000 (2011: 100,000,000) ordinary shares of £0.01 nominal value that give equal rights to the voting, dividend and capital of the company.

As required under SIC 12 'Consolidation: special purpose entities', the results of Circle Partnership have been consolidated into the Group financial statements as Circle Health is deemed to effectively control Circle Partnership.

The number of shares in Circle Partnership that had vested unconditionally as at 31 December 2012 amounted to 44,193,432 shares (2011: 26,608,000 shares). As at 31 December 2012, Circle Partnership had issued subscription letters for a total 35,052,963 shares (2011: restated 23,407,650 shares) to employees and clinicians. Unconditionally vested shares give rise to the non-controlling interest in the results of the Circle Health Group, which also includes Circle Partnership's indirect holding in the Nations Group, which is 100.0% (2011: 100.0%) owned by Circle Health.

Nations Healthcare Group

The effect of the Nations Healthcare Group restructure in October 2011, which has increased Circle Partnership's indirect holding in the Nations Group from 30.9% to 49.9%, on the non-controlling interest's share of prior year losses was £2,383,000.

Health Properties Limited

Prior to August 2011, Health Properties Limited ('Health Properties') was 90.0% owned by the Group and 10.0% owned by Health Properties Benefit Trust, an employee share ownership trust for the employees of Health Properties. In August 2011, the Health Properties Benefit Trust was wound up and all trust beneficiaries forfeited their shares in this scheme in exchange for shares in the Circle Partnership share scheme. As a result, there is no longer a non-controlling interest in Health Properties. Circle Holdings plc now owns 100.0% of the share capital in Health Properties, comprising 1,000,000 A ordinary shares at £0.001 and 9,000 B ordinary shares at £1.00 each.

The effect of the winding up of the Health Properties share scheme on the non-controlling interest's share of 2011 was £835,000.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

24 Non-controlling interest (continued)

Health Partners Limited

On 15 March 2011 some of the existing shareholders, together with Circle Health, Circle Partnership and Health Partners Limited ('Health Partners'), entered into a Share Transfer Agreement whereby Health Partners transferred a percentage of its holding in Circle Holdings plc to the existing shareholders (note 33(h))

The transfer of these shares was conditional on Circle Health confirming it would allot shares in Circle Partnership to Health Partners. As such, on 15 March 2011 and 24 May 2011, Circle Partnership agreed to issue ordinary shares of £0.01 to Health Partners, equal to an aggregate 10.0% of the issued share capital in Circle Partnership. Alongside the issuance of these shares at par value, it was agreed that in the event that Circle Partnership allotted any further shares, Health Partners would be entitled to the same proportion, so that its 10.0% holding was not diluted. Circle Partnership issued 3,505,296 shares to Health Trust (Jersey), which represents as of 31 December 2012 10% of the issued share capital of Circle Partnership.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

25 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

	2012 £'000	2011 £'000
At 1 January	21,475	19,878
Share-based charges in respect of warrants issued (note 26)	915	1,597
At 31 December	22,390	21,475

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

Beneficiary		Exercise price £	Original warrants (number)	Modified (number)	Revised warrants (number)	Warrant reserve		At 31 December 2012 £'000
						At 1 January 2012 £'000	Share-based charges £'000	
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	13,515	915	14,430
			1,282,240	2,340,765	3,623,005	21,475	915	22,390

a The cancellation of the warrants issued to Health Trust (Jersey) and Health Trust (Jersey) - option pool and re-issue of warrants to Health Trust (Jersey) are detailed in note 26

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 is recognised on a straight-line basis over a 24 month period from May 2011, in line with the revised vesting timetable (1/24 every month from May 2011). The warrants charge for the year therefore includes 12 months' charge relating to the incremental fair value in addition to the residual income statement charge relating to the fair value at the grant date of the original 2008 and 2009 warrants, with the 2008 tranche becoming fully vested during the year.

Circle Holdings plc

Notes to the consolidated financial statements

For the year ended 31 December 2012 (continued)

26 Share-based charges

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	2012 £'000	2011 £'000
Issued by Circle Partnership Limited	a	Shares	-	-
Awarded to Health Trust (Jersey)	b	Warrants	915	1,597
Awarded to Non-Executive Directors	c	Shares	96	-
			1,011	1,597

a Circle Partnership Limited

Circle Partnership Limited was established in 2008 as an employee share ownership plan and currently owns 49.9% of the shares in Circle Health. It enables the participants (Group employees and clinicians) who contribute to the success and growth in value of Circle Health to be owners of the business. The participants are issued shares in Circle Partnership which are held by the Circle Partnership Benefit Trust. 10% of Circle Partnership is directly owned by Health Trust (Jersey).

Under the scheme, shares are awarded on deferred payment terms. The purchase price for the shares becomes payable upon the occurrence of certain events, including the completion of a sale of the shares by a participant. The subscription price for the shares is the Fair Market Value ('FMV') as determined by an independent valuation and as such, there is no share-based charge.

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 vest over a 24 month period from May 2011 and are 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 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

26 Share-based charges (continued)

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

Stock price	£1 52
Exercise price	£1 52
Expected volatility*	50 0%
Risk free interest rate	5 0%
Warrant life**	10 years
Fair value of warrant	£1 02

* 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

The incremental increase in the fair value was assessed at £1,478,000 and is being 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 2012 is £915,000 (2011: £1,597,000) with the credit being recognised in the warrant reserve. There were no new warrant issues qualifying as share-based charges during 2012 (2011: nil) and none of the warrants were exercised in 2012 (2011: nil).

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows

	2012	2012	2011	2011
	Warrants	Average	Warrants	Average
	(number)	exercise price	(number)	exercise price
		(£ per share)		(£ per share)
At 1 January	2,340,765	1 52	468,153	51 55
Five-for-one share split	-	-	1,872,612	(41 24)
Modification	-	-	-	(8 79)
At 31 December	<u>2,340,765</u>	<u>1 52</u>	<u>2,340,765</u>	<u>1 52</u>

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

27 Capital commitments

At 31 December 2012, the Group had capital commitments as follows

	2012 £'000	2011 £'000
Contracted for but not provided in these financial statements	-	-

28 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 £779,000 (2011 £228,000). As at 31 December 2012 outstanding contributions totalled £83,000 (2011 £27,000).

