Circle Holdings

annual report **2011**

CIRCLE'S CREDO

OUR PURPOSE

To build a great company dedicated to our patients.

OUR PARAMETERS

We focus our efforts exclusively on:
What we are passionate about.
What we can become best at.
What drives our economic sustainability.

OUR PRINCIPLES

We are above all the agents of our patients.

We aim to exceed their expectations every time so that we earn their trust and loyalty. We strive to continuously improve the quality and the value of the care we give our patients.

We empower our people to do their best.

Our people are our greatest asset. We should select them attentively and invest in them passionately. As everyone matters, everyone who contributes should be a Partner in all that we do. In return, we expect them to give their patients all that they can.

We are unrelenting in the pursuit of excellence.

We embrace innovation and learn from our mistakes. We measure everything we do and we share the data with all to judge. Pursuing our ambition to be the best healthcare provider is a never-ending process. 'Good enough' never is.

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Circle Holdings plc

For the year ended 31 December 2011

Financial highlights

- Revenue on continuing facilities* up 19.5% to £64,618,000 (2010: £54,058,000)
- Total revenues down 2.4% to £74,607,000 (2010: £76,472,000) despite loss of Burton NHS Treatment Centre
- Revenue at Circle's Nottingham NHS Treatment Centre up 6.6% to £51,185,000
- Revenue at CircleBath increased to £12,217,000 (2010: £4,918,000)
- EBITDA** loss before exceptional items reduced to £13,633,000 (2010: loss of £15,441,000)
- Basic and diluted loss per share of 64.4p (2010: 173.3p loss per share)
- Successful listing on AIM completed in June 2011
- Announcement of £47,500,000 (before expenses) of equity funding, subject to the terms of the underwriting agreement, subscription agreement, and shareholder approval. Irrevocable undertakings to vote in favour of required resolutions received from existing shareholders representing in excess of 75% of issued share capital

Operational highlights

- Patient procedures in continuing facilities* up 41.4% to 121,858
- Quadrupling of patient attendances at flagship hospital CircleBath with expansion in specialties and attraction of consultants from beyond catchment area
- Outstanding quality metrics at Circle's Nottingham NHS Treatment Centre with patient recommendations averaging 99.1%
- Hinchingbrooke franchise contract signed on 9 November 2011, the first NHS hospital to be managed by the independent sector
- Business strategy progressing well:
  - CircleReading on track for opening in the second half of 2012, with an anticipated base build cost per square metre markedly lower than CircleBath for the same quality and product
  - Land acquired for development of CircleManchester in the UK's second largest healthcare market
  - Early metrics at Hinchingbrooke encouraging

* defined as those existing as at 31 December 2011, which excludes Circle's Burton NHS Treatment Centre and Circle's Bradford NHS Treatment Centre. Note CircleBath's operations commenced in March 2010.

** defined as Earnings Before Interest, Tax, Depreciation and Amortisation.

Chairman’s Statement

For the year ended 31 December 2011

It was an honour to have been asked to chair this fascinating enterprise last June and it gives me great pleasure to be providing the first Chairman’s statement of Circle Holdings plc (‘Circle’, the ‘Group’) since it was admitted to trading on the Alternative Investment Market (‘AIM’) of the London Stock Exchange. The Group’s unique model in healthcare of sharing ownership between capital and labour has continued to attract widespread attention and acclaim. While still a work in progress, the past year has seen a number of key milestones that underpin Circle’s potential as an effective and successful commercial model.

Key achievements

On a like for like basis, increasing operational revenues, patient volumes, and ongoing implementation against our pipeline of projects signal that the Group is on track in its ambitious programme to redefine UK healthcare.

The Group’s current flagship hospital, CircleBath, has made important strides in providing proof of concept. The positive impact of clinician engagement and exceptional patient service has been powerfully demonstrated in increasing market share, revenues and gross margins. In addition, clinical results and customer satisfaction have been maintained at very high levels across all our hospital sites. On key benchmarks such as readmission rates after day surgery and patient recommendations, the Group has enjoyed remarkable success.

