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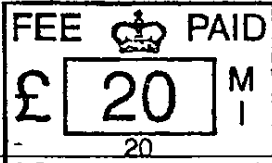
Statement of details of parent law and other information for an overseas company



Companies House

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Cash



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

X What this form is NOT for
 You cannot use this form to register an alteration of manner of company with accounting requirements

WEDNESDAY



L3BB4861
 LD4 02/07/2014 #62
 COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① CIRCLE HOLDINGS PLC

UK establishment number B R 1 5 3 3 2

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 Please complete in typescript or in bold black capitals

All fields are mandatory unless specified or indicated by *

① This is the name of the company in its home state

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

A1 Legislation

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

Legislation ② UK GAAP & COMPANIES (JERSEY) LAW 1991

② This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts.

A2 Accounting principles

Accounts

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

Please tick the appropriate box

No Go to Section A3

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

Name of organisation or body ③ UK GAAP - ISSUED BY ACCOUNTING STANDARDS BOARD

③ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

No Go to Section A5

Yes Go to Section A4

7-7-14 071

OS AA01

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

A4 Audited accounts

| | | |
|------------------------------|---|---|
| Audited accounts | Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box <input type="checkbox"/> No Go to Part 3 'Signature' <input checked="" type="checkbox"/> Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature' | Please insert the name of the appropriate accounting organisation or body |
| Name of organisation or body | UNITED KINGDOM GENERALLY ACCEPTED ACCOUNTING PRACTICE - ISSUED | |

A5 Unaudited accounts BY ACCOUNTING STANDARDS BOARD (ASB)

| | | |
|--------------------|---|--|
| Unaudited accounts | Is the company required to have its accounts audited? Please tick the appropriate box <input type="checkbox"/> No <input type="checkbox"/> Yes | |
|--------------------|---|--|

Part 3 Signature

| | |
|---|--|
| I am signing this form on behalf of the overseas company | |
| Signature | Signature X <i>Louisa Michael</i> X |
| This form may be signed by Director, Secretary, Permanent representative | |

OS AA01

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

Presenter information

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

Contact name **LAURA MICHAEL**

Company name **CIRCLE HOLDINGS PLC**

Address **32 WELBECK STREET**

Post town **LONDON**

County/Region **LONDON**

Postcode **W11 6 8 EU**

Country **UK**

DX

Telephone **07843 087610**

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

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

Important information

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

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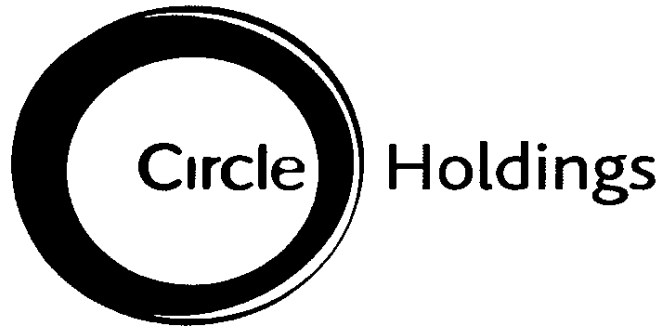
Scotland
The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

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

Further information

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

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Annual Report and financial statements

For the year ended 31 December 2013



LD4

02/07/2014
COMPANIES HOUSE

#61

Registered number 100016 (Jersey)

Highlights

Financial Highlights

- Revenue under management¹ has grown by 13.1% to £192.7m (2012: £170.3m),
- EBITDAR² for the year of £0.1m loss (2012: £4.0m loss),
- £27.5m (before fees) fundraise achieved in January 2014,
- Basic and diluted loss per share of 5.1p (2012: 25.7p),
- EBITDA³ (before exceptional items) on a like-for-like basis⁴ improved by 20.2%,
- Loss before Tax for the financial period improved by 50.0% compared to 2012,
- Daycase and inpatient volumes have risen by 14.0% to 40,797 (2012: 35,801)

Operational Highlights

- Outstanding quality metrics with patient recommendations at 99% across Circle's Independent Hospitals and its Nottingham NHS Treatment Centre,
- Hinchingsbrooke remains one of the top ranking non-Foundation Trusts in the country as voted by patients (Friends and Family Test), has become fully-CQC compliant for the first time since inspections began, achieved 96.6% in the critical four-hour waiting time target against a national average of 93.1% and, over the past two years, has successfully delivered an improvement in efficiency of more than 13%,
- Commenced the new five-year contract to provide services at the Nottingham NHS Treatment Centre which successfully transitioned in July 2013,
- Selected as the preferred bidder for an innovative five-year integrated musculoskeletal ('MSK') Service contract in Bedfordshire, with services due to commence in April 2014,
- Discussions on-going with a number of investors for financing the development of CircleManchester and CircleBirmingham hospitals,
- Corporate restructure of the group planned for 2014 to give all partners, including NHS staff, access to tradable shares in Circle Holdings plc for the first time (Project RESET)

1 includes revenue generated at Hinchingsbrooke Health Care NHS Trust which is managed by the Group, but not included in the Group's consolidated revenue

2 defined as Earnings Before Interest, Tax, Depreciation Amortisation and Rent

3 defined as Earnings Before Interest, Tax, Depreciation and Amortisation

4 excludes results from CircleReading which commenced operations in August 2012

Introduction

We believe in partnership. That means we invest in our people, we empower them to put their patients first in everything they do, and we give frontline doctors and nurses the tools they need to lead healthcare transformation. For us, “good enough” never is.

Circle was founded nearly a decade ago on the firm belief that healthcare could be better. Since then, we’ve stayed true to our mission to improve care and build a great company dedicated to our patients.

Our objective has always been fundamentally to transform long-term value in healthcare. We’re committed to reinvesting our profits continually to improve the services we deliver whilst providing a strong return to our shareholders.

Our partnership includes more than 3,000 doctors, nurses, managers and porters across the country. These partners include our midwifery team who have been chosen as one of the safest units in the country once again, our award-winning cancer nurses who have been recognised by leading charities for their commitment to compassionate care, and our catering team who have won awards for their locally sourced, high-quality menus, delivered at lower costs.

These are just some of countless stories we hear every day. It’s these achievements which have made 2013 such a successful year for Circle. From awards for our patient safety initiatives and newly-opened private hospital, to our positive inspection reports from the CQC, the Royal College of Surgeons and our local commissioners, we are continually improving the quality of care we deliver.

Circle was created to transform healthcare. It doesn’t matter if our patients have been referred by their insurer, by their GP, or are paying for themselves. Our only concern is that we provide the best quality of care and the highest standard of service.

With the hard work, commitment and innovation of our growing partnership, we know that next year there’s even more we can do.

Yours sincerely,



Steve Melton
Chief Executive Officer, Circle

Dr Massoud Fouladi
Chief Medical Officer, Circle

Operating Overview

NHS

Hinchingbrooke Health Care NHS Trust

Hinchingbrooke Health Care NHS Trust (“Hinchingbrooke”) has continued to transform quality and services in the last year. Previously, the hospital suffered from a series of clinical and financial failings that threatened the sustainability of the service and the reputation of the local health economy. As part of this transformation, and as previously disclosed, Circle made a support payment to Hinchingbrooke of £3.7 million in January 2013 to ensure the Trust remained in surplus for its financial year ending 31 March 2013, as required by the franchise agreement.

Prior to the commencement of the contract, A&E performance was ranked 102nd nationally, serious concerns had been raised by the Royal College of Surgeons about the quality of colorectal services, and the trust had been red-flagged by commissioners due to poor handling of Serious Incidents. Since then, Hinchingbrooke has undergone a wholesale transformation in quality of services, resulting in it consistently being ranked in the top decile of hospitals in England for 4-hour A&E waiting time, fully repatriating colorectal services, achieving full CQC-compliance for the first time since inspections began, and reducing Serious Incidents by 50% between 2011-12 and 2012-13.

Unlike many trusts across the country, Hinchingbrooke performed well over the winter of 2013-14, with the proportion of A&E patients being seen within 4 hours remaining consistently above the 95% target threshold at 96.7%. For the year as a whole, the number of patients waiting in A&E for longer than four hours has been cut by one-third between 2011-12 and 2012-13. In 2012-13, complaints at Hinchingbrooke fell by 17.1% to 179, the lowest level in five years.

Staff engagement continues to improve, with staff turnover having now fallen for the sixth month in a row. In the most recent NHS staff survey, Hinchingbrooke has shown improvements from 2012 in more than two-thirds of surveyed areas whilst Direct Nursing Care Time has increased to 69%, ahead of a target of 66%. Further initiatives are planned to improve this and to continue reducing staff sickness absence rates which remain high in some departments.

Hinchingbrooke has received national commendation for a number of activities, receiving the Philip Baxendale Award for employee innovation for the nurse-led patient safety initiative, “Stop the Line”, while the catering team have received the Soil Association Bronze Award for organic food and quality improvement.

This transformation in services has resulted in a significant rise in GP referrals, largely from repatriating patients back to their local hospital partly through patient choice as the high quality of care has become recognised.

The increased levels of referrals and quality improvements at Hinchingbrooke have led to increased revenue earned under the contract. As is common with many NHS Trusts at this time of year, a number of contractual challenges from the local CCG have arisen. These challenges centre around the payment for delivered activity, the achievement of certain cost-saving initiatives and the level of unplanned activity in year. Hinchingbrooke is confident of its contractual position in relation to these challenges and is actively engaged in negotiations with the CCG to resolve them. A resolution is expected over the coming weeks through a process of mediation or, failing that, binding arbitration. Circle has an obligation to fund up to a maximum of £5 million in operating deficits at Hinchingbrooke (to date, Circle has invested £3.7 million).

In the event of a significant adverse outcome to the negotiations and/or arbitration there could be a breach of the operating conditions under the Franchise Agreement which would result in further discussion with the Trust Development Authority regarding Circle's on-going right to operate Hinchingbrooke

CircleNottingham

Over the past five years, CircleNottingham has a proven track-record of delivering the highest quality of patient care, significantly improved productivity, and a reputation among GPs and local patients for providing first-class treatments. Services in the Nottingham Treatment Centre successfully transitioned to the new five-year contract at the end of July. This innovative contract is based on developing services for local patients through the introduction of an integrated care approach.

CircleNottingham has continued to perform well in 2013 and has now opened 11 new inpatient beds based on the high demand for our quality of services. Patient feedback remains encouragingly high and is also reflected in patient volumes which have reached their highest point on record in the last year.

Private

CircleReading

CircleReading has built an enviable reputation for clinical excellence and first-class patient hospitality in its first full year of operation. The hospital has received a positive CQC inspection report, top decile patient feedback scores, and significantly growing referrals from local GPs. Total daycase and inpatient volumes for the last quarter of the year have risen by 84.8% compared with 2012.

CircleReading is supporting local NHS hospitals with their capacity problems and has seen its proportion of the local orthopaedic market increase to circa 20%, making it the leading private provider of orthopaedic care in the area.

Earlier in the year, CircleReading won a prestigious design award for "best internal environment" at the 2013 Building Better Healthcare awards. The award recognised "an outstanding therapeutic space that enhances the overall experience of patients". Since opening, the hospital has treated more than 5,000 NHS and private patients, with 99.4% saying they would recommend the hospital to a friend or family member who needed care.

CircleReading expects to build on these successes in NHS and private revenues, developing a larger speciality mix to allow an even wider group of patients to benefit from the cutting edge facilities.

CircleBath

CircleBath has made significant strides since first opening in March 2010. After relatively slow growth at the beginning of 2013, CircleBath has rapidly expanded the number of slots it provides for NHS patients and has seen a dramatic increase in NHS activity. In the last six months of 2013, CircleBath recorded its highest ever volumes and ends the year with a trajectory of continued growth. Total daycase and inpatient volumes for the year have increased by 10.0% compared with 2012, with the growth in the last quarter of daycase and inpatient volumes at 24.0%.

CircleBath continues to perform well, recording a patient satisfaction score of 99.7%, one of the highest in the country. CircleBath has developed new sub-specialities, such as neurosurgical services, and is building the range of treatments offered to local patients as a result of the hospital's well-established reputation among local GPs, patients and consultants.

In 2013 CircleBath won a national award for "Nursing Services" at the Laing and Buisson Private Healthcare Awards, recognising the outstanding achievement of the Hospital Lead Cancer Nurse who is also part of the MacMillan team.

CircleBath is now looking to build on a successful marketing strategy in 2014, with new patient testimonials and a television campaign to consolidate this increased activity.

Circle Clinics

As part of its reconfiguration to exit its smaller clinics businesses, the Group completed the migration of specialist surgical services from its CircleWindsor clinic to its CircleReading facility in March 2013. The Group also plans to cease all operations at its Stratford Clinic from April 2014.

Operating outlook

Following a positive end to 2013, the Group is encouraged by the performance of existing assets and expects them to be at or near to EBITDA break-even, pre-central overhead, by the end of 2014. Good progress has been made in finalising the Bedfordshire MSK contract, the first of its kind, which is expected to commence in the second quarter of 2014, slightly behind the original target.

While we have seen important improvements in the services at Hinchingsbrooke, the increase in patient numbers has led to some unplanned agency staff expenses, which have resulted in a temporary increase in Hinchingsbrooke's cost base. As a consequence, our expectation of a near breakeven outturn for Hinchingsbrooke in their financial year ending 31 March 2014 is now likely to result in a deficit of £500,000 - £1,000,000, which Circle is required to fund under the terms of the Franchise Agreement. Any adverse outcome arising from the on-going contractual dispute with the local CCG would increase this deficit.

A market opportunity is now becoming more evident as developments in the national healthcare market have highlighted more than ever the need for better quality and better value services in both the private healthcare and NHS markets. The Group remains encouraged about its prospects of progressing specific growth opportunities in both sectors, facilitated by the recent £27.5m fundraise (before fees).