29 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
No later than 1 year	3,129	4,226	9,106	4,724
Later than 1 year and no later than 5 years	483	3,614	36,113	15,761
Later than 5 years	-	-	194,459	63,725
	3,612	7,840	239,678	84,210

On 7 June 2012 the Group entered into an operating lease in respect of the CircleReading hospital for 25 years at an initial annual rent of £4,750,000 per year with six months rent free in the first year. There is an annual rent step-up of 3% in years 2, 3, 4 and 5 and thereafter an annual upwards only index linked review (subject to a cap of 5% and floor of 2%).

In 2011 non-repayment of the mezzanine loan provided to Health Properties Bath triggered a cross-default under Circle International plc's equipment lease with GE. The default was waived by GE on 22 May 2012 following a restructuring of the mezzanine loan.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

30 Net cash outflow from operating activities

	2012 £'000	2011 £'000
Loss before taxation	(30,430)	(32,924)
Provision for joint venture deficit	259	926
Exceptional finance items	(866)	10,097
Finance costs	5,244	6,809
Finance income	(3,513)	(3,454)
Depreciation of property, plant and equipment (note 14)	1,485	1,190
Amortisation of intangible assets (note 13)	282	57
Charge recognised in respect of amounts recoverable under contract (note 17)	2,027	2,253
Disposal of intangible assets (note 13)	142	-
Impairment of property, plant and equipment (note 14)	4,614	30
Share-based charges in respect of warrants issued (note 26)	915	1,597
Share-based charges in respect of awards to Non-Executive Directors (note 26)	96	-
Revaluation of Birmingham finance lease payments	572	-
Non-cash element of CircleReading pre-opening expenses	647	-
Provision for VAT	1,500	-
Restructuring Costs	650	-
Profit on cessation of contract to run Circle's Burton NHS Treatment Centre	-	(1,493)
Increase in provision for onerous leases	239	-
Provision of debtor with Health Properties Bath	1,575	-
Other exceptional items	-	(13)
Movements in working capital		
– (Increase) / decrease in inventories	(397)	283
– Increase in trade and other receivables	(1,818)	(3,968)
– Increase / (decrease) in trade and other payables	501	(5,386)
– (Decrease) / increase in provisions	(713)	421
Net cash outflow from operating activities	(16,989)	(23,575)

31 Reconciliation and analysis of net debt

	2012 £'000	2011 £'000
Increase in unrestricted cash in the year	10,200	14,607
Increase / (decrease) in restricted cash in the year	1,825	(925)
Repayment of borrowings	12,604	5,922
Proceeds from borrowings	-	(5,000)
Repayment of finance lease	674	44
Movement in net debt from cash flow	25,303	14,648
Other non-cash movements	(6,420)	(4,632)
Movement in net debt	18,883	10,016
Net debt at 1 January	(42,354)	(52,370)
Net debt at 31 December	(23,471)	(42,354)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

31 Reconciliation of net debt (continued)

2012

	At 1 January £'000	Cash flow £'000	Reclassifi- cations £'000	Other non- cash changes £'000	At 31 December 2012 £'000
Liquid resources					
Unrestricted cash	22,729	10,200	-	-	32,929
Restricted cash	3,275	1,825	-	-	5,100
Debt due within one year					
AIB	(7,380)	-	-	-	(7,380)
Barclays	(920)	920	(41,701)	(67)	(41,768)
JCAM	(13,614)	11,684	-	1,930	-
Loan notes	(316)	-	-	(32)	(348)
Finance leases	131	674	(103)	(2,042)	(1,340)
Debt due after one year					
Barclays	(41,701)	-	41,701	-	-
Finance leases	(4,558)	-	103	(6,209)	(10,664)
Net debt	(42,354)	25,303	-	(6,420)	(23,471)

2011

	At 1 January £'000	Cash flow £'000	Transfers £'000	Other non- cash changes £'000	At 31 December 2011 £'000
Liquid resources					
Unrestricted cash	8,122	14,607	-	-	22,729
Restricted cash	4,200	(925)	-	-	3,275
Debt due within one year					
AIB	(7,380)	-	-	-	(7,380)
Barclays	(922)	922	(920)	-	(920)
JCAM	(13,224)	-	-	(390)	(13,614)
Loan notes	(364)	-	-	48	(316)
Finance leases	(76)	44	(67)	230	131
Debt due after one year					
Barclays	(42,556)	-	920	(65)	(41,701)
Finance leases	(170)	-	67	(4,455)	(4,558)
Net debt	(52,370)	14,648	-	(4,632)	(42,354)

Non-cash movements include the following

- Amortisation of £67,000 (2011 £65,000) of Barclays loan issue costs that are set off against the loan and spread over the life of the loan
- Unwinding of equity portion of the JCAM loan, £1,930,000 (2011 expense of £390,000)
- Reassessment of future cash flows resulting in £nil increase in loan notes owing (2011 £73,000 decrease), offset by unwinding of discount on acquisition of £32,000 (2011 £25,000)
- Recognition of Reading finance lease (note 20) of £7,679,000 at inception (£1,873,000 and £5,806,000) and an exceptional charge to the Birmingham finance lease (note 6) of £572,000

Circle Holdings plc

Notes to the consolidated financial statements

For the year ended 31 December 2012 (continued)

32 Financial risk management

i 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, trade and other payables. In addition, the Group is party to interest rate swaps to manage the Group's interest rate risks arising from the Group's sources of finance.