Highlights

The Group’s admission to AIM in June 2011 signalled its increasing maturity. Its ability to attract over £53,000,000 (before costs) of new investment during the year through equity investments from existing and new shareholders, at a time of considerable political risk and market volatility, speaks volumes for the uniqueness and strength of the business model.

A key landmark in the past year was the signing of the formal contract to manage the Hinchingbrooke Health Care NHS Trust (‘Hinchingbrooke’), which commenced at the beginning of February 2012. The Group has brought its proven strengths to the task and the early indications in terms of feedback and metrics are very encouraging. The Circle approach of clinician leadership, staff engagement, a customer centric ethos and re-engineering processes to drive productivity and enhance patient experience is already transforming the hospital. In addition, patient numbers at CircleBath have continued to grow and our overall business strategy is developing well.

The Board

Concurrent with the listing, a Board was formed with a majority of independent Directors. The Board now consists of four independent Non-Executive Directors, two Non-Executive Directors representing major institutional investors in Circle, along with the three Executive Directors.

I was delighted to be able to attract Lorraine Baldry, Peter Cornell and Andrew Shilston to the Board. Each of them brings extraordinary and diverse experience and maturity to our deliberations and I am confident that the governance of Circle is in good hands.

Likewise, at this stage in the development of the Group, we benefit greatly from the insights and perspectives of institutional shareholder representation on our Board. Tim Bunting and Jamie Wood are important and intelligent contributors to our collective thinking.

The engagement of the new Non-Executive Directors with the co-founders of Circle, Chief Executive Officer Ali Parsa and Chief Medical Officer Massoud Fouladi, and with Chief Financial Officer Paolo Pieri, has resulted in a constructive and cohesive approach to the Group’s opportunities and challenges.

I am delighted and privileged to be working with such a strong combination of talent, expertise and experience.

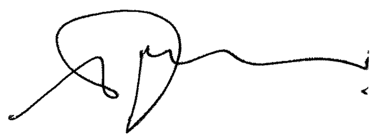
The Team

The differentiating element of Circle is the quality and engagement of the people within the Group. Whether in the executive or administrative teams, or in our hospital operations, it is the skill and commitment of the wider group that will ultimately determine our future success. The Circle Partnership under the leadership of Massoud and Ali is executing the vision and the Board and I would like to recognise their central importance to the Circle business model.

The Group recognises that to create an enterprise of scale, three ingredients need to be brought together and incentivised in fair measure: entrepreneurial drive, employee passion and financial resources. To that end, the Group is focused on ensuring the model continues to incentivise all parties appropriately.

The Outlook

I believe that there are significant opportunities for the Group as a new and distinctive player in the UK healthcare space. The recent conditional agreement to raise a further £47,500,000 is testament to the confidence that our new and existing investors have in the Group's prospects. This fully finances the business for the medium term, allowing the management to fully exploit the market opportunity. With the support of the Board, the Executive team, the Circle Partnership and our external constituencies, I remain confident that we will make further progress in the coming year.



Michael Kirkwood, CMG
Chairman
29 May 2012

Chief Executive Officer's Report

For the year ended 31 December 2011

The year ended 31 December 2011 was another year of progress for the Group. Operational revenues and EBITDA have progressed steadily and according to plan, with overall revenues increasing by 19.5% in continuing facilities to £64,618,000 (2010: £54,058,000). Both of our flagship facilities, CircleBath and Circle's Nottingham NHS Treatment Centre, achieved impressive clinical quality and patient recommendation metrics, which we believe rate amongst the best in the UK. Our track record was affirmed by the Government approving the ground-breaking Hinchingbrooke contract, allowing for the first time the independent sector to run an entire NHS hospital. In a relatively short space of time, Circle has created an unrivalled platform.