The Group is committed to implementing Project Reset, a corporate restructure of the group planned for 2014 to give all partners, including NHS staff, access to tradable shares in Circle Holdings plc for the first time. While significant progress has been made, the Group has elected to wait until the issuance of the Competition Commission's final report in early April before submitting its reorganisation plan to the BVI court. The Company remains optimistic that the current Competition Commission investigation will result in important changes to the private healthcare market and continue the support for equity partnerships that will benefit new entrants like Circle.



Steve Melton
Chief Executive Officer

Board of Directors

Michael Kirkwood CMG, Non-Executive Chairman (a), (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 2012 after previously holding the role of Chief Operating Officer since joining Circle in 2008. His appointment as Chief Executive Officer was confirmed on a formal and continuing basis in April 2013. Steve has nearly 30 years of experience leading large scale operations. Prior to Circle, he was the Supply Chain Director at Argos, where he also headed up their business excellence programmes. Previously, he was Supply Chain Director at Scottish Courage Limited, and was part of the team that turned around Asda in the 90's. He began his career on Unilever's Management Trainee Programme, and lead transformational change programmes in a variety of roles for them in the UK and abroad. Steve holds an MA (First Class) in Chemical Engineering from the University of Cambridge.

Paolo Pieri, Chief Financial Officer

Paolo joined Circle after working at lastminute.com for over five years. 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 was Finance Director of the Virgin Megastore business for three years. 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, Schroder Real Estate Investment Trust 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.

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

Chief Financial Officer's report

Financial review

Introduction

The Group's results have exceeded market expectations for consolidated revenues and operating profits before exceptional items, and at the same time the Group is making exciting progress in pursuing its goals. This continued progression gives us confidence that all four sites are on track to achieve in-year EBITDA break-even in the coming year.

The commencement of the renewed contract in Nottingham to run the NHS Treatment Centre for a further five years, together with the first full year of trading in Hinchingsbrooke and Reading, marked important milestones in developing the Circle business model. These demonstrate our ability to scale our business, renewing existing contracts, opening first-class independent hospitals and being the first private operator to run an NHS hospital successfully. These factors, combined with the fundraising of £27.5 million (before fees) in January 2014, put the Group on a firm path to continue to deliver on its plans for the coming years.

The Group completed the migration of specialist surgical services from its CircleWindsor clinic to its CircleReading facility in March 2013. The Group plans to cease all operations at its Stratford Clinic from April 2014, as part of its reconfiguration to exit its smaller clinics businesses.

Group results

Revenue under management** of £192.7 million and Group revenue of £84.3 million mark a significant uplift on the previous year's results. The Group ends the year with a cash position of £12.4 million (including £3.8 million of restricted cash) prior to the January fundraise.

| | Year to 31-Dec-13 £'000 | Year to 31-Dec-12* £'000 |
|---|-------------------------------|--------------------------------|
| Revenue under management** | 192,749 | 170,403 |
| Group revenue | 84,252 | 73,246 |
| Earnings before interest, tax, depreciation and amortisation ('EBITDA') before exceptional items (note 6) | (13,812) | (14,180) |
| Total operating loss before exceptional items (note 6) | (17,726) | (17,974) |
| Operating loss | (13,866) | (29,306) |
| Loss and total comprehensive loss for the financial year | (15,230) | (30,424) |
| Net assets | <u>27,867</u> | <u>42,727</u> |

* 2012 results include five months of losses from the operations at CircleReading which opened in August 2012.

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

The Group has continued to deliver growth in its core operations, with revenue of £84.3 million delivering a year on year increase of 15.2%, primarily stemming from on-going growth at CircleBath and a full year of operations at CircleReading, and endorsing the increasing demand for high quality facilities to deliver healthcare. The renewed Nottingham NHS Treatment Centre contract rebased the price per episode to national tariff from July 2013, although patient volumes for the first five months of operations under the new contract were ahead of expectations.

Patient procedures (excluding Hinchingbrooke)

| | Year to 31-Dec-13 Number | Year to 31-Dec-12 Number | Change |
|-------------------------|--------------------------------|--------------------------------|--------------|
| Daycase and inpatients | 40,797 | 35,801 | 14.0% |
| Outpatients | 148,517 | 111,490 | 33.2% |
| Total procedures | 189,314 | 147,291 | 28.5% |

Daycase and Inpatient procedures increased by 14.0% to 40,797 (2012: 35,801), while overall patient procedures in Circle facilities increased by 28.5% to 189,314 procedures. Circle's Nottingham NHS Treatment Centre has seen total numbers increase by 3.2% from the prior year to 90,862. CircleReading completed its first full year of operations, consequently total procedures grew to 50,215, with total patient numbers in the last quarter of 2013 up 57.3% on 2012.

The increase in patient procedures is also attributable to the performance of CircleBath, who have seen impressive growth in their number of daycase and inpatient procedures, up 10.0% from 2012 to 6,231. Crucially, the number of daycase and inpatient procedures in the final quarter of 2013 was up 24.0% on 2012. The increases in patient numbers visiting Circle facilities have been achieved while also increasing patient satisfaction, which averages 99% across the three main sites.

Results in 2013 contained a full year of losses for the operations of CircleReading, compared with 2012 which includes only five months of trade after opening. Offsetting this were improved operating results at Circle's Nottingham NHS Treatment Centre and CircleBath and cost savings at head office. Consequently, total Group EBITDA (before exceptional items) improved by 2.8% from a loss of £14.2 million to a loss of £13.8 million. When looking on a like-for-like basis, excluding the results of CircleReading for both years, Group EBITDA (before exceptional items) improved by 20.2% from a loss of £10.4 million to a loss of £8.3 million. Due to the nature of commissioning hospitals, losses are unavoidable in the first six months of operations.

Loss before tax improved by 50.0% to £15.2 million and the loss per share now stands at 5.1 pence, improved from a loss per share in 2012 of 25.7 pence.

Exceptional Items

The Group has been going through changes to simplify and streamline the business. There has been and continues to be a cost of doing this which will reduce over the next year as management strives to reduce its commitments to non-core activities. Consequently, the Group has recognised some key

exceptional items in the year and had a successful year in terminating onerous contracts entered into in previous years, in many cases generating savings against amounts initially provided

Exceptional operating income of £3.9 million (2012 expense of £11.3 million) was recorded. This mainly arose from the deconsolidation of Health Properties (Edinburgh) Limited (see below) and the gain on the release of a number of dilapidation provisions relating to properties vacated during the year. The Windsor hand surgery building, and West London and Ashford properties were vacated during the year, with all dilapidations settled with landlords. These resulted in exceptional gains of £74,000, £468,000 and £146,000 respectively. An additional cost has been recognised during the year in respect of dilapidations for the Stratford Clinic of £109,000.

In the prior year, after a review of its treatment of VAT for prior periods, the Group made a £1.5 million provision relating predominantly to inaccuracies in the 2008-2010 periods. The Group has finalised its position with HM Revenue and Customs ('HMRC') on the outcome of the majority of this review during the year. The remaining issues are expected to be agreed upon shortly. As a result, the Group has recognised an additional £115,000 provision during the year and is confident that no further unprovided expense will be incurred. Finally a revaluation of finance lease payments has arisen due to the delay in developing the Birmingham hospital site, which may result in a higher rent being paid for the remainder of the lease.

The remaining exceptionals relate to impairment of property, plant and equipment, Share-based charges in respect of warrants issued and Share-based charges in respect of awards to Non-Executive Directors. These have been presented in exceptionals for consistency with the previous periods as they are considered to be outside the course of normal business activity.

Exceptional finance income of £1.1 million (2012 income of £866,000) was recorded. In the current year this related to the gain on fair value of an interest rate derivative in Nottingham which has now expired, contemporaneously with the associated PFI loan which was repaid. For further details refer to the section below.

Restructuring

At the start of the year, the Group undertook a restructure of its head office to ensure the cost base was in line with the Group strategy. This has resulted in annual run-rate savings of £1.0 million, with an exceptional restructuring charge of £300,000 (2012 £650,000). We do not anticipate any further restructuring charges in 2014.

Financing

In January 2014 the Group successfully raised £27.5 million (before fees) by way of equity funding. The Group intends to use the proceeds for growth and potential expansion into large markets such as Manchester and Birmingham with independent hospitals, pursuing growth opportunities in current operating assets, for example expansion of service offerings, and set-up costs, commissioning and working capital for a mix of up to 3-5 generic service lines and/or hospital franchises. Additional opportunities arising from Competition Commission-advised divestiture remedies may also be considered by the Group.

The proceeds from the fundraising will also assist in demonstrating to the Government, NHS, and real-estate investors the strength of the Group's balance sheet.

The Group continues to seek financing for CircleManchester, CircleBirmingham and the independent hospital development pipeline and is currently in discussions with a number of real-estate investors for a potential financing solution

Given the cash raised, the recent findings from the Competition Commission and the current positive mood in infrastructure financing, the Board has a number of options available to assess. These options include progressing with the Manchester and/or Birmingham sites in their current design or considering alternative designs. However, any material redesign which may not fully utilise the design elements invested to date in these projects may require an impairment of the carrying value of the Assets Under Construction for each site. Based on current plans management does not believe any impairment is necessary at the current time.

Cashflow

Net cash outflow from operating activities amounted to £22.1 million (2012 outflow of £17.0 million) where improvements in the underlying performance of the Group were offset by movements in working capital, most notably an increase in the VAT receivable owing to the on-going investigation, which was settled post year-end. Furthermore, the £3.7 million paid to Hinchingsbrooke for temporary funding of their working capital is included as an outflow here. Exceptional items were predominantly non-cash, with the exception of restructuring costs. During the year, the Group has extinguished all bank loans owed following the repayment of the Barclays loan and deconsolidation of Health Properties (Edinburgh) which held a loan with AIB. Consequently the only borrowings remaining relate to finance leases.

Repayment of the Barclays PFI Loan

The Barclays PFI loan of £41.8 million was extinguished in full on 27 July 2013 when the Group exercised its unconditional right to receive cash from the Secretary of State for the repayment of the construction loan relating to Circle's Nottingham NHS Treatment Centre. The PFI operating asset was transferred to the Department of Health and has been derecognised from the Group's Balance Sheet. At this point the interest rate SWAP also expired.

Deconsolidation of Health Properties (Edinburgh)

Health Properties (Edinburgh) has been excluded from the consolidated Group results from October 2013. This is on the basis that the entity does not meet the criteria of a subsidiary, due to the transfer of control to govern the financial and operating policies of the business after formally having been placed into liquidation with the support of the principal creditor, AIB. The expectation is that the entity will be fully dissolved within the coming months.

The gain on deconsolidation recognised in the group accounts amounted to £4.4 million. This is the net impact of derecognition of the loan amount and the loss of the land asset. The principal loan originally owed to AIB was £7.4 million which is non-recourse to the remainder of the group, with accrued interest this totalled £7.9 million. On deconsolidation, the land was carried at a book value of £3.5 million.

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 nine years.

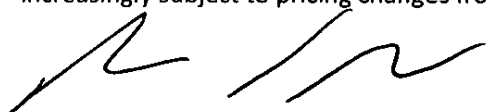
Contract risk

Contract risk exists where the Group is unable to renew the NHS contracts at the end of their fixed tenure. The Group aims to mitigate this risk by maintaining good relationships with contracting parties and actively pursuing contract renewals and extensions ahead of time. During the year, the Group won the re-tender to provide renewed services at the Nottingham NHS Treatment Centre for a further five years until July 2018. The Group also commenced a 10-year contract in February 2012 to manage Hinchingsbrooke Health Care NHS Trust in Huntingdonshire.

Owing to the complexity of delivering NHS-funded services, there is inherent contractual risk arising from the Group's existing NHS contracts. Default and termination of these contracts could occur as a result of clinical or operational failures. Furthermore, the contract with Hinchingsbrooke Health Care NHS Trust allows either party to terminate if Hinchingsbrooke incurs more than £5.0 million in aggregate deficits, at which point the Group would be required to pay a further £2.0 million in termination/transition costs to Hinchingsbrooke (which amount is currently held in cash escrow). The Group aims to mitigate these risks by focusing on its business model of delivering high quality care at the best value.

Price risk

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



Paolo Pieri
Chief Financial Officer
19 March 2014

Directors' report

The Directors present their Annual Report and audited financial statements for the Group for the year ended 31 December 2013

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 2013. 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. Circle Partnership 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 Review on pages 3 to 5. Information on environmental matters, employees, community and social issues is given in the Report on Corporate Governance on pages 17 to 21.

Results and dividends

The loss and total comprehensive loss for the financial year attributable to owners of the parent amounted to £6,678,000 (2012: £25,426,000). The Directors do not recommend the payment of any dividends (2012: £nil).

Cash flow

The total cash balance at 31 December 2013 is £12,397,000 (2012: £38,029,000) of which £8,597,000 (2012: £32,929,000) relates to unrestricted cash. Net cash used in operating activities totalled £22,427,000 (2012: £16,536,000).

Share capital and control

As at 31 December 2013, the Company's authorised share capital comprised 250,000,000 (2012: 250,000,000) ordinary shares of £0.02 each, of which 130,785,122 (2011: 130,706,657) (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 2013, the Group had 32 equivalent days (2012: 51 days) of purchases outstanding and the Company had 68 equivalent days (2012: 33 days).

At 31 December 2013, trade creditors in the Group and Company were £5,240,000 and £190,000 respectively (2012: £9,128,000 and £250,000).

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. The Directors have prepared cash flow forecasts for a period of not less than 12 months from the date of signing the financial statements for the year ended 31 December 2013.

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

Events after the Balance Sheet date

2014 Fundraise

On 20 December, the Group announced £25,000,000 (before fees) of equity investment, with irrevocable agreements signed on this date. The shares were approved by the board, allotted on 8 January 2014 and formally issued on 11 January 2014. These will be accounted for as a 2014 transaction. A further £2,500,000 was raised in January 2014 by way of an additional option that the brokers placed on the raise. Of the total consideration received, £1,100,000 will be allocated to share capital (55,000,000 ordinary shares at £0.02 each) and £25,100,000 to share premium.