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

As at 31 December 2012	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total £'000
Financial assets				
Trade and other receivables (note 17)	50,643	-	-	50,643
Cash and cash equivalents (note 18)	38,029	-	-	38,029
Total financial assets	88,672	-	-	88,672
Financial liabilities				
Trade and other payables (note 19)	-	-	(9,167)	(9,167)
Derivative financial instruments (note 22)	-	(1,113)	-	(1,113)
Bank loans (note 20)	-	-	(49,148)	(49,148)
Loan notes (note 20)	-	-	(348)	(348)
Finance lease liabilities (note 20)	-	-	(12,004)	(12,004)
Total financial liabilities	-	(1,113)	(70,667)	(71,780)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

32 Financial risk management (continued)

Classes of financial instruments (continued)

As at 31 December 2011	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total £'000
Financial assets				
Trade and other receivables (note 17)	49,245	-	-	49,245
Cash and cash equivalents (note 18)	26,004	-	-	26,004
Total financial assets	75,249	-	-	75,249
Financial liabilities				
Trade and other payables (note 19)	-	-	(9,690)	(9,690)
Derivative financial instruments (note 22)	-	(2,475)	-	(2,475)
Bank loans (note 20)	-	-	(63,615)	(63,615)
Loan notes (note 20)	-	-	(316)	(316)
Finance lease liabilities (note 20)	-	-	(4,427)	(4,427)
Total financial liabilities	-	(2,475)	(78,048)	(80,523)

a Market risk

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

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

1) Interest rate risk

Financial instruments affected by interest rate risk include bank loans, short-term deposits and derivative financial instruments. The Group is primarily sensitive to changes in UK interest rates. This affects future cash flows from short-term cash deposits and the cost of variable rate debt. The Group manages this risk, where significant, by holding long-term loans and entering into interest rate swaps in order to fix the interest payable on these. As at 31 December 2012, 87.4% (2011: 88.7%) of the Group's loan and borrowings were either held under fixed rate terms or fixed by interest rate swaps (note 20). Short-term deposits held at floating rates of interest represented 28.2% (2011: 22.2%) of total assets of the Group.

The following table summarises the fixed and variable rate loans, and their effective interest rate.

	Variable £'000	Fixed £'000	Interest-free £'000	Total £'000
At 31 December 2012				
Loans and other borrowings	7,380	53,772	348	61,500
At 31 December 2011				
Loans and other borrowings	7,380	60,662	316	68,358

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

32 Financial risk management (continued)

a Market risk (continued)

1) Interest rate risk (continued)

The following derivative contracts were in place at the reporting date

	Counter party	Effective interest rate %	Maturity date £'000	Notional amount £'000	Carrying value £'000
At 31 December 2012					
Interest rate swaps	Barclays	5.0%	27 Jul 13	41,806	1,113
At 31 December 2011					
Interest rate swaps	Barclays	5.0%	27 Jul 13	42,727	2,475

A change of 100 basis points ('bp') in interest rates for the reporting period would have increased / (decreased) equity and reported results by the amounts shown below. The directors believe that a change of 100bp represents a reasonable sensitivity of the Group's interest rate risk. The analysis assumes that all other variables remain constant.

	Profit or loss		Equity	
	100 bp increase £'000	100bp decrease £'000	100 bp increase £'000	100bp decrease £'000
At 31 December 2012				
Variable rate bank loans	(74)	74	-	-
Net sensitivity	(74)	74	-	-
At 31 December 2011				
Variable rate bank loans	(74)	74	-	-
Net sensitivity	(74)	74	-	-

The directors believe that a change of 100bp represents a reasonable sensitivity of the Group's interest rate risk. The rest of the debt in the Group is either fixed rate debt or has been fixed by means of a floating to fixed interest rate swap. There is a zero effect of a change in interest rate on this debt. A variation in interest rates on the cash balances would not give rise to a significant change in value and therefore have not been included in the table above.

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.

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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

32 Financial risk management (continued)

b Credit risk (continued)

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.

Due to the nature of the monthly minimum take Nottingham ISTC contract with the DoH and the interest rate swap on the Barclays PFI loan, there is no material price or credit risk exposure for Circle's Nottingham NHS Treatment Centre.

When utilising bank accounts and cash deposits, the Group transacts with counterparties who have sound credit profiles. Such counterparties are primarily large, highly rated financial institutions. In relation to financial institutions, the Group allocates a credit limit based on external credit ratings. The counterparty's total outstanding transactions with the Group including bank accounts and cash deposits must not exceed limits agreed by the Board of Directors.

c Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The 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.

At 31 December 2012	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
Trade and other payables	(9,167)	-	-	-	-	-
Bank loans	(49,148)	-	-	-	-	-
Derivative financial instruments	(1,113)	-	-	-	-	-
Finance leases	(2,279)	(2,160)	(6,650)	(1,801)	(1,629)	(1,187)
Loan notes	(348)	-	-	-	-	-
Net outflows	(62,055)	(2,160)	(6,650)	(1,801)	(1,629)	(1,187)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

32 Financial risk management (continued)

c Liquidity risk (continued)

At 31 December 2011	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
Trade and other payables	(9,690)	-	-	-	-	-
Bank loans	(12,631)	(57,256)	-	-	-	-
Derivative financial instruments	(1,528)	(1,119)	-	-	-	-
Finance leases	(204)	(4,676)	(10)	(10)	(10)	(1,197)
Loan notes	(364)	-	-	-	-	-
Net outflows	(24,417)	(63,051)	(10)	(10)	(10)	(1,197)

Included in the previous table 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.

The risk that the outflow of cash occurs significantly earlier than the maturity analysis disclosed or for a significantly different amount than those indicated is mitigated by the fact that the trade payables are due imminently, and the principal and interest on the bank loans (and corresponding derivative financial instrument) are contractual obligations whose timings are clearly defined and fixed unless a breach of covenant takes place.

ii Capital risk

The primary objective of the Group's management of debt and equity is to ensure the continued growth of the business, including the financing of new hospitals, equipment and start-up costs, including Head Office overheads, in order to provide returns for the Group shareholders, Circle Partnership 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 of the shareholder agreements. Covenants are tested monthly.

iii Fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 quoted prices in active markets
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This level includes the majority of Over The Counter derivative contracts, traded loans and structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 inputs of the asset or liability that are not based on observable market data.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

32 Financial risk management (continued)

iii Fair value (continued)

The following table presents the Group's assets and liabilities that are measured at fair value

At 31 December 2012	Level 1	Level 2	Level 3
Liabilities	£'000	£'000	£'000
Interest rate swap (note 22)	-	1,113	-
	-	1,113	-
At 31 December 2011	Level 1	Level 2	Level 3
Liabilities	£'000	£'000	£'000
Interest rate swap (note 22)	-	2,475	-
	-	2,475	-