CircleBath, our first independent hospital which opened in March 2010, has performed well in many measures. Revenues grew by 94.2% and gross margins improved by 34.4 percentage points between the second half of 2010 (when the hospital completed its first full six months of trading) and the second half 2011, as existing operations grew and processes matured. At the same time, we maintained an average of 99.4% patient recommendation for the six months ended 31 December 2011 and a zero infection rate. CircleBath also became the first hospital in the country to gain a national award for Best Building, an international award for Best Public Space globally, and a regional award for Best Customer Service, beating stiff competition from some of the best five star hotels in the country.

Revenue in Circle's Nottingham NHS Treatment Centre, one of the largest day surgical centres in Europe, increased by 6.6% to £51,185,000 (2010: £48,000,000), whilst operating profits were up by 85.0% to £2,390,000 (2010: £1,292,000). Our Nottingham operation has gained national acclaim from policymakers and politicians for its record 18.5% average compounded productivity gain and outstanding quality metrics, including readmissions after day surgery being seven times better than the national Independent Sector Treatment Centre ('ISTC') threshold, and patient recommendations averaging 99.1%. The contract to run the Nottingham Treatment Centre expires in July 2013 and we are awaiting details of the proposed re-tendering of the contract. If the re-tendering process does not commence imminently, we expect that an extension to the current contract is a reasonable prospect.

We have been heartened by overwhelming staff, stakeholder and community support around the launch of our franchise contract in Hinchingbrooke. In an NHS first, around 1,200 of the 1,700 hospital employees came together to create the improvement plan for their own hospital. Collectively, they came up with the audacious goal of becoming one of the best district general hospitals in the country within two years, and a detailed plan to achieve this. Early metrics are encouraging with Accident and Emergency performance consistently above 98.0%, approximately a 10.0% improvement since the beginning of February, making Hinchingbrooke the top performer in the region.

It has also been a good year for our development pipeline, with funding deployed for CircleReading's construction and commissioning, and land acquisition in Manchester. Construction of CircleReading is expected to be completed by the end of May 2012, on time and on budget, and we look forward to opening our doors to serve patients there in the second half of 2012.

The politics of healthcare in the UK is often turbulent, yet the direction of travel has been encouragingly consistent. Since Circle was founded, the operating environment has improved immeasurably. Significant gains in the number of patients being offered choice, the opening of secondary and community services to independent sector provision, and our own ground-breaking contract to run an entire NHS hospital, all confirm that there are increasing opportunities for plural provision of NHS services.

Circle has made a number of contributions to opening up this market, with three significant and successful campaigns. Firstly, we referred the issue of consultants' contracted hours to the NHS Co-operation and Competition Panel ('CCP') which accepted our argument that consultants should have the freedom to practice at the location of their patients' choice. Secondly, we referred Primary Care Trusts ('PCT's) that were restricting NHS patients' choice to the CCP, which again ruled in favour of patient choice. Thirdly, we referred anti-competitive practices in the private sector to the Office of Fair Trading ('OFT'), which accepted our arguments and referred the entire sector to the Competition Commission for a market investigation. It is widely accepted that UK healthcare needs more efficient solutions, so we are confident that the environment will continue to improve.

Chief Executive Officer's Report (continued)

For the year ended 31 December 2011

Circle's steady track record demonstrates what can be achieved through an unrelenting passion for innovation. As Chief Executive Officer and entrepreneur co-founder of Circle, I am privileged to be surrounded by excellent people. We are fortunate to have such supportive investors, wise and willing Board members, talented and dedicated management, and a committed and passionate partnership. I am grateful to all who have contributed to the delivery of 2011's milestones. We still have a long way to go, in an ever changing market, but last year we made steady progress.