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 whilst seeking new opportunities both in Private Hospital developments and integrated care services.

Project Reset

Due to the accumulation of debt owed by Circle Health Limited (and its operating subsidiaries) to the Company and Circle International, the value of Circle Partnership is currently limited and therefore the effectiveness of the current incentivisation scheme is undermined. Accordingly the Company and Circle Partnership have agreed a corporate reorganisation of the Group. This reorganisation, called Project Reset, involves the Company acquiring Circle Partnership and issuing a new class of convertible shares to existing Circle Partnership shareholders in exchange for their partnership shares. These shares will be held by a new Partnership Benefit Trust that will also hold additional ordinary shares of the Company to be used to satisfy future options issued to new share scheme members.

The Company remains optimistic that the current Competition Commission investigation will result in important changes to the private healthcare market that will benefit new entrants like Circle. However, the Company has elected to wait until the issuance of the Competition Commission's final report in early April before submitting its reorganisation plan to the BVI court. As a result of this

delay, the Company will likely need to seek shareholders' consent to extend the long-stop for completion of Project Reset (currently 31 May 2014) by a further 90 days

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) (resigned 30 September 2013) |
| Andrew Shilston | Non-Executive Director (Independent) |
| Ali Parsa | Non-Executive Director (Non-Independent) (resigned 13 May 2013) |
| Tim Bunting | Non-Executive Director (Non-Independent) |
| Tony Bromovsky | Non-Executive Director (Non-Independent) (appointed 22 November 2012) |

Biographies of the current Directors are detailed on pages 6 to 7 and Directors' beneficial interests in the Group's share capital and warrants are detailed on pages 24 to 25 of the Directors' remuneration report

Directors' indemnity

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

Donations

The Group made charitable donations totalling £1,000 (2012: £2,000) 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 17 to 21.

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.

Clinical Risk

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. This is particularly relevant given the general election in May 2015. New regulations may be introduced which could have an adverse effect on the Group's operational and compliance costs. In addition, the Group relies on the ability and willingness of government-funded bodies such as CCGs and NHS Trusts to pay for the Group's services.

Reputational risk

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



Steve Melton
Chief Executive Officer
19 March 2014

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 Nomination 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 members of each committee are listed in the biographies of the Board of Directors biographies on pages 6 to 7

The Board

The Board of Directors comprises a Non-Executive Chairman, two independent Non-Executive Directors, two 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 6 to 7 The Articles of Association allow no fewer than three Directors

The Code recommends that the Board should comprise at least two Non-Executive Directors, determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement The Board considers that the Company complies with the requirements of the Code in this regard

The Non-Executive Directors contribute a wide range of skills and experience, forming a strong and independent element within the Board The Non-Executive Directors receive a fixed fee for services rendered, are appointed for an initial period of three years, which may be extended by agreement with the Board, are subject to re-election by shareholders at the Annual General Meeting ('AGM'), and are not employees of the Company at the time Their opinions carry significant weight in the decision making processes, both operational and financial, and they are free from any business or personal relationships (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 have reserved for their consideration matters including

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

Detailed monthly operational, clinical and financial information is provided to the Board in a timely manner to enable it to discharge its duties. This includes information on the historic, budgeted and forecast financial performance of the business as well as Key Performance Indicators ('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 page 16.

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 22 to 25.

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 Nomination Committee meets at least once a year and whenever necessary to fulfil its responsibilities.

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

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 | Ad hoc & short notice Board meetings ⁵ | Audit and Risk Committee | Remuneration Committee | Nomination Committee |
|--------------------------------|----------|---|--------------------------|------------------------|----------------------|
| Lorraine Baldry | 6 | 9 | 5 | 6 | 3 |
| Tony Bromovsky | 6 | 7 | n/a | n/a | n/a |
| Tim Bunting | 5 | 4 | n/a | n/a | n/a |
| Peter Cornell ¹ | 3 | 4 | 4 | 2 | 3 |
| Massoud Fouladi | 6 | 5 | n/a | n/a | n/a |
| Michael Kirkwood, ² | 6 | 7 | 1 | 6 | 3 |
| Steve Melton ³ | 4 | 4 | n/a | n/a | n/a |
| Ali Parsa ⁴ | 0 | 0 | n/a | n/a | n/a |
| Paolo Pieri | 6 | 9 | n/a | n/a | n/a |
| Andrew Shilston | 6 | 5 | 5 | 4 | 3 |
| Total meetings held | 6 | 9 | 5 | 6 | 3 |

¹ Peter Cornell resigned from the Board on 30 September 2013

² Michael Kirkwood CMG was appointed to the Audit and Risk Committee on 30 September 2013

³ Steve Melton was appointed as a Director on 3 April 2013

⁴ Ali Parsa resigned from the Board on 13 May 2013

⁵ Market Disclosure Committee meetings are included within Ad hoc & short notice Board meetings

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

19 March 2014

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 6 to 7 and the role of the Remuneration Committee is set out in the report on corporate governance on page 18

Remuneration policy

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

There are several elements to the remuneration policy

Basic salary

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

Pension scheme

The Group made contributions on behalf of Executive Directors during the year to a defined contribution pension scheme which was introduced in 2012.

Taxable and other benefits

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

Share ownership plan

Circle Partnership Limited has an employee share ownership plan and currently owns 49.9% of the shares in Circle Health Limited. It enables the participants (including Executive Directors) 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. Under the terms of Project Reset, as set out in the Directors' Report on page 14, the current scheme will change.

Share issue to Non-Executive Directors

On 20 June 2013 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 vested and issued on 20 June 2013 | Number of Ordinary Shares unvested at 31 December 2013 |
|-------------------------------|--|--|--|---|
| Michael Kirkwood | 94,157 | 31,386 | 31,386 | 31,385 |
| Lorraine Baldry | 47,078 | 15,693 | 15,693 | 15,692 |
| Peter Cornell | 47,078 | 15,693 | 15,693 | 15,692 |
| Andrew Shilston | 47,078 | 15,693 | 15,693 | 15,692 |

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 and be issued in one remaining equal tranche in June 2014, with the first tranche vested in June 2012. Authority to issue such the remaining 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. These were fully vested in May 2013. To date none of these warrants have been exercised.

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 is engaged on a service contract with the Company.

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

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

Individual emoluments for the year

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

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

| 2012 | Annual contracted salaries / fees | Actual salaries / fees | Pension Scheme | Share awards | 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 | - | - | - | - | - | - |
| | 1,040 | 1,003 | 127 | 108 | 565 | 1,803 |

* 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.

No Directors waived emoluments in respect of the year ended 31 December 2013 (2012: none)

Shares in Circle Partnership

| 2013 | At 1 January 2013 (number) | Awards in year (number) | At 31 December 2013 (number) |
|------------------------|----------------------------------|-------------------------------|------------------------------------|
| Health Trust (Jersey)* | 3,505,296 | 1,561,346 | 5,066,642 |
| Massoud Fouladi | 5,313,500 | 105,000 | 5,418,500 |
| Steve Melton | 803,000 | 105,000 | 908,000 |
| | <u>9,621,796</u> | <u>1,771,346</u> | <u>11,393,142</u> |

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

Shares in Circle Holdings plc

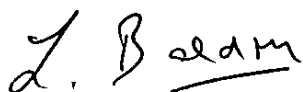
| | Year | At 1 January (number) | Disposed of in the year (number) | At 31 December (number) |
|---------------------|------|-----------------------------|--|-------------------------------|
| Health Trust Jersey | 2013 | 3,136,180 | (3,136,180) | - |
| | 2012 | 3,136,180 | - | 3,136,180 |

In addition, as part of the fundraise, the Board has agreed to grant the Group's Chief Financial Officer, Paolo Pieri, options to subscribe for 2,200,000 Ordinary Shares at an exercise price of £0.02 per Ordinary Share. This separate incentive arrangement has been agreed as Mr Pieri is not a participant of the Partnership Share Scheme nor has he previously received as remuneration any shares or options in the Company since joining in 2010. The CFO Options shall vest over a two year period, with half of the CFO Options vesting on 1 December 2014 and the balance on 1 December 2015.

Warrants in Circle Holdings plc

| | Year | Exercise price (£) | At 1 January (number) | Awards in year (number) | At 31 December (number) |
|------------------------|------|-----------------------|--------------------------|-------------------------------|-------------------------------|
| Health Trust (Jersey)* | 2013 | £1.52 | 2,340,765 | - | 2,340,765 |
| | 2012 | £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
19 March 2014

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.

On behalf of the Board



Steve Melton
Chief Executive Officer
19 March 2014

Independent Auditors' Report to the Members of Circle Holdings plc

Report on the financial statements

Our opinion

In our opinion the financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 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 (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

This opinion is to be read in the context of what we say below

What we have audited

The Group financial statements for the year ended 31 December 2013, which are prepared by Circle Holdings plc, comprise

- the consolidated income statement for the year ended 31 December 2013,
- the consolidated balance sheet as at 31 December 2013,
- the consolidated statement of changes in equity for the year ended 31 December 2013,
- the consolidated statement of cash flows for the year ended 31 December 2013, and
- the notes to the financial statements, which include a summary of the significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

What an audit of financial statements involves

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

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

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

Opinion on other matter

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991, we are required to report to you if, in our opinion we have not received all the information and explanations we require for our audit

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on pages 26 and 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing



Nigel Reynolds
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditors
London
19 March 2014

Circle Holdings plc
Consolidated income statement
For the year ended 31 December 2013

| | Notes | 2013 £'000 | 2012 £ 000 |
|---|-------|-----------------|---------------|
| Revenue | 4 | 84,252 | 73,246 |
| Cost of sales | | (56,861) | (52,097) |
| Gross profit | | 27,391 | 21,149 |
| Administrative expenses before exceptional items | | (45,117) | (39,123) |
| Operating loss before exceptional items | 6 | (17,726) | (17,974) |
| Exceptional operating items | 6 | 3,860 | (11,332) |
| Operating loss | 5 | (13,866) | (29,306) |
| Finance income | 10 | 2,035 | 3,513 |
| Finance costs | 9 | (2,774) | (5,244) |
| Exceptional finance items | 6 | 1,113 | 866 |
| Provision for joint venture deficit | 15 | (1,738) | (259) |
| Loss before taxation | | (15,230) | (30,430) |
| Income tax credit | 12 | - | 6 |
| Loss for the financial year | | (15,230) | (30,424) |
| Loss for the year attributable to: | | | |
| - Owners of the parent | | (6,678) | (25,426) |
| - Non-controlling interests | 24 | (8,552) | (4,998) |
| | | (15,230) | (30,424) |
| Basic and diluted loss per ordinary share attributable to the owners of the parent (pence) | 11 | (5 1) | (25 7) |

There is no other comprehensive income arising in the Group or joint venture (2012 £nil) and therefore no separate Statement of other comprehensive income has been prepared

Circle Holdings plc
Consolidated balance sheet
As at 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|--|------|-----------------|-----------------|
| Non-current assets | | | |
| Intangible assets | 13 | 5,982 | 6,368 |
| Property, plant and equipment | 14 | 20,675 | 24,876 |
| Trade and other receivables | 17 | 3,840 | 662 |
| | | <u>30,497</u> | <u>31,906</u> |
| Current assets | | | |
| Inventories | 16 | 1,645 | 1,298 |
| Trade and other receivables | 17 | 14,184 | 57,079 |
| Cash and cash equivalents | 18 | 12,397 | 38,029 |
| | | <u>28,226</u> | <u>96,406</u> |
| Total assets | | <u>58,723</u> | <u>128,312</u> |
| Current liabilities | | | |
| Trade and other payables | 19 | (11,818) | (15,111) |
| Loans and other borrowings | 20 | (1,547) | (50,836) |
| Provisions | 21 | (605) | (2,468) |
| | | <u>(13,970)</u> | <u>(68,415)</u> |
| Non-current liabilities | | | |
| Trade and other payables | 19 | (2,169) | (2,257) |
| Loans and other borrowings | 20 | (9,982) | (10,664) |
| Provision for joint venture deficit | 15 | (4,685) | (2,947) |
| Provisions | 21 | (50) | (189) |
| Derivative financial instruments | 22 | - | (1,113) |
| | | <u>(16,886)</u> | <u>(17,170)</u> |
| Total liabilities | | <u>(30,856)</u> | <u>(85,585)</u> |
| Net assets | | <u>27,867</u> | <u>42,727</u> |
| | | | |
| Share capital | 23 | 2,616 | 2,614 |
| Share premium | 23 | 193,145 | 193,145 |
| Other reserves | 23 | 22,182 | 22,182 |
| Warrant reserve | 25 | 22,703 | 22,390 |
| Share-based charges reserve | 26 | 151 | 96 |
| Retained deficit | | (169,980) | (170,612) |
| | | <u>70,817</u> | <u>69,815</u> |
| Equity attributable to owners of the parent | | <u>70,817</u> | <u>69,815</u> |
| Non-controlling interests | 24 | (42,950) | (27,088) |
| Total equity | | <u>27,867</u> | <u>42,727</u> |

The financial statements on pages 30 to 87 were approved by the Board of Directors on 19 March 2014 and were signed on its behalf by