33 Related party transactions

Subsidiaries and joint ventures

Details of the investments in which the Group holds 20.0% or more of the nominal value of any class of share capital 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	100.0%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100.0%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC** registered)	100.0%	Jersey
Health Capital Limited	Ordinary shares	Holding and management	100.0%	United Kingdom
Circle Health Limited*	Ordinary shares	Holding and management	50.1%	United Kingdom
Circle Clinics Ltd*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Windsor Hand Surgery Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Nations Healthcare Limited*	'A' Ordinary shares	Holding and management	50.1%	United Kingdom
Nations Healthcare Limited*	'C' Preferred shares	Holding and management	n/a	United Kingdom
Nations Healthcare (Nottingham) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Nations Healthcare (Burton) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom

* subsidiary held indirectly

** Jersey Financial Services Commission

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

33 Related party transactions (continued)

Principal subsidiaries and joint ventures (continued)

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
Nations Healthcare (North Bradford) Limited*	Ordinary shares	Dormant	50 1%	United Kingdom
Nations Healthcare West London 2006 Limited*	Ordinary shares	Dormant	50 1%	United Kingdom
Nations Healthcare West London LLP*	Ordinary shares	Property management	50 1%	United Kingdom
Circle (Welbeck) Limited*	Ordinary shares	Finance company	50 1%	United Kingdom
Circle (Welbeck) Limited*	Preference shares	Finance company	n/a	United Kingdom
Circle Hospital (Bath) Ltd*	Ordinary shares	Medical practice services	50 1%	United Kingdom
Circle Hospital (Reading) Limited*	Ordinary shares	Medical practice services	50 1%	United Kingdom
Circle Hinchingsbrooke Limited*	Ordinary shares	Professional services	50 1%	United Kingdom
Circle Property Development Limited*	Ordinary shares	Property development	50 1%	United Kingdom
Circle Birmingham Limited*	Ordinary shares	Property development	50 1%	United Kingdom
CH Subco Limited	Ordinary shares	Finance company	100 0%	Jersey
Health Properties Management Ltd*	Ordinary shares	Property development	100 0%	United Kingdom
Health Properties (Bath) Limited*	'A&B' Ordinary shares	Property ownership and management	38 7%	Jersey
Health Properties (Edinburgh) Limited*	Ordinary shares	Property ownership and development	100 0%	Jersey
Health Properties (South Manchester) Limited*	Ordinary shares	Property ownership and development	100 0%	Jersey
Circle Partnership Limited	None (quasi-subsiary)	Employee share ownership plan	None (quasi-subsiary)	British Virgin Islands

* subsidiary held indirectly

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

33 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:

			2012		2011
	Note	Amounts owed by related party £'000	Amounts owed to related party £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Circle Partnership Limited	a	-	-	-	-
Health Properties (Bath) Limited	b	1,586	(34)	3,128	(34)
JCAM	c	-	-	-	(13,614)
Stonehage Fund Services Limited ('Stonehage')	d	-	-	-	(1)
Capita	e	-	(126)	-	(65)
Health Estates Limited	f	9	-	-	-
Hinchingbrooke Health Care NHS Trust	i	241	(2)	-	-
		<u>1,836</u>	<u>(162)</u>	<u>3,128</u>	<u>(13,714)</u>

a Circle Partnership Limited

Circle Partnership Limited holds 49.9% of Circle Health and was loaned £5,000 by Circle International plc to acquire shares in Circle Health. The balance is not shown above because Circle Partnership is consolidated as a quasi subsidiary.

b Health Properties (Bath) Limited

Health Properties (Bath) Limited is a joint venture of the Group (note 15) which owns the Bath hospital.

The Group has advanced £1,200,000 (2011: £1,200,000) to Health Properties 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 Health Properties Bath to give a total receivable of £1,575,000 at 31 December 2012 (2011: £1,508,000). This has been fully impaired during the year as the balance is not considered to be recoverable.

On 5 October 2009, Circle Hospital (Bath) Ltd, a subsidiary of the Group, entered into an agreement to lease the Bath hospital from Health Properties Bath. Under the lease agreement, Circle Bath has an annual rental commitment of £3,598,000 (2011: £3,505,000) for a 25 year term and a rental deposit of £1,586,000 (2011: £1,586,000) is held by Health Properties Bath.

During the year, the Group paid rent of £3,519,000 under this lease agreement (2011: £3,364,000). At 31 December 2012, the Group had prepaid rental of £nil (2011: £809,000) to Health Properties Bath. The balance is included in prepayments (note 17).

The Group was recharged £nil (2011: £nil) for leasehold improvements, rent and other expenses that were incurred by Health Properties Bath. An amount of £34,000 remains payable to the Group at 31 December 2012 (2011: £34,000).

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

33 Related party transactions

Trading transactions (continued)

c JCAM

At 31 December 2011 JCAM had loaned the Group £14,131,000, which included £831,000 of rolled up interest. The loan was repayable within two years and carried an interest charge of 25.0%, payable quarterly. On 20 June 2012, the loan to JCAM was repaid in full. At 31 December 2012 the loan balance is £nil (2011 £13,614,000) and has an effective interest rate of nil (2011 28.8%), taking into account both interest and accretion towards the redemption amount (notes 21). During the year, the Group made no further advanced payments to JCAM (2011 £6,204,000) (note 18).

JCAM owns 479,800 shares in the Company. There are currently 238,930 warrants priced at £10.31 outstanding to JCAM, which are presented separately in equity at an amount of £1,616,000.

d Stonehage Fund Services Limited

Stonehage Fund Services Limited, 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 2012 were also employed by the ultimate controlling company of Stonehage Fund Services Limited or a company connected with it. In total, Stonehage Fund Services Limited was paid £41,000 (2011 £40,000) for management and fiduciary services provided to companies within the Group. The amount outstanding at 31 December 2012 was £nil (2011 £1,000). Ian Crosby, a director of Stonehage Fund Services Limited, is also a director of the corporate trustee of Health Trust (Jersey) and of Health Estates Limited.

e Capita

During 2012, no Directors of the Company were employed by Capita (as disclosed in the Directors' report). In total, the Group was charged £184,000 (2011 £486,000) by Capita for fiduciary services provided to companies within the Group during the year. The amount outstanding at 31 December 2012 was £58,000 (2011 £65,000).