Ali Parsa
Chief Executive Officer
29 May 2012

Operating and Financial Review

For the year ended 31 December 2011

Introduction

On 17 June 2011 the Group listed on AIM and raised £25,283,000 excluding proceeds from warrants, bringing the total amount raised for the year to £53,077,000 before costs. This was achieved at a time of intense political risk and stock market volatility, which is testament to the strength of the Group's operating model. The listing forms part of the overall fundraising strategy and demonstrates the Group's increasing maturity.

Results

The Group has continued to deliver growth in its core operations, with revenues increasing by 19.5% in continuing facilities to £64,618,000, primarily as a result of the improving performance of CircleBath, proving the concept of clinician engagement in new-build hospitals, and the growth in Circle's Nottingham NHS Treatment Centre, one of the largest outpatient and day surgery centres in Europe. Patient attendances in continuing facilities have grown by 41.4%, with the volume mix between day case, inpatients and outpatients impacting overall revenue growth. Overall revenues decreased year on year by 2.4% to £74,607,000, which was achieved despite the loss of the Burton contract.

	Continuing facilities 2011 Number	Continuing facilities 2010 Number	Change
Day case and inpatients	**32,850**	29,107	12.9%
Outpatients	**89,008**	57,048	56.0%
Total patient attendances	**121,858**	86,155	41.4%

CircleBath, which opened in March 2010, continued to show impressive growth with the number of patients treated up to 33,174 (2010: 7,232), and the hospital attracting acclaim from its General Practitioners ('GP') and patients, achieving 98.3% patient satisfaction ratings in the year ended 31 December 2011. Circle's Nottingham NHS Treatment Centre completed its third full year of trading and continues to show significant growth, with the number of patients treated increasing by 12.5% to 87,340 and revenue increasing by 6.6% to £51,185,000.

Group EBITDA before exceptional items improved by 11.7% from a loss of £15,441,000 to a loss of £13,633,000. Within these losses, we continue to invest in our future growth.

	2011 £'000	2010 £'000	Change
Group revenue	**74,607**	76,472	(2.4)%
Operating loss	**(18,546)**	(34,716)	46.6%
EBITDA before exceptional items* (note 7)	**(13,633)**	(15,441)	11.7%
Total operating loss before exceptional items* (note 7)	**(17,133)**	(19,649)	12.8%
Loss and total comprehensive loss for the financial year	**(32,311)**	(39,405)	18.0%
Net assets/(liabilities)	**26,184**	(5,223)	

* Exceptional items in the year ended 31 December 2011 of £1,413,000 (2010: £15,067,000) consist largely of share-based charges in respect of warrants issued, AIM listing costs not capitalised, increases in onerous lease provisions and profit on cessation of the contract to run Circle's Burton NHS Treatment Centre. Exceptional finance costs of £10,097,000 (2010: £451,000) were incurred primarily due to fair value adjustments of warrant instruments and interest rate swaps in the period.

Circle Independent	Circle NHS	Other Segments and Unallocated Items
Key business units: - CircleBath - CircleReading - Circle Clinic Stratford - Circle Clinic Windsor	Key business units: - Circle's Nottingham NHS Treatment Centre - Hinchingbrooke - Circle's Burton NHS Treatment Centre	Key business units: - Property companies - Circle Holdings plc - Unallocated overheads

A review of the key segmental operating units is as follows:

Circle Independent

The Circle Independent segment comprises privately owned hospitals and clinics which derive their revenues from providing healthcare services to privately insured patients, self-pay private patients and NHS patients.

Segment revenue grew by 120.4% to £13,224,000 (2010: £6,000,000) primarily due to CircleBath which opened in March 2010 and volumes have continued to grow to 33,174 patient attendances (2010: 7,232), driven by the introduction of new consultant partners and an increase in the number of specialties offered to both private and NHS patients. CircleBath continues to gain market share in core specialities, specifically demonstrated by the growth in hip and knee replacement procedures. As well as volume growth, profitability has also improved with gross margins in the year up to 19.6% (2010: 0.4%).