Steve Melton
Chief Executive Officer


Paolo Pieri
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 2013

| | Share capital £'000 | Share premium £'000 | Other reserves £'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 2012 | 1,255 | 148,548 | 22,182 | 21,475 | - | (147,106) | 46,354 | (20,170) | 26,184 |
| Loss and 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 1 January 2013 | 2,614 | 193,145 | 22,182 | 22,390 | 96 | (170,612) | 69,815 | (27,088) | 42,727 |
| Loss and total comprehensive loss for the year | - | - | - | - | - | (6,678) | (6,678) | (8,552) | (15,230) |
| Transactions with owners | | | | | | | | | |
| Issue of shares in respect of awards to Non-Executive Directors (note 23) | 2 | - | - | - | 55 | - | 57 | - | 57 |
| Share-based charges in respect of warrants issued (note 26) | - | - | - | 313 | - | - | 313 | - | 313 |
| Effect of shares vesting in the period (note 24) | - | - | - | - | - | 7,310 | 7,310 | (7,310) | - |
| At 31 December 2013 | 2,616 | 193,145 | 22,182 | 22,703 | 151 | (169,980) | 70,817 | (42,950) | 27,867 |

Circle Holdings plc

Consolidated statement of cash flows For the year ended 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Net cash outflow from operating activities | 30 | (22,062) | (16,989) |
| Interest paid | | (2,400) | (2,998) |
| Interest received | 10 | 2,035 | 3,513 |
| Tax paid | | - | (62) |
| Net cash used in operating activities | | (22,427) | (16,536) |
| Cash flows from investing activities | | | |
| Additional consideration paid for Circle Clinic Windsor | 20 | (366) | (10) |
| Purchase of computer software | 13 | (57) | (1,401) |
| Proceeds from disposal of property, plant and equipment | | - | 40 |
| Purchase of property, plant and equipment | | (881) | (2,746) |
| Net cash used in investing activities | | (1,304) | (4,117) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of ordinary shares | 23 | - | 47,502 |
| Capitalised costs in relation to fundraising | 23 | - | (1,546) |
| Repayment of borrowings | 31 | (430) | (12,604) |
| Repayment of finance lease | 31 | (1,471) | (674) |
| Movement in restricted cash | | | |
| - Release of minimum balance – GE Capital Equipment Finance Limited ('GE') | 31 | 1,300 | - |
| - Committed cash in respect of future interest on Allied Irish Bank ('AIB') loan | 31 | - | 175 |
| - Committed cash in respect of Hinchingsbrooke deposit | 31 | - | (2,000) |
| Net cash (outflow) / inflow from financing activities | | (601) | 30,853 |
| Net increase in unrestricted cash and cash equivalents | | (24,332) | 10,200 |
| Unrestricted cash and cash equivalents at the beginning of the year | | 32,929 | 22,729 |
| Unrestricted cash and cash equivalents at the end of the year | | 8,597 | 32,929 |
| Cash and cash equivalents consist of: | | | |
| Cash at bank and in hand | | 12,397 | 38,029 |
| Restricted cash | | | |
| - Minimum balance – GE and DoH | 18 | - | (1,300) |
| - Letter of Credit – GE | 18 | (1,800) | (1,800) |
| - Hinchingsbrooke deposit | 18 | (2,000) | (2,000) |
| Unrestricted cash at bank and on hand | | 8,597 | 32,929 |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013

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 financial assets and financial liabilities (including derivative financial instruments). In their preparation, management must make certain critical accounting estimates and exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement, assumption or estimates which are significant to the consolidated financial statements are set out at the end of note 2.

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

New standards, amendments and interpretations

These consolidated financial statements are prepared in accordance with IFRS, as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union as at 31 December 2013. The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2013 but have not had material impact on the group:

- IFRS 13, 'Fair value measurement', 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. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.
- 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. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is not mandatory for the group until 1 January 2014.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

2 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement, joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The standard is not mandatory for the group until 1 January 2014 and is not expected to have an impact since the Group already applied the equity accounting method for its joint venture.
- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard is not mandatory for the group until 1 January 2014.

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

Going concern

The Directors consider it to be appropriate for the financial statements to be prepared on a Going Concern basis based on the assumptions considered in the Directors' report on page 14.

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.

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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

2 Significant accounting policies (continued)

Basis of consolidation (continued)

iv (continued)

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.

v Health Properties Edinburgh

Health Properties (Edinburgh) Limited has been excluded from the consolidated Group results from October 2013. This is on the basis that the Group does not consider the entity to be a subsidiary due to the transfer of power to control the financial and operating policies of the business since it has formally been placed into liquidation in October 2013. The expectation is that the entity will be fully dissolved within the coming months. The gain that has arisen on deconsolidation of the entity has been recognised as an exceptional operating item (note 6).

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 payments

Such contracts, namely the new Nottingham ISTC contract, offer guaranteed payments. Nottingham receive guaranteed payments each month from the contracted CCGs, which amount to 1/12th of the overall activity plan. There is a three month period after each month where any queries are resolved, and following-on from this the activity and revenue for that month is frozen. Revenue is accrued or deferred where treatment takes place ahead or behind contractual activity levels. Under the old contract, the CCG offered guaranteed payments, based on medical procedures performed, subject to various contractual provisions. Profit was taken on the contract as the appointment was completed but adjusted to reflect the contractual terms in relation to underutilisation within contract quarters and years. Revenue was also accrued or deferred where the treatment took place ahead or behind contractual activity levels.

the new Nottingham ISTC contract, offer guaranteed payments. Nottingham receive guaranteed payments each month from the contracted CCGs, which amount to 1/12th of the overall activity plan. There is a three month period after each month where any queries are resolved, and following-on from this the activity and revenue for that month is frozen. Revenue is accrued or deferred where treatment takes place ahead or behind contractual activity levels. Under the old contract, the CCG offered guaranteed payments, based on medical procedures performed, subject to various contractual provisions. Profit was taken on the contract as the appointment was completed but adjusted to reflect the contractual terms in relation to underutilisation within contract quarters and years. Revenue was also accrued or deferred where the treatment took 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

2 Significant accounting policies (continued)

Revenue (continued)

– 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. 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; these surpluses will be recognised within revenue. The Group recognises this temporary working capital funding within "other assets" on the balance sheet.

– Other miscellaneous income

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

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. An element of income is allocated between interest receivable and the operating financial asset using the contracted rate of return. The group have now received the fixed payment for the financial asset in July 2013 and this is no longer applicable.

Exceptional items

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

The exceptional gain in the year ended 31 December 2013 of £3,860,000 (2012 loss of £11,332,000) consists largely of gain on the deconsolidation of Health Properties Edinburgh offset by the release of onerous lease and dilapidation provisions, impairments to property, plant and equipment, provisions in respect of VAT, 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 £1,113,000 (2012 income of £866,000) was incurred due to fair value adjustments of interest rate swaps in the period.

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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

2 Significant accounting policies (continued)

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.

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 or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell, and value in use.

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

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 2013 (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,

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

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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

2 Significant accounting policies (continued)

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 2013 (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

Under the new Nottingham ISTC contract CCGs have signed up to a framework agreement whereby payment is made in advance based on indicative volumes, and then reconciled to actual volumes over a period of up to 3 months when the CCGs then approve the activity levels Revenue is therefore recognised based on activity performed in the month and later agreed with the CCG

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

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 2013 (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 are held at cost less accumulated impairment losses. These were subject to valuations at 31 December 2012 by third party professional valuers to assess for any indications of impairment. The valuations were based on a number of factors including intended usage for the site, potential rental value and where applicable the length of the lease. In the event that estimates are wrong, this may impact the financial statements in future years.

iv Share-based charges

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

v Useful lives and recoverability of property, plant and equipment

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

vi Fair value of financial instruments

The Group has previously entered into derivative financial instrument arrangements to manage its exposure to interest rate risk. These are held in the joint venture and previously on the Barclays Nottingham PFI loan which expired in July 2013. 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 accumulated amortisation and impairment losses. The carrying amount of goodwill is assessed annually based on value in use calculations, using cash flow projections based on five year financial forecasts prepared by management. Key assumptions relating to forecasts in revenue growth and decline are used which include discounting back to present value using a risk adjusted post-tax discount rate of 10.0% and assumptions in terms of volume and cost savings. In the event that these estimates are wrong, this may impact the financial statements in future years.

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

ix Related party receivables - Hinchingsbrooke Healthcare NHS Trust

The carrying amount of the related party receivables from Hinchingsbrooke Healthcare NHS Trust 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 and costs are used and in the event that these estimates are wrong, this may impact the financial statements in future years.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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. This is split by hospital rather than by patient. CircleReading and CircleBath are contained within the "Circle Independent" sector, while revenue earned from the Nottingham NHS Treatment Centre is categorised within "Circle NHS". Geographic factors are not considered as all of the Group's operations take place within the United Kingdom.

| 2013 | Circle Independent £'000 | Circle NHS £'000 | All Other Segments and Unallocated Items £'000 | Total Group £'000 |
|--|-----------------------------|---------------------|---|----------------------|
| Revenue from external customers | 32,525 | 51,675 | 52 | 84,252 |
| Cost of sales | (22,898) | (33,960) | (3) | (56,861) |
| Gross Profit | 9,627 | 17,715 | 49 | 27,391 |
| Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract | (20,715) | (11,364) | (9,124) | (41,203) |
| EBITDA before exceptional items | (11,088) | 6,351 | (9,075) | (13,812) |
| Depreciation, amortisation and charge recognised in respect of amounts recoverable on contract | (1,864) | (1,500) | (550) | (3,914) |
| Operating loss before exceptional items | (12,952) | 4,851 | (9,625) | (17,726) |
| Share-based charges in respect of awards and warrants issued | - | - | (368) | (368) |
| Revaluation of finance lease payments | - | - | (136) | (136) |
| Provision for under declared VAT in prior periods | - | - | (115) | (115) |
| Deconsolidation of Health Properties Edinburgh | - | - | 4,384 | 4,384 |
| Restructuring costs | - | - | (312) | (312) |
| Release of provisions | (35) | - | 614 | 579 |
| Impairment of non-current assets | (152) | - | - | (152) |
| Prov | - | - | (40) | (40) |
| Other exceptional items | (14) | - | 34 | 20 |
| Operating (loss) / profit | (13,153) | 4,851 | (5,564) | (13,866) |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

3 Segmental reporting (continued)

| 2013 | Circle Independent | Circle NHS | All Other Segments and Unallocated Items | Total Group |
|--|--------------------|--------------|--|-----------------|
| Operating (loss) / profit (continued) | (13,153) | 4,851 | (5,564) | (13,866) |
| Finance income | | | | 2,035 |
| Finance costs | | | | (2,774) |
| Exceptional finance income | | | | 1,113 |
| Provision for joint venture deficit | | | | (1,738) |
| Loss before taxation | | | | (15,230) |

| 2013 | Circle Independent | Circle NHS | All Other Segments and Unallocated Items | Total Group |
|--------------------------|--------------------|------------|--|-------------|
| Other information | | | | |
| - Capital additions | 957 | 754 | 87 | 1,798 |

| 2012 | Circle Independent £'000 | Circle NHS £'000 | All Other Segments and Unallocated Items £'000 | Total Group £'000 |
|--|-----------------------------|---------------------|---|----------------------|
| 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) |
| Operating loss before exceptional items | (10,201) | 2,753 | (10,526) | (17,974) |
| 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 2013 (continued)

3 Segmental reporting (continued)

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

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

4 Revenue

i Revenue

| | 2013 £'000 | 2012 £'000 |
|----------------------------------|---------------|---------------|
| Provision of healthcare services | 83,873 | 72,760 |
| Other miscellaneous income | 379 | 486 |
| | <u>84,252</u> | <u>73,246</u> |

ii Revenue under management

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). To date the group has invested £3,700,000 in January 2013 and has a further receivable with the Trust of £400,000 (note 33).

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 12 months to 31 December 2013, Hinchingsbrooke revenue has totalled £108.5 million, supported by increased out-patient and Accident & Emergency attendances, and admissions.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

5 Operating loss

| | | |
|--|----------------|--------|
| Operating loss is stated after charging / (crediting) | 2013 | 2012 |
| | £'000 | £'000 |
| Charge recognised in respect of amounts recoverable on contracts (note 17) | 1,181 | 2,027 |
| Amortisation of intangible assets (note 13) | 443 | 282 |
| Depreciation of property, plant and equipment (note 14) | 2,290 | 1,485 |
| Auditors' remuneration (see below) | 486 | 552 |
| Movement in provision for bad debts | 129 | (10) |
| Operating lease rental | 13,669 | 10,132 |
| Exceptional operating items (note 6) | (3,860) | 11,332 |

| | | |
|---|--------------|-------|
| Auditors' remuneration payable to PricewaterhouseCoopers LLP | 2013 | 2012 |
| | £'000 | £'000 |
| Fees payable to Company's auditors for the parent Company and consolidated financial statements | 90 | 88 |
| Fees payable to the Company's auditors for other services | | |
| – The audit of Company's subsidiaries | 203 | 197 |
| – Audit-related assurance services | - | 39 |
| – Tax advisory services | 150 | 178 |
| – All other non-audit services | 43 | 50 |
| | 486 | 552 |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

6 EBITDA and exceptional items

Exceptional operating items

| | 2013 | 2012 |
|--|----------------|---------------|
| | £'000 | £'000 |
| Disposal of intangible assets (note 13) | - | 142 |
| Impairment of property, plant and equipment (note 14) | 152 | 4,614 |
| Share-based charges in respect of warrants issued (note 26) | 313 | 915 |
| Share-based charges in respect of awards to Non-Executive Directors (note 26) | 55 | 96 |
| Deconsolidation of Health Properties Edinburgh | (4,384) | - |
| Revaluation of finance lease payments | 136 | 572 |
| CircleReading pre-opening expenses | - | 1,069 |
| Provision for under declared VAT in prior periods (note 21) | 115 | 1,500 |
| Restructuring costs | 312 | 650 |
| (Decrease) / increase in provision for onerous leases, including dilapidations (note 21) | (579) | 239 |
| Provision for debtor with Health Properties Bath (note 33) | 40 | 1,575 |
| Other exceptional expense / (income) | (20) | (40) |
| | <u>(3,860)</u> | <u>11,332</u> |

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 for the remainder of the lease

Restructuring costs in the year relate to redundancy costs for several employees. In 2012, the costs relate to the resignation of the former Chief Executive Officer, Ali Parsa. This is included within the net cash outflow from operating activities within the statement of cash flows.