The Capita Group also provided IT data hosting services during the year. The Group was charged £515,000 (2011 £nil) for these services provided during the year. The amount outstanding at 31 December 2012 was £69,000 (2011 £nil).

f Health Estates Limited

Health Estates Limited acquired a 58.1% share in Health Properties Bath, a joint venture undertaking of the Group, from Health Properties for £1,800,000 in 2009. During the year the Group paid expenses on behalf of Health Estates Limited totalling £9,000 (2011 £nil). An amount of £9,000 (2011 £nil) remains receivable at year end.

g Health Trust (Jersey)

Health Trust (Jersey) owns 3,131,180 shares (2.4%) in the Company (2011 3,136,180) through a wholly owned subsidiary, Health Partners (note 23). Health Trust (Jersey) also holds 2,340,765 warrants in the Company (note 26).

In 2012, Health Trust (Jersey) holds 3,505,296 shares (2011 2,394,185) of Circle Partnership pursuant to a Share Transfer Agreement dated 15 March 2011 and 24 May 2011, respectively, which provide for the issue of Circle Partnership shares to Health Trust (Jersey) in an amount equal to an aggregate 10% of the issued share capital of Circle Partnership.

During the year, the Group paid legal and advisory fees of £nil (2011 £65,000) on behalf of Health Trust (Jersey) in respect of the 2012 issue of Circle Partnership shares described above.

h Health Partners

On 15 March 2011 some of the existing shareholders, together with Circle Health, Circle Partnership and Health Partners, entered into a Share Transfer Agreement whereby Health Partners transferred a percentage of its holding in Circle Holdings plc to the existing shareholders. The effect of the Share Transfer Agreement on the Company was a profit on issuance of shares of £2,241,000 in the year ending 31 December 2011.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

33 Related party transactions (continued)

Trading transactions (continued)

h Health Partners Limited (continued)

The transfer of shares between Health Partners and the existing shareholders was conditional on Circle Health confirming it would allot shares in Circle Partnership to Health Partners. As such, on 15 March 2011 and 24 May 2011, Circle Partnership agreed to issue Health Partners ordinary shares of £0.01 equal to an aggregate 10.0% of the issued share capital in Circle Partnership. Alongside the issuance of these shares at par value, it was agreed that in the event that Circle Partnership allotted any further shares, Health Partners would be entitled to the same proportion, so that its 10.0% holding was not diluted. The effect of the Share Transfer Agreement on the non-controlling interest's share of prior year losses was £2,204,000.

i Hinchingsbrooke Health Care NHS Trust

On 1 February 2012, the Group commenced the operation to run Hinchingsbrooke Health Care NHS Trust, which will see the Group manage an estimated £1 billion of revenue over the ten year contract period. Under the terms of the contract, the Group has agreed to make working capital contributions of up to £5.0 million and will share surpluses generated over the term of the contract with the Trust. The contract allows either party to terminate if Hinchingsbrooke incurs more than £5.0 million in aggregate deficits, at which point the Group is also required to pay a further £2.0 million in termination costs to Hinchingsbrooke (which amount is currently held in cash escrow).

During the year services to the value of £315,000 have been recharged from Circle Health to Hinchingsbrooke. Mainly relating to staff time for the provision of specialist services in accordance with the project agreement.

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

	Number of shares held	% shareholding	Number of warrants held
Balderton Capital	12,756,534	9.8%	4,786
BlackRock	7,178,555	5.5%	-
BlueCrest Capital Management	9,252,685	7.1%	296
Lansdowne Partners	37,967,008	29.0%	1,262
Invesco Perpetual	30,368,920	23.2%	-
Odey Asset Management	27,878,787	21.3%	-

Tim Bunting and Jamie Wood (resigned 18 June 2012) served as Non-Executive Directors of Circle Holdings plc. They are employed by Balderton Capital and Odey Asset Management, respectively. No fees were charged for their services to the Group.

Tony Bromovsky joined the Board of Circle Holdings plc in November 2012 due to Odey Asset Management LLP exercising their right to appoint a director to the board. Mr Bromovsky was paid £3,000 for his services in 2012.

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

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2012 (continued)

34 Events after the balance sheet date

Hinchingbrooke Health Care NHS Trust

Under the terms of the Hinchingbrooke Health Care NHS Trust franchise agreement, Circle Hinchingbrooke Limited is required to make support payments to Hinchingbrooke in the event that the Trust projects a negative cashflow position. In accordance with this obligation, Circle Hinchingbrooke Limited made a support payment to the Trust of £3.7 million at the end of January 2013 to ensure the Trust remains in surplus for the financial year ending 31 March 2013.

Nottingham NHS Treatment Centre Contract Win

The Group has been selected as the preferred bidder by NHS commissioners to provide renewed services at the Nottingham NHS Treatment Centre for a further five years commencing from July 2013. The Group's appointment is subject to completion of final contract terms, which is expected by the end of the second quarter of 2013. The decision to select Circle as the preferred bidder follows a seven month tender process managed by NHS Midlands and East's Strategic Projects Team on behalf of Principia Rushcliffe Clinical Commissioning Group. The expected contract value for delivering core services will be circa £15 million annually with additional services expected to be provided under the Any Qualified Provider framework.

AIB / Edinburgh loan

Allied Irish Bank ('AIB') and Health Properties (Edinburgh) Limited ('Health Properties Edinburgh') have agreed a series of steps where AIB will take possession of the Edinburgh property and Health Properties Edinburgh will thereafter be dissolved on a consensual basis. This agreement was reached following discussions with AIB and taking into consideration the value of the property and the fact that the Circle Group holds no equity in the property. Current expectation is that Health Properties Edinburgh will be dissolved during the fourth quarter of 2013.

West London

Nations Healthcare West London LLP ('Nations') has exercised their right to terminate the lease of 1010 Great West Road (the Property) on 4 April 2013. Circle is awaiting acknowledgment from the receivers of the Property (appointed by Lloyds Bank in February 2012) in respect of this.