CircleReading is currently under construction, with the scheduled opening for the second half of 2012 continuing on plan.

Circle NHS

The Circle NHS segment comprises business units which have NHS sponsored contracts and derive the majority of their revenues from providing healthcare services to NHS referred patients. Circle NHS comprises Circle's Nottingham NHS Treatment Centre, Hinchingbrooke and, until the cessation of the contract in July 2011, Circle's Burton NHS Treatment Centre.

Day case and outpatient numbers increased during the year at Circle's Nottingham NHS Treatment Centre by 12.5% to 87,340 with revenue increasing by 6.6% to £51,185,000. Gross margins broadly remained constant at 29.5% (2010: 30.1%) and operating profit increased by 85.0% to £2,390,000.

In March 2011, the Group was notified that the Burton NHS Treatment Centre would automatically revert to Burton Hospitals NHS Foundation Trust when the original contract expired on 10 July 2011. This contract was one of the first drafted under the last Government's ISTC programme and, almost uniquely, contained a clause permitting the local NHS hospital to re-claim rather than re-tender the service upon expiry. As part of the handover, the Group transferred all operating assets and provided training and mobilisation services to ensure the Burton NHS Treatment Centre was able to continue operating over the transition period.

Segment revenue decreased by 13.1% to £61,175,000 (2010: £70,416,000) primarily due to the loss of the contracts to run the Bradford NHS Treatment Centre in June 2010 and the Burton NHS Treatment Centre in July 2011. Operating profit for this segment improved from £691,000 to £5,167,000 for the year ended 31 December 2011.

In November, Circle signed a contract to run the Hinchingbrooke Health Care NHS Trust in Cambridgeshire, which will see Circle manage an estimated £1,000,000,000 of revenue over the ten year contract period. Under the terms of the Hinchingbrooke contract, Circle has agreed to make working capital contributions of up to £5,000,000. The contract allows either party to terminate if the Trust incurs more than £5,000,000 in aggregate deficits, at which point Circle is also required to pay up to a further £2,000,000 in termination costs to Hinchingbrooke. Therefore Circle's liability under the contract is capped at £7,000,000. Circle will share surpluses generated over the term of the contract with the Trust. The contract commenced in February 2012, and we believe there is already a clear path to achieving our ambition of the Trust becoming one of the best district general hospitals in the country.

Other Segments and Unallocated Items

The Other Segments and Unallocated Items segment comprises property companies and the head office entities not involved in the operation of hospitals or treatment centres. Specifically it comprises head office costs, interest income, interest expenditure and corporation tax which are not allocated to reporting segments as they are managed on a Group wide basis.

Financing

During 2011, the Group continued to successfully raise finance to fund business growth. In addition to the £25,283,000 (excluding proceeds from warrants) the Group raised at the time of its listing on AIM, which brought the total amount raised from investors in the year to £53,077,000 before costs, the Group secured a short-term loan facility of £5,000,000 from Vinci, to enable the purchase of land in Didsbury, Manchester. This loan was repaid on 14 December 2011 along with accrued interest of £296,000.

In May 2011, the Group secured an extension of the James Caird Asset Management ('JCAM') facility of £13,300,000 from August 2012 to February 2013. Under the terms of the extension, an advance payment of £6,204,000 was made to JCAM, of which £4,258,000 remains on the balance sheet at 31 December 2011.

More recently, despite the challenging financial markets, the Group has entered into an underwriting agreement with Numis Securities to raise £47,500,000 by way of equity funding, before fees, subject to the terms of the underwriting agreement and shareholder approval. Once again, this demonstrates the confidence that our investors, both new and existing, have in the business strategy.

In addition, the Group continues to explore further financing for its real estate development in relation to both hospital development on sites already secured, and potential future sites.

Investing

The additional funding raised from the current shareholders and the AIM listing outlined above means the Group had net assets of £26,184,000 as at 31 December 2011 (previously net liabilities of £5,223,000 at 31 December 2010).