The pre-opening costs associated with opening the CircleReading hospital have been included as an exceptional item in the prior year.

Deconsolidation of Health Properties Edinburgh

Health Properties (Edinburgh) Limited has been excluded from the consolidated Group results. This is on the basis that the Group does not consider the entity to be a subsidiary due to the transfer of power to govern the financial and operating policies of the business since it has formally been placed into liquidation in October 2013. The expectation is that the entity will be fully dissolved within the coming months.

The gain on deconsolidation recognised in the group financial statements has amounted to £4,384,000. This is the net impact of derecognition of the loan amount and the land asset. The principle loan amount owed to AIB at 31 December 2013 was £7,380,000 which is non-recourse to the remainder of the group, with accrued interest this totalled £7,884,000. Following historic impairments the land was carried at £3,500,000 when deconsolidated in October 2013.

Operating loss and EBITDA before exceptional items

| | 2013 | 2012 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| Operating loss before exceptional items | (17,726) | (17,974) |
| Depreciation | 2,290 | 1,485 |
| Amortisation of intangibles | 443 | 282 |
| Charge recognised in respect of amounts recoverable on contracts | 1,181 | 2,027 |
| EBITDA before exceptional items | <u>(13,812)</u> | <u>(14,180)</u> |

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 2013 (continued)

6 EBITDA and exceptional items (continued)

Exceptional finance items

| | 2013 | 2012 |
|--|----------------|--------------|
| | £'000 | £'000 |
| Accelerated finance charge due to early repayment of JCAM loan | - | 325 |
| Costs associated with the repayment of JCAM loan | - | 171 |
| Gain on fair value of interest rate derivative (note 22) | (1,113) | (1,362) |
| | <u>(1,113)</u> | <u>(866)</u> |

7 Employee information

Staff costs

| | 2013 | 2012 |
|-------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 22,076 | 17,485 |
| Share-based charges (note 26) | 368 | 1,011 |
| Social security costs | 2,014 | 1,657 |
| Other pension costs (note 28) | 1,184 | 779 |
| | <u>25,642</u> | <u>20,932</u> |

Share-based charges in respect of warrants issued were charged to exceptional operating items in 2013 and 2012 (note 6)

Monthly average number of employees

| | 2013 | 2012 |
|----------------|------------|------------|
| | Number | Number |
| Administrative | 407 | 340 |
| Clinical | 347 | 243 |
| | <u>754</u> | <u>583</u> |

The average number of employees includes Directors on a service contract

8 Directors' emoluments

| | 2013 | 2012 |
|----------------------|--------------|--------------|
| | £'000 | £'000 |
| Aggregate emoluments | <u>1,036</u> | <u>1,803</u> |

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

The Directors had retirement benefit contributions during the year of £97,000 (2012 £127,000)

Included within both years are share-based charges for the Non-Executive Directors as detailed in the remuneration report

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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

| | 2013 £'000 | 2012 £'000 |
|--------------------------------|---------------|---------------|
| Short-term employment benefits | <u>747</u> | <u>1,486</u> |

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

In the prior year, amounts have been included for Steve Melton from 5 December 2012 when he was appointed Interim Chief Executive Officer of the Group. Included within the prior year is a payment to Ali Parsa in relation to the cessation of his employment with the Company.

9 Finance costs

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Interest on Barclays plc ('Barclays') loan | 1,466 | 2,236 |
| Interest on JCAM (i) loan | - | 2,017 |
| Interest on AIB loan | 317 | 371 |
| Finance lease interest | 973 | 583 |
| Unwind of discount on unsecured loan note and deferred consideration | 18 | 37 |
| | <u>2,774</u> | <u>5,244</u> |

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

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

10 Finance income

| | 2013 | 2012 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Bank interest receivable | 65 | 136 |
| Interest receivable on operating financial asset | 1,970 | 3,377 |
| | <u>2,035</u> | <u>3,513</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

| | 2013 | 2012 |
|--|--------------|---------------|
| Loss and total comprehensive loss for the year attributable to owners of the parent (£000's) | (6,678) | (25,426) |
| Weighted average number of ordinary shares in issue (number) | 130,748,362 | 99,065,631 |
| Basic and diluted loss per ordinary share (pence) | <u>(5.1)</u> | <u>(25.7)</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

| | 2013 | 2012 |
|---|----------|------------|
| | £'000 | £'000 |
| Current tax | | |
| UK corporation tax | - | - |
| Adjustment in respect of previous periods | - | (6) |
| Deferred tax | | |
| Originating and reversal of timing differences | - | - |
| Effect of change of tax rate | - | - |
| Recognition of previously unrecognised temporary difference | - | - |
| Income tax credit | <u>-</u> | <u>(6)</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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 23.25% (2012: 24.5%). The differences are explained below.

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Loss before taxation | (15,230) | (30,430) |
| Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 23.25% (2012: 24.5%) | (3,541) | (7,455) |
| Effects of | | |
| Expenses not deductible for tax purposes | 124 | 2,253 |
| Income not taxable for tax purposes | (153) | - |
| Capital allowances in advance of depreciation | (322) | (46) |
| Other temporary differences | (671) | (803) |
| Tax losses utilised not utilised | 4,820 | 5,920 |
| Effect of Jersey tax at 0.0% | (257) | 131 |
| Adjustment to tax charge in respect of previous periods | - | (6) |
| Total income tax credit for the year | - | (6) |

iii Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 24.0% to 23.0% with effect from 1 April 2013. Legislation was enacted to reduce the main rate of corporation tax from 23.0% to 21.0% with effect from 1 April 2014.

The main rate will reduce further to 20% (and will become unified with the small companies rate) from 1 April 2015. The reductions in tax rate to 21% and subsequently to 20% were substantively enacted for the purposes of IAS 12, 'Income taxes', on 2 July 2013.

As these rate changes have been substantively enacted at the balance sheet date, their effects have been included in these financial statements.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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

| | 2013 £'000 | 2012 £'000 |
|----------------------------|---------------|---------------|
| At 1 January | - | - |
| Recognised during the year | - | - |
| At 31 December | - | - |

The net deferred tax asset / (liability) comprises

| | 2013 £'000 | 2012 £'000 |
|----------------------------------|---------------|---------------|
| Tax losses carried forward | - | 9,763 |
| Short-term temporary differences | - | (9,763) |
| | - | - |

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

| | 2013 £'000 | 2012 £'000 |
|--------------------------|---------------|---------------|
| Deferred tax assets | - | 9,763 |
| Deferred tax liabilities | - | (9,763) |
| | - | - |

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

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Tax losses carried forward | 26,558 | 26,251 |
| Depreciation in advance of capital allowances | 2,474 | 3,161 |
| Short-term temporary differences | 1,454 | 2,303 |
| | 30,486 | 31,715 |

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 2013 (continued)

13 Intangible assets

| Cost | Goodwill | Computer software | Other intangible assets | Total |
|---|--------------|-------------------|-------------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2012 | 8,183 | 518 | 166 | 8,867 |
| Additions | - | 1,401 | - | 1,401 |
| Disposals | - | (175) | - | (175) |
| As at 1 January 2013 | 8,183 | 1,744 | 166 | 10,093 |
| Additions | - | 57 | - | 57 |
| As at 31 December 2013 | 8,183 | 1,801 | 166 | 10,150 |
| | | | | |
| Accumulated amortisation and impairment | Goodwill | Computer software | Other intangible assets | Total |
| | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2012 | 3,212 | 264 | - | 3,476 |
| Amortisation charge for the year | - | 249 | 33 | 282 |
| Disposal | - | (33) | - | (33) |
| At 1 January 2013 | 3,212 | 480 | 33 | 3,725 |
| Amortisation charge for the year | - | 410 | 33 | 443 |
| As at 31 December 2013 | 3,212 | 890 | 66 | 4,168 |
| | | | | |
| Net book amount | | | | |
| At 31 December 2013 | 4,971 | 911 | 100 | 5,982 |
| At 31 December 2012 | 4,971 | 1,264 | 133 | 6,368 |
| At 1 January 2012 | 4,971 | 254 | 166 | 5,391 |

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.

i 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 CGU.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

13 Intangible assets (continued)

| | 2013 £'000 | 2012 £'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 post-tax discount rate of 10.0%, 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 for which the contract was renewed during the year to provide services for a further five years until July 2018. Cash flows are based on the remainder of the contract and are discounted back to present value using a risk adjusted post-tax discount rate of 10.0%. They reflect past experience and incorporate assumptions in terms of volumes, cost savings, and tariff deflation assumptions. The value in use calculations are sensitive to changes in the key assumptions used, 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.

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 prior 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

| | 2013 £'000 | 2012 £'000 |
|-------------------|---------------|---------------|
| Computer software | <u>523</u> | <u>665</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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 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 1 January 2013 | 19,701 | 3,404 | 2,796 | 8,005 | 15,917 | 49,823 |
| Additions | - | 4 | 510 | 1,043 | 184 | 1,741 |
| Disposals | (7,859) | - | (90) | (303) | (167) | (8,419) |
| Reclassifications | - | (101) | - | 101 | - | - |
| At 31 December 2013 | 11,842 | 3,307 | 3,216 | 8,846 | 15,934 | 43,145 |
| 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 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 1 January 2013 | 6,709 | 165 | 2,248 | 1,531 | 14,294 | 24,947 |
| Depreciation charge for the year | 35 | - | 95 | 1,506 | 654 | 2,290 |
| Impairment charge for the year | - | - | 152 | - | - | 152 |
| Disposals | (4,359) | - | (90) | (303) | (167) | (4,919) |
| At 31 December 2013 | 2,385 | 165 | 2,405 | 2,734 | 14,781 | 22,470 |
| Net book amount | | | | | | |
| At 31 December 2013 | 9,457 | 3,142 | 811 | 6,112 | 1,153 | 20,675 |
| At 31 December 2012 | 12,992 | 3,239 | 548 | 6,474 | 1,623 | 24,876 |
| At 1 January 2012 | 15,208 | 3,235 | 530 | 590 | 1,031 | 20,594 |

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

Freehold and leasehold land were valued at 31 December 2012 by a third party valuer. This has resulted in an impairment in the prior year of the Manchester land of £2,181,000. In the prior year, further impairments across various asset classes relate to the CircleReading Commissioning asset of £2,119,000 and Bournemouth site of £314,000, where cash flow projections failed to support the asset carrying values. The impairment charge for the year is included in the prior year income statement within Exceptional Operating Items (note 6)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

14 Property, plant and equipment (continued)

Health Properties (Edinburgh) Limited has been excluded from the consolidated Group results. This is on the basis that the Group does not consider the entity to be a subsidiary due to the transfer of power to govern the financial and operating policies of the business since it has formally been placed into liquidation. Consequently, the land asset valued at £3,500,000 has been treated for the purposes here as a disposal. The loss on disposal is included in the income statement within Exceptional Operating Items (note 6).

The decision was taken after the year end to cease operations at the Stratford Clinic. When using pre-tax cash flow projections based on management approved five year financial forecasts this failed to support the asset carrying values. This has resulted in an impairment to the leasehold improvements. The impairment charge for the year is included in the income statement within Exceptional Operating Items (note 6).

Assets held under finance leases have the following net book amounts

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Leasehold land | 4,307 | 4,342 |
| Clinical equipment | 5,406 | 5,711 |
| Furniture, fittings and office equipment | 649 | 923 |
| | <u>10,362</u> | <u>10,976</u> |

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

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

| | 2013 £'000 | 2012 £'000 |
|-----------|---------------|---------------|
| Freehold | 5,150 | 8,650 |
| Leasehold | 4,307 | 4,342 |
| | <u>9,457</u> | <u>12,992</u> |

15 Provision for joint venture deficit

| | 2013 £'000 | 2012 £'000 |
|----------------------|----------------|----------------|
| At 1 January | (2,947) | (2,688) |
| Increase in the year | (1,738) | (259) |
| At 31 December | <u>(4,685)</u> | <u>(2,947)</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

15 Provision for joint venture deficit (continued)

| | 2013 £'000 | 2012 £'000 |
|--|-----------------|-----------------|
| Group's share of net liabilities of joint venture (38.7%) | | |
| Non-current assets | 11,455 | 13,572 |
| Current assets | 1,024 | 1,003 |
| | 12,479 | 14,575 |
| Current liabilities | (1,058) | (1,113) |
| Non-current liabilities | (16,106) | (16,409) |
| | (17,164) | (17,522) |
| Group's share of net liabilities | (4,685) | (2,947) |
| | | |
| | 2013 £'000 | 2012 £'000 |
| Group's share of results of joint venture (38.7%) | | |
| Revenue | 1,420 | 1,362 |
| Operating expenses | (2,142) | (39) |
| Finance costs | (1,016) | (1,582) |
| | (1,738) | (259) |

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.

The group are required to report to Santander compliance with a number of financial covenants in respect of the Senior loan held in Health Properties Bath. In July 2013 the Group reported to Santander that they had failed to meet one of a number of specified covenants for the quarter ended 30 June 2013. This was formally waived by Santander on 7 November 2012. A default alone on the Santander Health Properties Bath covenant does not result in any cross-default regarding other covenants held by the Group. There is no impact on the continuing Bath operations.