Circle Holdings plc

Independent auditors' report

To the members of Circle Holdings plc

We have audited the financial statements of Circle Holdings plc for the year ended 31 December 2012 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 29 to 30 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 (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, 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 this opinion, 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.

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012,
- have been properly prepared in accordance with United Kingdom Accounting Standards, and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matter

In our opinion the information given in the Directors' Report for the financial year for which financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- 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 not received all the information and explanations we require for our audit.

Circle Holdings plc

Independent auditors' report

To the members of Circle Holdings plc (continued)

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the Company financial statements concerning the Group's ability to continue as a going concern. While the Directors are confident that the Group can continue to meet their working capital requirements over the next 12 to 18 months, any significant deviations from their forecasts could impact on its ability to do so, and these conditions as explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Other matter

We have reported separately on the Group financial statements of Circle Holdings plc for the year ended 31 December 2012.



Nigel Reynolds

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Recognized Auditors

London

17 April 2013

Circle Holdings plc

Company balance sheet

As at 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Investments	5	17,106	24,194
Current assets			
Debtors	6	48,802	18,597
Cash at bank and in hand		22,899	15,452
		71,701	34,049
Creditors - amounts falling due within one year	7	(577)	(14,303)
Net current assets		71,124	19,746
Total assets less current liabilities		88,230	43,940
Net assets		88,230	43,940
Capital and reserves			
Share capital	8	2,614	1,255
Share premium	8	193,145	148,548
Other reserves	8	11,303	11,303
Warrant reserve	9,11	22,390	21,475
Share-based charges reserve	9,11	96	-
Profit and loss account	9	(141,318)	(138,641)
Total shareholders' funds	10	88,230	43,940

The financial statements on pages 95 to 108 were approved by the Board of Directors on 17 April 2013 and were signed on its behalf by



Steve Melton
Chief Executive Officer
Circle Holdings plc



Paolo Pieri
Chief Financial Officer
Registered number 100016 (Jersey)

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012

1 Accounting policies

Basis of preparation

These financial statements are prepared for Circle Holdings plc (the 'Company') for the year ended 31 December 2012. 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 17.

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'.

Circle Holdings plc

Notes to the Company financial statements

For the year ended 31 December 2012 (continued)

1 Accounting policies (continued)

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 income statement 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.

Circle Holdings plc

Notes to the Company financial statements

For the year ended 31 December 2012 (continued)

2 Profit and loss

The result for the year is a loss of £2,677,000 (2011 loss of £67,728,000)

3 Auditors' remuneration

The Company incurred £26,000 (2011 £25,000) in relation to UK statutory audit fees for the year ended 31 December 2012

4 Directors' emoluments

During the year £339,000 (2011 £116,000) 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

5 Investments

Company

	2012	2011
Cost	£'000	£'000
At 1 January	163,735	64,346
Additions - Circle Welbeck Limited (note 13)	-	97,791
Additions - Health Properties Limited	-	1
Additions - CH Subco	1,800	-
Additions - capital contributions (note 12)	915	1,597
At 31 December	166,450	163,735

	2012	2011
Provision for impairment	£'000	£'000
At 1 January	139,541	38,136
Reclassification from trade receivables	-	31,637
Provision in the year	9,803	69,768
At 31 December	149,344	139,541

Net book amount

At 31 December	17,106	24,194
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During the year, the Company acquired the ordinary share capital in CH Subco Limited for £1,800,000 which has been classified to investments. During the year, the Company has impaired the investment in subsidiaries by £9,803,000 to reflect the most recent market capitalisation of the business at 31 December 2012.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

5 Investments (continued)

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 0%	United Kingdom
Health Capital Limited	Ordinary shares	Holding and management	100 0%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100 0%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC** registered)	100 0%	Jersey
CH Subco Limited	Ordinary shares	Finance company	100 0%	Jersey
Circle (Welbeck) Limited*	Preference shares	Finance company	n/a	United Kingdom

* subsidiary held indirectly

** Jersey Financial Services Commission

6 Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	20	4,256
Amounts owed by Group undertakings	48,782	14,341
	48,802	18,597

Amounts owed by Group undertakings are a combination of interest-bearing and interest-free amounts, unsecured and receivable on demand (note 13)

7 Creditors - amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans (JCAM)	-	13,614
Trade creditors	250	143
Amounts owed to Group undertakings (note 13)	195	-
Accruals and deferred income	132	546
	577	14,303

The JCAM loan facility of £13,300,000 together with rolled up interest of £831,000 gave a total amount due at redemption of £14,131,000 (2011 £14,131,000) The Group repaid in full the £14,131,000 loan owed to JCAM on 20 June 2012

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

8 Called up share capital

Authorised	2012 £'000	2011 £'000
Ordinary shares of £0.02 each	2,000	2,000
	Number	Number
Number of authorised shares	250,000,000	100,000,000

Allotted and fully paid up

		Shares (number)	Share capital £'000	Share premium £'000	Other reserve £'000	Total £'000
Ordinary shares						
At 1 January 2011		4,248,300	425	111,680	-	112,105
Shares issued - March 2011	£0.10	234,375	23	2,277	-	2,300
Shares issued - May 2011	£0.10	1,793,722	179	13,448	-	13,627
		6,276,397	627	127,405	-	128,032
Five-for-one share split	£0.02	31,381,984	627	127,405	-	128,032
Shares issued - June 2011 (net of costs)	£0.02	16,633,552	333	21,143	-	21,476
Shares issued from warrants - June 2011	£0.02	14,755,513	295	-	11,303	11,598
		62,771,049	1,255	148,548	11,303	161,106
At 1 January 2012						
Shares issued - 18 June 2012 (net of costs)	£0.02	78,465	2	-	-	2
Shares issued - 19 June 2012 (net of costs)	£0.02	67,857,143	1,357	44,597	-	45,954
At 31 December 2012		130,706,657	2,614	193,145	11,303	207,062

On 18 June 2012, the Company issued, at nominal value, an aggregate of 78,465 ordinary shares of £0.02 each in the capital of the Company to Non-Executive Directors pursuant to individual share awards

On 19 June 2012, the Company received £47,500,000 of equity investment. Of the total consideration received, £1,357,000 has been allocated to share capital (67,857,143 ordinary shares at £0.02 each) and £44,597,000 to share premium. In addition, the Company received £2,000 from the allocation of shares to Non-Executive Directors.