The Group's new build strategy is progressing, with the construction of the second hospital, CircleReading, budgeted to have a cost base per square metre less than CircleBath for the same quality and product, demonstrating that we are gaining competitive advantage. In May 2011, the Group entered into an agreement to buy a 5.3 acre site in Didsbury, Manchester, for Circle's third new-build hospital, in the second largest private healthcare market in the country. This was initially part financed by a loan from Vinci, secured against the land. This loan was repaid in December 2011 along with accrued interest.

In November 2011, the Group signed a 125 year lease on a 3.4 acre site in Edgbaston, Birmingham, which is anticipated to become Circle's fourth new-build hospital.

Operating and Financial Review (continued)

For the year ended 31 December 2011

Outlook

The year ended 31 December 2011 was a landmark year in the development of Circle: we successfully listed on AIM, secured further funding from existing shareholders, and we won the Hinchingbrooke contract, which was the first of its kind and won in open competition, outshining competition from the NHS and independent sectors. We improved volumes, revenues and profitability at both of our main sites in Bath and in Nottingham, despite continued demand pressures in the market place.

We enter 2012 with a strong platform to build on the improvements seen in Bath and Nottingham, commencing the operation of the Hinchingbrooke contract in February and opening the new hospital in Reading in the second half of the year. The current contract in respect of the Nottingham facility expires in July 2013 and we are awaiting details of the proposed re-tendering of the contract. If the re-tendering process does not commence imminently, we expect that an extension to the current contract is a reasonable prospect. In the meantime we will continue to seek further opportunities within the NHS.

In relation to the independent pipeline, construction of Circle's facility in Reading is expected to be completed in line with budget, with the facility opening in the second half of 2012. We will continue to explore funding opportunities in challenging financial markets for the construction and commissioning of our Manchester and future hospitals.

Paolo Pieri
Chief Financial Officer
29 May 2012

Board of Directors

For the year ended 31 December 2011

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

Michael Kirkwood is an Economics and Industrial Engineering graduate of Stanford University and a Fellow of the Chartered Institute of Bankers. He joined the Board of Circle Holdings plc as Chairman in June 2011. He is additionally Chairman of Ondra Partners LLP and a Non-Executive Director of UK Financial Investments Limited (UKFI) and of Eros International plc and Advisory Director (formerly Chairman) of British American Business Inc. Michael Kirkwood 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 H M The Queen's 2003 Birthday Honours.

Ali Parsa, Chief Executive Officer (d)

Ali Parsa is a social entrepreneur who co-founded Circle in 2004. His personal belief that employees should own the companies they work for has pioneered a new model of delivery in both public and independent UK healthcare provision. Prior to Circle, Ali Parsa was an Executive Director of Goldman Sachs' European technology investment banking team. He also worked at Merrill Lynch and Credit Suisse First Boston. He has a PhD in Engineering Physics from the University of London. Ali Parsa won the award for Entrepreneurial Achievement in the 2010 Independent Healthcare Awards, was named in the 100 most influential people in UK healthcare in the Health Service Journal's annual survey in 2010 and has been shortlisted for 'outstanding contribution by an individual' in the 2011 Health Investor Awards. Ali Parsa is a member of the Employee Ownership Association National Council, the chairman of the CBI Healthcare Panel and a member of the CBI Public Sector Services Board.

Paolo Pieri, Chief Financial Officer (d)

Paolo Pieri joined Circle after spending over five years at lastminute.com. He spent the majority of this time as the UK Finance Director and subsequently took on a number of operational roles including the Managing Director of some European divisions. Prior to this, Paolo Pieri spent seven years in the Virgin organisation, principally within the retail and cinema operations, where he spent three years as Finance Director of the Virgin Megastore business. He has a Bachelor of Accountancy from the University of Glasgow and is a member of the Institute of Chartered Accountants for Scotland.