As at 31 December 2013, the joint venture does not have any contingent liabilities or capital commitments. As at 31 December 2013, Group guarantees of up to £1,000,000 (2012: £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. Breach of this is considered unlikely and therefore the Group have not provided for this amount.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

16 Inventories

| | 2013 | 2012 |
|-------------|--------------|--------------|
| | £'000 | £'000 |
| Consumables | <u>1,645</u> | <u>1,298</u> |

At 31 December 2013, an amount of £nil (2012 £90,000) has been provided against the gross cost of inventories. The cost of inventories recognised as an expense in the year is £10,334,000 (2012 £5,509,000)

17 Trade and other receivables

| | Current | | Non-current | |
|--|---------------|---------------|--------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade receivables | 5,232 | 4,150 | - | - |
| Less allowance for impairment of trade receivables | (260) | (131) | - | - |
| Net trade receivables | <u>4,972</u> | <u>4,019</u> | <u>-</u> | <u>-</u> |
| Prepayments and accrued income | 3,981 | 5,255 | 140 | 662 |
| Other receivables | 3,645 | 3,047 | 3,700 | - |
| Operating financial asset | - | 41,991 | - | - |
| Amounts recoverable on contracts | - | 1,181 | - | - |
| Amounts owed by joint venture (note 33) | 1,586 | 1,586 | - | - |
| | <u>14,184</u> | <u>57,079</u> | <u>3,840</u> | <u>662</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 post-tax discount rate of 10.0%.

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. This property was handed to the Department of Health and the liability owed to Barclays has been fully discharged when the Group exited the old contract on 28 July 2013 and the asset has been derecognised from the Balance Sheet.

Under the lease agreement for the Bath hospital a rental deposit of £1,586,000 (2012 £1,586,000) is held by the joint venture. This deposit is considered to be recoverable.

The Group has advanced £1,200,000 (2012 £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 £1,615,000 at 31 December 2013 (2012 £1,575,000). This was fully impaired in the previous year as the balance was not considered to be recoverable, with the additional amount recognised in the current year also impaired.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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

| | 2013 £'000 | 2012 £'000 |
|----------------------------------|---------------|---------------|
| At 1 January | 131 | 141 |
| Increase / (release) in the year | 129 | (10) |
| At 31 December | <u>260</u> | <u>131</u> |

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

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Not past due | 2,352 | 1,968 |
| Past due 0-30 days, but not impaired | 1,105 | 1,363 |
| Past due 31-60 days but not impaired | 487 | 286 |
| Past due by more than 60 days but not impaired | 1,028 | 402 |
| | <u>4,972</u> | <u>4,019</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

| | 2013 £'000 | 2012 £'000 |
|------------------|---------------|---------------|
| At 1 January | 41,991 | 43,003 |
| Amounts received | (614) | (1,012) |
| Extinguished | (41,377) | - |
| At 31 December | <u>-</u> | <u>41,991</u> |

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

| | 2013 £'000 | 2012 £'000 |
|-------------------|---------------|---------------|
| Due within 1 year | - | 41,991 |
| | <u>-</u> | <u>41,991</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

17 Trade and other receivables (continued)

| The movement in amounts recoverable on contracts is as follows | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| At 1 January | 1,181 | 3,208 |
| Recognised in income statement (note 5) | (1,181) | (2,027) |
| At 31 December | - | 1,181 |

18 Cash and cash equivalents

| | Note | 2013 £'000 | 2012 £'000 |
|---|------|---------------|---------------|
| Cash and cash equivalents | | 12,397 | 38,029 |
| Less restricted balances | | | |
| - Minimum balance – GE and DoH | a | - | (1,300) |
| - Letter of Credit – GE | b | (1,800) | (1,800) |
| - Hinchingsbrooke deposit | c | (2,000) | (2,000) |
| Restricted cash | | (3,800) | (5,100) |
| Unrestricted cash and cash equivalents | | 8,597 | 32,929 |

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 condition of the ISTC contracts with the DoH and GE, who leased the medical equipment, was that a minimum balance of £nil (2012 £1,300,000) for Nations Healthcare (Nottingham) Limited is maintained at each month end. This was released in July 2013 when the lease expired.
- 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 (2012 £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.
- 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 2013 amounted to £2,000,000 (2012 £2,000,000).

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

| 19 Trade and other payables | Current | | Non-current | |
|---|---------------|---------------|---------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Trade payables | 5,240 | 9,128 | - | - |
| Deferred income | 380 | 873 | - | - |
| Accruals | 5,318 | 4,101 | 2,169 | 2,257 |
| Social security and other taxation | 655 | 842 | - | - |
| Amounts owed to joint venture (note 33) | 34 | 34 | - | - |
| Amounts owed to other related parties (note 33) | 191 | 128 | - | - |
| Contingent consideration | - | 5 | - | - |
| | 11,818 | 15,111 | 2,169 | 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. These became payable on 4 July 2013 and were fully settled on 25 July 2013.

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

| | 2013 £'000 | 2012 £'000 |
|-----------------------------------|---------------|---------------|
| At 1 January | 5 | 10 |
| Unwind of discount on acquisition | - | 5 |
| Payments made | (5) | (10) |
| At 31 December | - | 5 |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

20 Loans and other borrowings

| | Current | | Non-current | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Barclays | - | 41,768 | - | - |
| AIB | - | 7,380 | - | - |
| Secured bank loans (i) | - | 49,148 | - | - |
| Unsecured loan notes (ii) | - | 348 | - | - |
| Secured finance leases (iii) | 1,547 | 1,340 | 9,982 | 10,664 |
| | 1,547 | 50,836 | 9,982 | 10,664 |

i Secured bank loans

| | Loan Note | Loan commenced | Effective interest rate | Loan facility £'000 | 2013 £'000 | 2012 £'000 |
|----------|--------------|-------------------|----------------------------|---------------------------|---------------|---------------|
| Barclays | a | July 2005 | 5.0% (swapped) | 44,474 | - | 41,768 |
| AIB | b | March 2008 | LIBOR + 4.0% | 7,380 | - | 7,380 |
| | | | | | - | 49,148 |

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

- The Barclays PFI loan of £41,768,000 was extinguished in full on 1 July 2013 when the Group exercised their unconditional right to receive cash from the construction of Circle's Nottingham NHS Treatment Centre and the PFI operating asset was handed to the Department of Health. At this point the interest rate swap also expired. The Private Finance Initiative ('PFI') loan was secured by way of a fixed and floating charge over the assets of Circle's Nottingham NHS Treatment Centre.
- The AIB loan is secured on the assets of Health Properties (Edinburgh) Limited ('Health Properties Edinburgh'). Health Properties (Edinburgh) Limited has been excluded from the consolidated Group results on the basis that the Group does not consider the entity to be a subsidiary due to the transfer of power to govern the financial and operating policies of the business since it has formally been placed into liquidation in October 2013. The expectation is that the entity will be fully dissolved within the coming months. As the loan is non-recourse to the Group there are no further implications.

ii Unsecured loan notes

| | Loan commenced | Effective interest rate | Loan facility £'000 | 2013 £'000 | 2012 £'000 |
|------------|-------------------|----------------------------|------------------------|---------------|---------------|
| Loan notes | July 2008 | n/a | n/a | - | 348 |

In relation to the acquisition of Circle Clinic Windsor, the Group issued loan notes to the former owners David Evans and Pat Morrish that matured over five years from the date of acquisition and were dependent on performance over that period. These became payable on 4 July 2013 and were fully settled on 25 July 2013.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

20 Loans and other borrowings (continued)

ii Unsecured loan notes (continued)

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

| | 2013 £'000 | 2012 £'000 |
|-----------------------------------|---------------|---------------|
| At 1 January | 348 | 316 |
| Reassessment of future cash flows | 1 | - |
| Unwind of discount | 17 | 32 |
| Repayment | (366) | - |
| At 31 December | - | 348 |

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 | 2013 | 2012 |
| Falling due | £'000 | £'000 |
| - No later than 1 year | 2,450 | 2,279 |
| - Later than 1 year and no later than 5 years | 7,268 | 12,240 |
| - Later than 5 years | 10,059 | 1,187 |
| | 19,777 | 15,706 |
| Future finance charges on finance leases | (8,248) | (3,702) |
| | 11,529 | 12,004 |
| The breakdown of the present value of finance leases is as follows | 2013 | 2012 |
| Falling due | £'000 | £'000 |
| - No later than 1 year | 1,547 | 1,340 |
| - Later than 1 year and no later than 5 years | 5,261 | 10,504 |
| - Later than 5 years | 4,721 | 160 |
| | 11,529 | 12,004 |

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 £4,994,000 (2012: £4,920,000).

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

20 Loans and other borrowings (continued)

iv Maturity profile

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

| 2013 | Less than 1 year £'000 | Between 1-2 years £'000 | Between 2-3 years £'000 | Greater than 4 years £'000 | Total £'000 |
|----------------|------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------|
| Finance leases | 1,547 | 1,707 | 1,824 | 6,451 | 11,529 |
| | <u>1,547</u> | <u>1,707</u> | <u>1,824</u> | <u>6,451</u> | <u>11,529</u> |
| | | | | | |
| 2012 | Less than 1 year £'000 | Between 1-2 years £'000 | Between 2-3 years £'000 | Greater than 4 years £'000 | 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 |
| | <u>50,836</u> | <u>1,351</u> | <u>6,048</u> | <u>3,265</u> | <u>61,500</u> |

21 Provisions for other liabilities and charges

| | 2013 £'000 | 2012 £'000 |
|-------------|---------------|---------------|
| Current | 605 | 2,468 |
| Non-current | 50 | 189 |
| | <u>655</u> | <u>2,657</u> |

| | Dilapidations £'000 | Onerous leases £'000 | Under declared VAT | Total £'000 |
|--|------------------------|----------------------------|--------------------------|----------------|
| 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 1 January 2013 | 672 | 485 | 1,500 | 2,657 |
| Charged / (released) to the income statement | (238) | (341) | 115 | (464) |
| Utilised during the year | (275) | (144) | (1,119) | (1,538) |
| At 31 December 2013 | <u>159</u> | <u>-</u> | <u>496</u> | <u>655</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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. Both the Windsor hand Surgery building and West London property were vacated during the year with all dilapidations settled with the landlord. An additional amount has been recognised during the year in respect of Stratford Clinic.

Onerous leases

A lease for a property in West London was taken on in 2006, and given the premises were no longer required, the Group exited the lease at the first opportunity in April 2013.

A lease for a property in Ashford, Kent was accepted in 2008, but since the premises are no longer required by the Group management have agreed during the year to return the premises to the landlord.

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 Directors estimate that this under declared VAT amounts to £1,615,000 including penalties and fines. Part of this payment has been made during the year.

22 Derivative financial instruments

| | Barclays interest rate swap £'000 |
|---|--|
| At 1 January 2012 | 2,475 |
| Gain in fair value credited to income statement | (1,362) |
| At 1 January 2013 | 1,113 |
| Gain in fair value credited to income statement | (1,113) |
| At 31 December 2013 | - |
| Effective interest rate | 5.0% |

The interest rate swap was held on the Barclays PFI loan and took the interest rate from floating to fixed. The SWAP expired on 28 July 2013 when the loan was repaid in full. Note 32 provides more details.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

23 Share capital, share premium and other reserves

| Authorised | 2013 £'000 | 2012 £'000 |
|-------------------------------|--------------------|--------------------|
| Ordinary shares of £0.02 each | <u>5,000</u> | <u>5,000</u> |
| | Number | Number |
| Number of authorised shares | <u>250,000,000</u> | <u>250,000,000</u> |

Allotted and fully paid up

| Ordinary shares | Shares (number) | Share capital £'000 | Share premium £'000 | Other reserves £'000 | Total £'000 |
|---|--------------------|------------------------|---------------------------|----------------------------|----------------|
| 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 1 January 2013 | 130,706,657 | 2,614 | 193,145 | 22,182 | 217,941 |
| Shares issued - 20 June 2013 (net of costs) | £0.02 78,465 | 2 | - | - | 2 |
| At 31 December 2013 | <u>130,785,122</u> | <u>2,616</u> | <u>193,145</u> | <u>22,182</u> | <u>217,943</u> |

On 20 June 2013, 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.

The Group received £2,000 from the allocation of shares to Non-Executive Directors. In addition, on 20 December, the Group announced £27,500,000 (before fees) of equity investment. The shares were approved by the board and allotted on 8 January 2014 and formally issued on 11 January 2014. These will be accounted for as a 2014 transaction.

Transaction costs incurred during the 2013 equity raise totalled £1,280,000 (2012: £1,546,000), of which £1,280,000 (31 December 2012: £1,546,000) have been taken to share premium.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

23 Share capital, share premium and other reserves (continued)

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

| Number | At 1 January 2013 | 20 June 2013 (at £0.02 each) | Additional purchases / (sales) | At 31 December 2013 |
|------------------------------|----------------------|------------------------------------|--------------------------------------|---------------------------|
| Lansdowne Partners | 37,967,008 | - | - | 37,967,008 |
| Invesco Perpetual | 30,368,920 | - | - | 30,368,920 |
| Odey Asset Management | 27,878,787 | - | (335,906) | 27,542,881 |
| Balderton Capital | 12,756,534 | - | - | 12,756,534 |
| BlueCrest Capital Management | 9,252,685 | - | - | 9,252,685 |
| BlackRock | 7,178,555 | - | (181,000) | 6,997,555 |
| Polar Capital | - | - | 1,000,000 | 1,000,000 |
| Health Trust | 3,136,180 | - | (3,136,180) | - |
| Other | 2,167,988 | 78,465 | 2,653,086 | 4,899,539 |
| | 130,706,657 | 78,465 | - | 130,785,122 |

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

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

24 Non-controlling interest

| | Circle Health £'000 | Total £'000 |
|--|---------------------------|-----------------|
| 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) |
| | <u>(27,088)</u> | <u>(27,088)</u> |
| At 1 January 2013 | (27,088) | (27,088) |
| Effect of shares vesting in period | (7,310) | (7,310) |
| Non-controlling interest's share of losses | (8,552) | (8,552) |
| As at 31 December 2013 | <u>(42,950)</u> | <u>(42,950)</u> |

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 at 31 December 2013 of 100,000,000 (2012: 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 2013 amounted to 37,004,500 shares (2012 restated: 31,626,096 shares). As at 31 December 2013, Circle Partnership had issued subscription letters for a total of 50,666,424 shares (2012: 35,052,963 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% (2012: 100.0%) owned by Circle Health.