Transaction costs incurred during the 2012 equity raise totalled £1,546,000 (31 December 2011: £4,336,000), of which £1,546,000 (31 December 2011: £3,806,000) has been taken to share premium.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

9 Reserves

	Share premium £'000	Warrant reserve £'000	Other reserve £'000	Share- based charges reserve £'000	Profit and loss account £'000
At 1 January 2011	148,548	21,475	11,303	-	(138,641)
Issuance of shares	44,597	-	-	-	-
Loss for the financial year	-	-	-	-	(2,677)
Additions to warrants reserve (note 12)	-	915	-	-	-
Awards of shares to Non- Executive directors	-	-	-	96	-
At 31 December 2012	193,145	22,390	11,303	96	(141,318)

10 Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Loss for the financial year	(2,677)	(67,728)
Profit on issuance of shares (see below)	-	2,241
Net proceeds on issue of ordinary share capital (note 8)	45,956	49,001
Additions to warrant reserve (note 11)	915	1,597
Awards of shares to Non-Executive directors	96	-
Net addition to shareholders' funds	44,290	(14,889)
Opening shareholders' funds	43,940	58,829
Closing shareholders' funds	88,230	43,940

On 15 March 2011 some of Company's existing shareholders, together with other Group companies and Health Partners, entered into a Share Transfer Agreement whereby Health Partners transferred a percentage of its holding in Circle Holdings plc to the existing shareholders in return for Circle Partnership allotting and issuing ordinary shares at par value to Health Partners. The effect of Share Transfer Agreement was a profit to Circle Holdings plc of £2,241,000.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

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

	2012 £'000	2011 £'000
At 1 January	21,475	19,878
Share-based charges in respect of warrants issued (note 12)	915	1,597
At 31 December	22,390	21,475

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

Beneficiary		Revised exercise price £	Original warrants, restated for five-for-one split (number)	Modified (number)	Revised warrants (number)	Warrant reserve:		At 31 December 2012 £'000
						At 1 January 2012 £'000	Share- based charges £'000	
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	13,515	915	14,430
			1,282,240	2,340,765	3,623,005	21,475	915	22,390

- a The cancellation of the warrants issued to Health Trust (Jersey) and Health Trust (Jersey) - option pool and re-issue 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 is recognised on a straight-line basis over a 24 month period from May 2011, in line with the revised vesting timetable (1/24 every month from May 2011). The warrants charge for the year therefore includes 12 months' charge relating to the incremental fair value in addition to the residual income statement charge relating to the fair value at the grant date of the original 2008 and 2009 warrants, with the 2008 tranche becoming fully vested during the year.

Circle Holdings plc

Notes to the Company financial statements

For the year ended 31 December 2012 (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 Company. 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	2012 £'000	2011 £'000
Issued by Circle Partnership Limited	a	Shares	-	-
Awarded to Health Trust (Jersey)	b	Warrants	915	1,597
Awarded to Non-Executive Directors	c	Shares	96	-
			<u>1,011</u>	<u>1,597</u>

a Circle Partnership Limited

Circle Partnership Limited was established in 2008 as an employee share ownership plan and currently owns 49.9% of the shares in Circle Health. It enables the participants (employees and clinicians) who contribute to the success and growth in value of Circle Health to be owners of the business. The participants are issued shares in Circle Partnership which are held by the Circle Partnership Limited Benefit Trust.

Under the scheme, shares are awarded on deferred payment terms. The purchase price for the shares becomes payable upon the occurrence of certain events, including the completion of a sale of the shares by a participant. The subscription price for the shares is the Fair Market Value ('FMV') as determined by an independent valuation and as such, there is no share-based charge.

b Health Trust (Jersey)

In May 2011 new share warrants were issued exclusively to Health Trust (Jersey), of which Al 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 vest over a 24 month period from May 2011 and are exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date. The share warrants do not have any conditions attached. 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 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.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

12 Capital Contributions (continued)

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

Stock price	£1 52
Exercise price	£1 52
Expected volatility*	50 0%
Risk free interest rate	5 0%
Warrant life**	10 years
Fair value of warrant	£1 02

* 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

The incremental increase in the fair value was assessed at £1,478,000 and is being 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 2012 is £915,000 (2011 £1,597,000) with the credit being recognised in the warrant reserve. There were no new warrant issues qualifying as share-based charges during 2012 (2011 nil) and none of the warrants were exercised in 2012 (2011 nil).

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows

	2012	2012	2011	2011
	Warrants	Average	Warrants	Average
	(number)	exercise price	(number)	exercise price
		(£ per share)		(£ per share)
At 1 January	2,340,765	1 52	468,153	51 55
Five-for-one share split	-	-	1,872,612	(41 24)
Modification	-	-	-	(8 79)
At 31 December	2,340,765	1 52	2,340,765	1 52

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (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 follows:

		2012	2011
		Amounts owed by related party	Amounts owed to related party
Note		£'000	£'000
JCAM	a	-	(13,614)
Circle Health Limited	b	33,706	8,948
Nations Healthcare Limited	c	3,205	-
Circle (Welbeck) Limited	d	8,927	1,732
Capita	e	12	17

a JCAM

At 31 December 2011 JCAM had loaned the Company £14,131,000, which included £831,000 of rolled up interest. The loan was repayable within two years and carried an interest charge of 25.0%, payable quarterly. The loan was refinanced in February 2012 through a wholly owned subsidiary, CH Subco Ltd and repaid in full on 20 June 2012. At 31 December 2012 the loan balance is £nil (2011: £13,614,000) and has an effective interest rate of nil% (2011: 28.8%), taking into account both interest and accretion towards the redemption amount (note 21 of the consolidated financial statements).

There are currently 238,930 warrants priced at £10.31 outstanding to JCAM, which are presented separately in equity at an amount of £1,616,000.

b Circle Health Limited

Circle Health Limited is a 50.1% owned subsidiary of Circle International plc, a wholly owned subsidiary undertaking. A loan of £32,378,000 (2011: £8,925,000) has been advanced to Circle Health, which remains outstanding at 31 December 2012, together with accrued interest of £1,328,000 (2011: £23,000). The interest rate on the loan is 7.0% (2011: 7.0%).