Massoud Fouladi, Chief Medical Officer

Massoud Fouladi 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 Fouladi 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.

(a) Member of Audit and Risk committee.
(b) Member of Remuneration committee.
(c) Member of Nomination committee.
(d) Member of Market Disclosure committee.
* Denotes Chair of respective committee.

Lorraine Baldry, senior independent Non-Executive Director (a), (b)*, (c)

Lorraine Baldry has served on public company boards for more than 11 years and currently is Chairman of London and Continental Railways Limited, Inventa Partners Limited and Tri-Air Developments Limited. She is a board member of the Olympic Delivery Authority where she chairs the planning committee. She was previously senior independent Non-Executive Director of DTZ Holdings plc, also Chairman of the London Thames Gateway Development Corporation from its inception in 2004 until October 2008. 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 is a Freeman of the Worshipful Company of Information Technologists, an Honorary Member of the Royal Institution of Chartered Surveyors and a past president of the British Property Federation.

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

Andrew Shilston graduated from the University of Oxford in 1977 with an MA in Engineering Sciences and is a member of the Institute of Chartered Accountants of England and Wales and a Fellow of the Association of Corporate Treasurers. Andrew joined Rolls-Royce Group PLC in 2002 and was appointed Group Finance Director in 2003 where he remained until 2011. He was Finance Director at Enterprise Oil Ltd from 1993 to 2002. Andrew was also an independent Non-Executive Director of AEA Technology Group plc between 1996 and 2004 and Cairn Energy plc between 2004 and 2008. He is currently independent Non-Executive Director of BP plc.

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

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

Tim Bunting, Non-Executive Director

Tim Bunting 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 Hemlyn Foundation. He graduated from the University of Cambridge.

Jamie Wood, Non-Executive Director

Jamie Wood graduated from the University of Durham in 1991 and subsequently attained his MA from London University in 2005. He qualified as a Chartered Accountant in 1995 and spent time in industry with Walt Disney. Since then he has managed global equity portfolios in Bank of Ireland Asset Management and Morgan Stanley Investment Management. Prior to joining Newman Ragazzi in 2005 he was an analyst at JP Morgan and ran both the highly rated Communications Equipment and the Internet research teams and was part of the top rated Media team. Jamie is currently a partner of Odey Asset Management LLP.

(a) Member of Audit and Risk committee.
(b) Member of Remuneration committee.
(c) Member of Nomination committee.
(d) Member of Market Disclosure committee.
* Denotes Chair of respective committee.

Directors Report

For the year ended 31 December 2011

The Directors present their annual report and audited financial statements for the Group for the year ended 31 December 2011.

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 share of the joint venture result of Health Properties (Bath) Limited ('Health Properties Bath'), drawn up to 31 December 2011. 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 patients. The Group's business strategy is founded on the creation of the Circle Partnership, comprising a group of consultants, GPs and healthcare professionals. The Circle Partnership is built on the belief that the best way to deliver great patient care is to empower the doctors, nurses and everyone who works in the hospitals, treatment centres and clinics, to put patients' needs first.

Business review

The information that fulfils the requirements of the Business review can be found in the Operating and financial review on pages 6 to 9. Information on the environment, employees, community and social issues is given in the Report on corporate governance on pages 17 to 20.

Results and dividends

The loss and total comprehensive loss for the financial year attributable to owners of the parent amounted to £28,694,000 (2010: £34,290,000). The Directors do not recommend the payment of any dividends (2010: £nil).

Share capital and control

As at 31 December 2011, the Company's authorised share capital comprised 100,000,000 ordinary shares of £0.02 each, of which 62,771,049 (note 24) 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 out any special rights with regard to control of the Company. There are no restrictions or limitations on the holdings of ordinary shares and no requirements for prior approval of any transfers.

The appointment and replacement of Directors is governed by the Company's Articles of Associations. 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 2011, the Group had 51 equivalent days (2010: 52 days) of purchases outstanding and the Company had 19 equivalent days (2010: 8 days).