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(g)).

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 has issued 5,066,641 (2012: 3,505,296) shares to Health Trust (Jersey), which represents as of 31 December 2013 10% of the issued share capital of Circle Partnership.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| At 1 January | 22,390 | 21,475 |
| Share-based charges in respect of warrants issued (note 26) | 313 | 915 |
| At 31 December | <u>22,703</u> | <u>22,390</u> |

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 2013 £'000 | |
|----------------------------------|---------------------|-------------------------------|----------------------|------------------------------|----------------------------------|-------------------------------------|------------------------------------|---------------|
| | | | | | At 1 January 2013 £'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, b | £1 52 | - | 2,340,765 | 2,340,765 | 14,430 | 313 | 14,743 |
| | | | 1,282,240 | 2,340,765 | 3,623,005 | 22,390 | 313 | 22,703 |

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 was recognised on a straight-line basis over a 24 month period from May 2011 until May 2013, in line with the revised vesting timetable (1/24 every month from May 2011).

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

26 Share-based charges

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

| | Note | Type | 2013 £'000 | 2012 £'000 |
|--------------------------------------|------|----------|---------------|---------------|
| Issued by Circle Partnership Limited | a | Shares | - | - |
| Awarded to Health Trust (Jersey) | b | Warrants | 313 | 915 |
| Awarded to Non-Executive Directors | c | Shares | 55 | 96 |
| | | | <u>368</u> | <u>1,011</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 (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 vested over a 24 month period from May 2011 until May 2013 and were exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date. A fair value assessment was completed based on the value of the existing warrants prior to cancellation and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page.

c Non-Executive Directors

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

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the 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 2013 (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 was charged to the income statement over the remaining vesting period along with the residual charge relating to the fair value at the grant date of the initial warrants. The share-based charge recognised in the income statement for the year to 31 December 2013 is £313,000 (2012 £915,000) with the credit being recognised in the warrant reserve. There were no new warrant issues qualifying as share-based charges during 2013 (2012 nil) and none of the warrants were exercised in 2013 (2012 nil)

Share-based charges reserve

| | 2013 | 2012 |
|---------------------|------------|-----------|
| | £'000 | £'000 |
| At 1 Jan | 96 | - |
| Share-based charges | 55 | 96 |
| | <u>151</u> | <u>96</u> |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

27 Capital commitments

At 31 December 2013, the Group had capital commitments as follows

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Contracted for but not provided in these financial statements | <u>97</u> | <u>-</u> |

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 £1,184,000 (2012 £779,000). As at 31 December 2013 outstanding contributions totalled £104,000 (2012 £83,000).

29 Operating lease commitments

The Group has entered into various non-cancellable operating leases of equipment, land and buildings with

| | Plant and machinery | | Land and buildings | |
|---|---------------------|---------------|--------------------|----------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| No later than 1 year | 1,357 | 3,129 | 11,097 | 9,106 |
| Later than 1 year and no later than 5 years | 1,705 | 483 | 44,051 | 36,113 |
| Later than 5 years | - | - | 187,779 | 194,459 |
| | <u>3,062</u> | <u>3,612</u> | <u>242,927</u> | <u>239,678</u> |

On 28 July 2013, the Group entered into an operating lease in respect of the Circle Nottingham Treatment Centre for an initial annual rent of £2,064,000 per year. The lease is for five years and is set to expire on 27 July 2018.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

30 Net cash outflow from operating activities

| | 2013 | 2012 |
|---|-----------------|-----------------|
| | £'000 | £'000 |
| Loss before taxation | (15,230) | (30,430) |
| Provision for joint venture deficit | 1,738 | 259 |
| Exceptional finance items | (1,113) | (866) |
| Finance costs | 2,774 | 5,244 |
| Finance income | (2,035) | (3,513) |
| Amortisation of intangible assets (note 13) | 443 | 282 |
| Depreciation of property, plant and equipment (note 14) | 2,290 | 1,485 |
| Charge recognised in respect of amounts recoverable under contract (note 17) | 1,181 | 2,027 |
| Disposal of intangible assets | - | 142 |
| Impairment of property, plant and equipment (note 14) | 152 | 4,614 |
| Share-based charges in respect of warrants issued (note 26) | 313 | 915 |
| Share-based charges in respect of awards to Non-Executive Directors (note 26) | 55 | 96 |
| Deconsolidation of Health Properties Edinburgh | (4,384) | - |
| Revaluation of Birmingham finance lease payments | 136 | 572 |
| Non-cash element of CircleReading pre-opening expenses | - | 647 |
| Provision for VAT | 115 | 1,500 |
| Restructuring Costs | - | 650 |
| (Decrease) / increase in provision for onerous leases | (579) | 239 |
| Provision of debtor with Health Properties Bath | 40 | 1,575 |
| Movements in working capital | | |
| - Increase in inventories | (347) | (397) |
| - Increase in trade and other receivables | (2,804) | (1,818) |
| - (Decrease) / Increase in trade and other payables | (3,229) | 501 |
| - Decrease in provisions | (1,578) | (713) |
| Net cash outflow from operating activities | (22,062) | (16,989) |

31 Reconciliation and analysis of net debt

| | 2013 | 2012 |
|--|-----------------|-----------------|
| | £'000 | £'000 |
| (Decrease) / increase in unrestricted cash in the year | (24,332) | 10,200 |
| (Decrease) / increase in restricted cash in the year | (1,300) | 1,825 |
| Repayment of borrowings | 430 | 12,604 |
| Repayment of loan notes | 366 | - |
| Repayment of finance lease | 1,471 | 674 |
| Movement in net debt from cash flow | (23,365) | 25,303 |
| Other non-cash movements | 47,704 | (6,420) |
| Movement in net debt | 24,339 | 18,883 |
| Net debt at 1 January | (23,471) | (42,354) |
| Net debt at 31 December | 868 | (23,471) |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

31 Reconciliation of net debt (continued)

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

Non-cash movements include the following

- Derecognition of the loan owed from Health Properties Edinburgh to AIB due to the deconsolidation of the entity from the Group results
- Extinguishment of the Barclays PFI Loan of £41,377,000 (note 17), offset by amortisation of £39,000 (2012 £67,000) of Barclays loan issue costs
- Reassessment of future cash flows resulting in £1,000 increase in loan notes owing (2012 £nil), combined with the unwinding of discount on acquisition of £17,000 (2012 £32,000)
- New finance lease agreements in CircleBath and CircleReading have increased the total Finance Leases liability by £696,000 and £164,000 respectively
- An exceptional charge to the Birmingham finance lease (note 6) of £136,000 (2012 £572,000)
- In the prior year, unwinding of equity portion of the JCAM loan, £1,930,000 and recognition of Reading finance lease of £7,679,000 at inception (£1,873,000 and £5,806,000)

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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, and 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 2013 | Loans and receivables £'000 | Fair value through profit and loss £'000 | Amortised cost £'000 | Total £'000 |
|---------------------------------------|--------------------------------|---|-------------------------|-----------------|
| Financial assets | | | | |
| Trade and other receivables (note 17) | 10,203 | - | - | 10,203 |
| Cash and cash equivalents (note 18) | 12,397 | - | - | 12,397 |
| Total financial assets | 22,600 | - | - | 22,600 |
| Financial liabilities | | | | |
| Trade and other payables (note 19) | - | - | (5,465) | (5,465) |
| Finance lease liabilities (note 20) | - | - | (11,529) | (11,529) |
| Total financial liabilities | - | - | (16,994) | (16,994) |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

32 Financial risk management (continued)

Classes of financial instruments (continued)

| 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) |

a Market risk

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

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

1) Interest rate risk

Financial instruments affected by interest rate risk include short-term deposits. The Group is primarily sensitive to changes in UK interest rates. This affects future cash flows from short-term cash deposits held. As at 31 December 2013, the Group, excluding the JV, does not hold any loan-term loans. Previously, the Group has managed this risk, where significant, by holding long-term loans and entering into interest rate swaps in order to fix the interest payable on these. The Group also manages the interest rate risk through financing assets through finance leases which have fixed rates of interest, rather than through loans.

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

| | Variable £'000 | Fixed £'000 | Interest-free £'000 | Total £'000 |
|----------------------------|-------------------|----------------|------------------------|----------------|
| At 31 December 2013 | | | | |
| Loans and other borrowings | - | 11,529 | - | 11,529 |
| At 31 December 2012 | | | | |
| Loans and other borrowings | 7,380 | 53,772 | 348 | 61,500 |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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 2013 | | | | | |
| Interest rate swaps | none | 5.0% | 27 Jul 13 | - | - |
| At 31 December 2012 | | | | | |
| Interest rate swaps | Barclays | 5.0% | 27 Jul 13 | 41,806 | 1,113 |

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 2013 | | | | |
| Variable rate bank loans | - | - | - | - |
| Net sensitivity | - | - | - | - |
| At 31 December 2012 | | | | |
| Variable rate bank loans | (74) | 74 | - | - |
| Net sensitivity | (74) | 74 | - | - |

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 2013 (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.

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.

| | Less than 1 year | Between 1-2 years | Between 2-3 years | Between 3-4 years | Between 4-5 years | Over 5 years |
|--------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-----------------|
| At 31 December 2013 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | (5,465) | - | - | - | - | - |
| Finance Lease | (2,450) | (2,450) | (2,390) | (2,033) | (395) | (10,059) |
| Net outflows | (7,915) | (2,450) | (2,390) | (2,033) | (395) | (10,059) |

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

32 Financial risk management (continued)

c Liquidity risk (continued)

| | Less than 1 year | Between 1-2 years | Between 2-3 years | Between 3-4 years | Between 4-5 years | Over 5 years |
|--------------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-----------------|
| At 31 December 2012 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade and other payables | (9,167) | - | - | - | - | - |
| Bank loans | (49,148) | - | - | - | - | - |
| Derivative financial | (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) |

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.

i 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 and covenants of the shareholder agreements. Covenants on bank debt within the joint venture are tested monthly. No long-term debt exists elsewhere in the Group.

ii 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 2013 (continued)

32 Financial risk management (continued)

ii Fair value (continued)

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

| At 31 December 2013 | Level 1 | Level 2 | Level 3 |
|------------------------------|----------|--------------|----------|
| Liabilities | £'000 | £'000 | £'000 |
| Interest rate swap (note 22) | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 December 2012 | Level 1 | Level 2 | Level 3 |
| Liabilities | £'000 | £'000 | £'000 |
| Interest rate swap (note 22) | - | 1,113 | - |
| | <u>-</u> | <u>1,113</u> | <u>-</u> |
| | <u>-</u> | <u>1,113</u> | <u>-</u> |

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 and quasi subsidiaries are as follows

| Name of company | Holding | Nature of business | Proportion of voting rights held | Country of incorporation |
|---|----------------------|-----------------------------------|----------------------------------|--------------------------|
| Circle International plc | Ordinary shares | Holding and management | 100 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 Ltd | 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 |
| Circle Nottingham Limited (formally Nations Healthcare (Nottingham) Limited)* | 'C' Preferred shares | Holding and management | n/a | United Kingdom |
| Circle Nottingham Limited (formally 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 2013 (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 Clinical Solutions Limited* (formally 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-subsi-dary) | Employee share ownership plan | None (quasi-subsi-dary) | British Virgin Islands |

* subsidiary held indirectly

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (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:

| | Note | Amounts owed by related party £'000 | 2013 Amounts owed to related party £'000 | Amounts owed by related party £'000 | 2012 Amounts owed to related party £'000 |
|---|------|---|---|---|---|
| Circle Partnership Limited | a | - | - | - | - |
| Health Properties (Bath) Limited | b | 1,586 | (34) | 1,586 | (34) |
| Stonehage Fund Services Limited ('Stonehage') | c | - | - | - | - |
| Capita | d | - | (26) | - | (126) |
| Health Estates Limited | e | - | - | 9 | - |
| Hinchingbrooke Health Care NHS Trust | h | 4,095 | (165) | 241 | (2) |
| | | <u>5,681</u> | <u>(225)</u> | <u>1,836</u> | <u>(162)</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 (2012: £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 £1,615,000 at 31 December 2013 (2012: £1,575,000). This was fully impaired in the previous year as the balance was not considered to be recoverable, with the additional amount recognised in the current year also impaired (note 6).

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, CircleBath has an annual rental commitment of £3,629,000 (2012: £3,598,000) for a 25 year term and a rental deposit of £1,586,000 (2012: £1,586,000) is held by Health Properties Bath.

An amount of £34,000 remains payable to the Group at 31 December 2013 (2012: £34,000).

c 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 2013 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 £40,000 (2012: £41,000) for management and fiduciary services provided to companies within the Group. The amount outstanding at 31 December 2013 was £nil (2012: £nil). 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

33 Related party transactions

Trading transactions (continued)

d Capita

During 2013 the Group was charged £113,000 (2012 £184,000) by Capita for fiduciary services provided to companies within the Group during the year. The amount outstanding at 31 December 2013 was £26,000 (2012 £58,000).

The Capita Group also provided IT data hosting services during the year. The Group was charged £555,000 (2012 £515,000) for these services provided during the year. The amount outstanding at 31 December 2013 was £nil (2012 £69,000).

e 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 £nil (2012 £9,000). An amount of £nil (2012 £9,000) remains receivable at year end.

f Health Trust (Jersey)

Health Trust (Jersey) owns nil shares in the Company (2012 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 25).

In 2013, Health Trust (Jersey) holds 5,066,642 shares (2012 3,505,296) 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

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 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.