During the year Circle Health incurred expenses on behalf of the Company and recharged these at cost to the value of £195,000 (2011: £206,000).

c Nations Healthcare Limited

The Company indirectly owns 50.1% of Nations Healthcare Limited, via its subsidiaries Circle Health and Circle International plc.

The Company directly owns £4,500,000 non-voting 7.0% (2011: 7.0%) preference shares in Nations Healthcare Limited, which are included in fixed asset investments (note 5). The Company has accrued a total of £3,205,000 (2011: £2,890,000) of preference dividends on these shares.

Circle Holdings plc

Notes to the Company financial statements

For the year ended 31 December 2012 (continued)

13 Related party transactions (continued)

d Circle (Welbeck) Limited

The Company indirectly owns 50.1% of Circle (Welbeck) Limited, via its subsidiaries Circle Health and Circle International plc. In 2011, the Company assigned unsecured loans and accrued interest of £74,917,000 and £22,874,000 previously owing from Circle Health and Nations Healthcare Limited respectively, to Circle (Welbeck) Limited, for consideration of £97,791,000 of 7.0% preference shares. The Company has accrued a total of £8,927,000 (2011: £1,732,000) of preference dividends on these shares.

Of the unsecured loans assigned to Circle (Welbeck) Limited, £31,637,000 was provided against at 31 December 2010 and has subsequently been reclassified to investments. Following the assignment to Circle (Welbeck) Limited, the Company impaired the investment in preference shares by £66,154,000 in 2011 to reflect the market capitalisation of the business following the recent fundraising.

e Capita

During 2012, no Directors of the Company were employed by Capita. In total, the Company was charged £96,000 (2011: £293,000) by Capita for fiduciary services provided to the Company during the year. Capita charged the Group £nil in the year to 31 December 2012 for Director responsibility fees (2010: £11,000). The amount outstanding at 31 December 2012 was £12,000 (2011: £17,000).

f Health Trust (Jersey)

Health Trust (Jersey) owns 3,131,180 shares (2.4%) in the Company (2011: 3,136,180) through a wholly owned subsidiary, Health Partners (note 23). Health Trust (Jersey) also holds 2,340,765 warrants in the Company (note 26).

In 2012, Health Trust (Jersey) holds 3,505,296 shares (2011: 2,394,185) of Circle Partnership pursuant to a Share Transfer Agreement dated 15 March 2011 and 24 May 2011, respectively, which provide for the issue of Circle Partnership shares to Health Trust (Jersey) in an amount equal to an aggregate 10% of the issued share capital of Circle Partnership.

g Health Partners Limited

On 15 March 2011 some of the existing shareholders, together with Circle Health, Circle Partnership and Health Partners, entered into a Share Transfer Agreement whereby Health Partners transferred a percentage of its holding in Circle Holdings plc to the existing shareholders and at the same time Circle Partnership allotted and issued its ordinary shares at par value to Health Partners. The effect of the Share Transfer Agreement on the Company was a profit on issuance of shares of £2,241,000.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2012 (continued)

13 Related party transactions (continued)

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

	Number of shares held	% shareholding	Number of warrants held
Balderton Capital	12,756,534	9.8%	4,786
BlackRock	7,178,555	5.5%	-
BlueCrest Capital Management	9,252,685	7.1%	296
Lansdowne Partners	37,967,008	29.0%	1,262
Odey Asset Management	30,368,920	23.2%	-
Invesco Perpetual	27,878,787	21.3%	-

Tim Bunting and Jamie Wood (resigned 18 June 2012) served as Non-Executive Directors of Circle Holdings plc. They are employed by Balderton Capital and Odey Asset Management respectively. Tony Bromovsky joined the Board of Circle Holdings plc in November 2012 due to Odey Asset Management LLP exercising their right to appoint a director to the board. No fees are charged for their services to the Group.

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

Circle Holdings plc

Notes to the Company financial statements

For the year ended 31 December 2012 (continued)

14 Events after the balance sheet date

Hinchingbrooke Health Care NHS Trust

Under the terms of the Hinchingbrooke Health Care NHS Trust franchise agreement, Circle Hinchingbrooke Limited is required to make support payments to Hinchingbrooke in the event that the Trust projects a negative cashflow position. In accordance with this obligation, the Group made a support payment to the Trust of £3.7 million at the end of January 2013 to ensure the Trust remains in surplus for the financial year ending 31 March 2013.

Nottingham NHS Treatment Centre Contract Win

The Group has been selected as the preferred bidder by NHS commissioners to provide renewed services at the Nottingham NHS Treatment Centre for a further five years commencing from July 2013. The Group's appointment is subject to completion of final contract terms, which is expected by the end of the second quarter of 2013. The decision to select Circle as the preferred bidder follows a seven month tender process managed by NHS Midlands and East's Strategic Projects Team on behalf of Principia Rushcliffe Clinical Commissioning Group. The expected contract value for delivering core services will be circa £15 million annually with additional services expected to be provided under the Any Qualified Provider framework.

AIB / Edinburgh loan

Allied Irish Bank ('AIB') and Health Properties (Edinburgh) Limited ('Health Properties Edinburgh') have agreed a series of steps where AIB will take possession of the Edinburgh property and Health Properties Edinburgh will thereafter be dissolved on a consensual basis. This agreement was reached following discussions with AIB and taking into consideration the value of the property and the fact that the Circle Group holds no equity in the property. Current expectation is that Health Properties Edinburgh will be dissolved during the fourth quarter of 2013.

West London

Nations Healthcare West London LLP ('Nations') has exercised their right to terminate the lease of 1010 Great West Road (the Property) on 4 April 2013. Circle is awaiting acknowledgment from the receivers of the Property (appointed by Lloyds Bank in February 2012) in respect of this.

Circle Holdings plc

Company Information

Non-Executive Directors

Michael Kirkwood, CMG
Lorraine Baldry
Andrew Shilston
Peter Cornell
Tim Bunting
Tony Bromovsky
Ali Parsa

Executive Directors

Massoud Fouladi
Paolo Pieri

Company Secretary

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Registrars

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