Circle Holdings plc

Notes to the consolidated financial statements For the year ended 31 December 2013 (continued)

33 Related party transactions (continued)

Trading transactions (continued)

h 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, the Group has contributed £3.7m of working capital to the Trust which has resulted in a £3.7m receivable at the year end. During the year services to the value of £145,000 (2012: £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 Trust has a March year end and expects to make a deficit for the financial year ending March 2014. This deficit will need to be funded by the Group up to a total maximum of £5m.

Based on future forecast cash flow projections, management consider that the £4.1m is recoverable.

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

| | Number of shares held | % shareholding | Value of warrants held £ |
|------------------------------|--------------------------|-------------------|-----------------------------|
| Balderton Capital | 12,756,534 | 9.8% | 4,786 |
| BlueCrest Capital Management | 9,252,685 | 7.1% | 296 |
| Invesco Perpetual | 30,368,920 | 23.2% | - |
| Lansdowne Partners | 37,967,008 | 29.0% | 1,262 |
| Odey Asset Management | 27,542,881 | 21.1% | - |

Tim Bunting and Tony Bromovsky served as Non-Executive Directors of Circle Holdings plc. They are appointees of Balderton Capital and Odey Asset Management, respectively. No fees were charged for Mr Bunting's services to the Group. Mr Bromovsky was paid £40,000 for his services rendered in 2013 in respect of his role as a Non-Executive Director. In addition, Kilda Investments Limited, of which Mr Bromovsky is a beneficiary, was paid £75,000 for Mr Bromovsky's services performed in relation to project Reset, this was outside his capacity as a Director.

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 2013 (continued)

34 Events after the balance sheet date

2014 Fundraise

On 20 December, the Group announced £25,000,000 (before fees) of equity investment, with irrevocable agreements signed on this date. The shares were approved by the board and allotted on 8 January 2014 and formally issued on 11 January 2014. These will be accounted for as a 2014 transaction. A further £2,500,000 was raised in January 2014 by way of an additional option that the brokers placed on the raise. Of the total consideration received, £1,100,000 has been allocated to share capital (55,000,000 ordinary shares at £0.02 each) and £25,100,000 to share premium.

Independent Auditors' Report to the Members of Circle Holdings plc

Report on the financial statements

Our opinion

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013,
- have been properly prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

This opinion is to be read in the context of what we say below

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by Circle Holdings plc, comprise

- The Company balance sheet as at 31 December 2013, and
- the notes to the financial statements, which include a summary of the significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards

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

What an audit of financial statements involves

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

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

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

Opinion on other matter

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion

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

We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on pages 26 and 27 of the Group financial statements, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing



Nigel Reynolds
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized auditors
London
19 March 2014

Circle Holdings plc

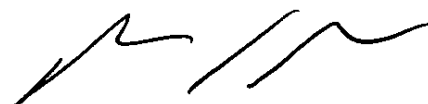
Company balance sheet As at 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|--|------|---------------|---------------|
| Fixed assets | | | |
| Investments | 5 | - | 17,106 |
| Current assets | | | |
| Debtors | 6 | 81,191 | 48,802 |
| Cash at bank and in hand | | 2,256 | 22,899 |
| | | 83,447 | 71,701 |
| Creditors - amounts falling due within one year | 7 | (568) | (577) |
| Net current assets | | 82,879 | 71,124 |
| Total assets less current liabilities | | 82,879 | 88,230 |
| Net assets | | 82,879 | 88,230 |
| Capital and reserves | | | |
| Called up share capital | 8 | 2,616 | 2,614 |
| Share premium | 8 | 193,145 | 193,145 |
| Other reserves | 8 | 11,303 | 11,303 |
| Warrant reserve | 9,11 | 22,703 | 22,390 |
| Share-based charges reserve | 9,11 | 151 | 96 |
| Profit and loss account | 9 | (147,039) | (141,318) |
| Total shareholders' funds | 10 | 82,879 | 88,230 |

The financial statements on pages 90 to 103 were approved by the Board of Directors on 19 March 2014 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 2013

1 Accounting policies

Basis of preparation

These financial statements are prepared for Circle Holdings plc (the 'Company') for the year ended 31 December 2013. 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 2013 (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 profit and loss account or taken to non-current liabilities where the warrants are linked to a loan.

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

ii Financial liability warrants

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

Capital contributions

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

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

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (continued)

2 Profit and loss

The result for the year is a loss of £5,721,000 (2012 loss of £2,677,000)

3 Auditors' remuneration

The Company incurred £27,000 (2012 £26,000) in relation to UK statutory audit fees for the year ended 31 December 2013

4 Directors' emoluments

During the year £289,000 (2012 £339,000) 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

| | 2013 | 2012 |
|---|----------------|----------------|
| Cost | £'000 | £'000 |
| At 1 January | 166,450 | 163,735 |
| Additions - CH Subco | - | 1,800 |
| Additions - capital contributions (note 12) | 313 | 915 |
| At 31 December | 166,763 | 166,450 |

| | 2013 | 2012 |
|--------------------------|----------------|----------------|
| Provision for impairment | £'000 | £'000 |
| At 1 January | 149,344 | 139,541 |
| Provision in the year | 17,419 | 9,803 |
| At 31 December | 166,763 | 149,344 |

Net book amount

| | | |
|-----------------------|----------|---------------|
| At 31 December | - | 17,106 |
|-----------------------|----------|---------------|

During the year, the Company has impaired the investment in subsidiaries by £17,419,000 to reflect the most recent market capitalisation of the business at 31 December 2013

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (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 Ltd | 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

| | 2013 £'000 | 2012 £'000 |
|------------------------------------|---------------|---------------|
| Prepayments and accrued income | 176 | 20 |
| Other debtors | 522 | - |
| Amounts owed by Group undertakings | 80,493 | 48,782 |
| | 81,191 | 48,802 |

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

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Trade creditors | 190 | 250 |
| Amounts owed to Group undertakings (note 13) | 26 | 195 |
| Accruals and deferred income | 352 | 132 |
| | 568 | 577 |

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (continued)

8 Called up share capital

| Authorised | 2013 | 2012 |
|-------------------------------|--------------------|--------------------|
| | £'000 | £'000 |
| Ordinary shares of £0.02 each | <u>5,000</u> | <u>5,000</u> |
| | Number | Number |
| Number of authorised shares | <u>250,000,000</u> | <u>250,000,000</u> |

Allotted and fully paid up

| Ordinary shares | Shares (number) | Called up share capital £'000 | Share premium £'000 | Other reserves £'000 | Total £'000 |
|---|----------------------------|--|------------------------------------|-------------------------------------|------------------------|
| At 1 January 2012 | 62,771,049 | 1,255 | 148,548 | 11,303 | 161,106 |
| 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 1 January 2013 | <u>130,706,657</u> | <u>2,614</u> | <u>193,145</u> | <u>11,303</u> | <u>207,062</u> |
| Shares issued - 20 June 2013 (net of costs) | £0.02 78,465 | 2 | - | - | 2 |
| At 31 December 2013 | <u>130,785,122</u> | <u>2,616</u> | <u>193,145</u> | <u>11,303</u> | <u>207,064</u> |

On 20 June 2013, 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

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (continued)

9 Reserves

| | Share premium £'000 | Warrant reserve £'000 | Other reserves £'000 | Share- based charges reserve £'000 | Profit and loss account £'000 |
|---|---------------------------|-----------------------------|----------------------------|--|--|
| At 1 January 2013 | 193,145 | 22,390 | 11,303 | 96 | (141,318) |
| Loss for the financial year | - | - | - | - | (5,721) |
| Additions to warrants reserve (note 12) | - | 313 | - | - | - |
| Awards of shares to Non- Executive directors (note 12) | - | - | - | 55 | - |
| At 31 December 2013 | 193,145 | 22,703 | 11,303 | 151 | (147,039) |

10 Reconciliation of movements in shareholders' funds

| | 2013 £'000 | 2012 £'000 |
|--|----------------|---------------|
| Loss for the financial year | (5,721) | (2,677) |
| Net proceeds on issue of ordinary share capital (note 8) | 2 | 45,956 |
| Additions to warrant reserve (note 11) | 313 | 915 |
| Awards of shares to Non-Executive directors (note 12) | 55 | 96 |
| Net addition to shareholders' funds | (5,351) | 44,290 |
| Opening shareholders' funds | 88,230 | 43,940 |
| Closing shareholders' funds | 82,879 | 88,230 |

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (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

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| At 1 January | 22,390 | 21,475 |
| Share-based charges in respect of warrants issued (note 12) | 313 | 915 |
| At 31 December | 22,703 | 22,390 |

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 2013 £'000 |
|-----------------------------------|---|-----------------------------------|---|----------------------|---------------------------------|----------------------------------|-------------------------------------|------------------------------------|
| | | | | | | At 1 January 2013 £'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 | 14,430 | 313 | 14,743 |
| | | | 1,282,240 | 2,340,765 | 3,623,005 | 22,390 | 313 | 22,703 |

- 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 was recognised on a straight-line basis over a 24 month period from May 2011 until May 2013, in line with the revised vesting timetable (1/24 every month from May 2011).

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (continued)

12 Capital Contributions

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

| | Note | Type | 2013 £'000 | 2012 £'000 |
|--------------------------------------|------|----------|---------------|---------------|
| Issued by Circle Partnership Limited | a | Shares | - | - |
| Awarded to Health Trust (Jersey) | b | Warrants | 313 | 915 |
| Awarded to Non-Executive Directors | c | Shares | 55 | 96 |
| | | | <u>368</u> | <u>1,011</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 (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 vested over a 24 month period from May 2011 until May 2013 and were exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date. A fair value assessment was completed based on the value of the existing warrants prior to cancellation and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page.

c Non-Executive Directors

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

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

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (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 2013 is £313,000 (2012 £915,000 with the credit being recognised in the warrant reserve). There were no new warrant issues qualifying as share-based charges during 2013 (2012 nil) and none of the warrants were exercised in 2013 (2012 nil).

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:

| | | 2013 | | 2012 | |
|--------------------------------|------|--|--|--|--|
| | 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 Health Limited | a | 51,709 | (305) | 33,706 | (195) |
| Nations Healthcare Limited | b | 5,284 | - | 3,205 | - |
| Circle (Welbeck) Limited | c | 16,641 | - | 8,927 | - |
| Circle Hinchingsbrooke Limited | d | 5,700 | - | 2,000 | - |
| Capita | e | - | - | - | (12) |

a Circle Health Limited

Circle Health Limited is a 50.1% owned subsidiary of Circle International plc, a wholly owned subsidiary undertaking. A loan of £47,257,000 (2012 £32,378,000) has been advanced to Circle Health, which remains outstanding at 31 December 2013, together with accrued interest of £4,392,000 (2012 £1,328,000). The interest rate on the loan is 7.0% (2012 7.0%).

During the year Circle Health incurred expenses on behalf of the Company and recharged these at cost to the value of £305,000 (2012 £195,000). As at the end of the year, the amount owed by Circle Health is £60,000.

b 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% (2012 7.0%) preference shares in Nations Healthcare Limited, which are included in fixed asset investments (note 5). The Company has accrued a total of £5,284,000 (2012 £3,205,000) of preference dividends on these shares.

Circle Holdings plc

Notes to the Company financial statements For the year ended 31 December 2013 (continued)

13 Related party transactions (continued)

c 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. At 31 December 2013 the Company has accrued a total of £16,641,000 (2012 £8,927,000) of preference dividends on these shares. These investments have been fully impaired to reflect the market capitalisation of the business.

d Circle Hinchingsbrooke Limited

Circle Hinchingsbrooke Limited is a 50.1% owned subsidiary of Circle International plc, a wholly owned subsidiary undertaking. A loan of £5,700,000 (2012 £2,000,000) has been advanced to Circle Hinchingsbrooke which remains outstanding at 31 December 2013. This loan is interest free.

e Capita

During 2013 the Company was charged £6,000 (2012 £96,000) by Capita for fiduciary services provided to the Company during the year. The amount outstanding at 31 December 2013 was £nil (2012 £12,000).

f Health Trust (Jersey)

Health Trust (Jersey) owns nil shares in the Company (2012 3,136,180) through a wholly owned subsidiary, Health Partners (note 23). Health Trust (Jersey) also holds 2,340,765 warrants in the Company (2012 2,340,765) (note 25).

In 2013, Health Trust (Jersey) holds 5,066,642 shares (2012 3,505,296) 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.

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 | 16,756,534 | 9.3% | 4,786 |
| BlackRock | 6,997,555 | 3.9% | - |
| BlueCrest Capital Management | 9,252,685 | 5.1% | 296 |
| Henderson | 5,200,000 | 2.9% | - |
| Invesco Perpetual | 53,268,920 | 29.5% | - |
| Lansdowne Partners | 54,167,008 | 30.0% | 1,262 |
| Odey Asset Management | 27,542,881 | 15.2% | - |

Tim Bunting and Tony Bromovsky 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 Mr Bunting's services to the Group. Mr Bromovsky was paid £40,000 for his services in 2013.

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 2013 (continued)

14 Events after the balance sheet date

2014 Fundraise

On 20 December, the Group announced £25,000,000 (before fees) of equity investment, with irrevocable agreements signed on this date. The shares were approved by the board and allotted on 8 January 2014 and formally issued on 11 January 2014. These will be accounted for as a 2014 transaction. A further £2,500,000 was raised in January 2014 by way of an additional option that the brokers placed on the raise. Of the total consideration received, £1,100,000 has been allocated to share capital (55,000,000 ordinary shares at £0.02 each) and £25,100,000 to share premium.

Circle Holdings plc

Company Information

Non-Executive Directors

Michael Kirkwood, CMG
Lorraine Baldry
Andrew Shilston
Tim Bunting
Tony Bromovsky

Executive Directors

Steve Melton
Massoud Fouladi
Paolo Pieri

Company Secretary

Capita Company Secretarial Services
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Registrars

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Independent auditors

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Circle Holdings plc

Company Information (continued)

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