At 31 December 2011, trade creditors in the Group and Company are £9,646,000 and £143,000 respectively (2010: £9,996,000 and £16,000).

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group will continue in operational existence for the foreseeable future. See note 2 to the financial statements.

Events after the reporting period

Hinchingbrooke Health Care NHS Trust

On 1 February 2012, the Group commenced the operation of the contract to manage the Hinchingbrooke Health Care NHS Trust.

JCAM restructure

On 3 February 2012, the Company and JCAM agreed to restructure the Company's existing £14,131,000 loan. The loan was repaid and a new loan for £14,131,000 was entered into between JCAM and CH Subco Limited, a wholly-owned Jersey subsidiary of the Company, on materially the same terms as the previous loan. As part of the restructuring, JCAM waived any breaches under the previous loan. The Group provided enhanced security over its assets and the Company placed £1,536,000 in a pledged account in favour of JCAM to cover any future liabilities arising under the loan. The new loan is due to be repaid in February 2013.

2012 fund raise

On 28 May 2012, the Company entered into an underwriting agreement with Numis Securities and a subscription agreement with Balderton Capital III L.P. to raise an aggregate of £47,500,000 by way of equity funding, before fees, at a price per share of £0.70. The equity fund raise is subject to the terms of the underwriting agreement, the subscription agreement, and shareholder approval at an extraordinary general meeting to be held on or about 18 June 2012. Shareholders representing in excess of 75% of the current issued share capital have irrevocably undertaken to vote in favour of the shareholder resolutions to approve the issue of new shares in connection with the equity fund raise.

Resolution of cross default on GE lease

The cross-default under Circle International plc's equipment lease with GE (note 30), 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 loans on 22 May 2012. Under the restructured terms, Circle Holdings plc has granted a guarantee to Lehman in respect of the repayment of the mezzanine debt, with Circle Holdings plc's liability under the guarantee being capped at £625,000.

AIB loan

The Group is currently in discussion with AIB regarding the loan facility which is secured on land owned in Edinburgh with no recourse to the Group. The loan matures on 30 June 2012 (note 21).

Future developments

Further funding is being sought from pension funds, equity investors and a number of leading banks for the next hospitals in the build programme.

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

Directors Report (continued)

For the year ended 31 December 2011

Directors

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

Massoud Fouladi	Chief Medical Officer	
Ali Parsa	Chief Executive Officer	(appointed 23 May 2011)
Paolo Pieri	Chief Financial Officer	(appointed 23 May 2011)
Michael Kirkwood, CMG	Non-Executive Chairman	(appointed 13 June 2011)
Lorraine Baldry	Non-Executive Director	(appointed 13 June 2011)
Peter Cornell	Non-Executive Director	(appointed 13 June 2011)
Tim Bunting	Non-Executive Director	(appointed 13 June 2011)
Jamie Wood	Non-Executive Director	(appointed 6 July 2011)
Andrew Shilston	Non-Executive Director	(appointed 5 August 2011)
Robert Ayliffe **	Director	(resigned 23 May 2011)
Simon Kelly **	Director	(resigned 23 May 2011)

**Directors employed by Capita Fiduciary Group Limited ('Capita'), a fiduciary services company based in Jersey.

Biographies of the current Directors are detailed on pages 10 to 11 and Directors' beneficial interests in the Group's share capital and warrants are detailed on page 23 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 £26,000 (2010: £14,600) 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 20.

Risk is part of doing business; the risk management system aims to provide assurance to the Board on the effectiveness of the Group's control framework in managing risk, including maximised resource efficiency through 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' review), sharing of best practice and effective crisis management.

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

As with all medical providers, clinical risk is a major consideration. The Group has an integrated corporate governance structure which is chaired by the Chief Medical Officer, 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. This committee in turn provides written risk assurance reports to the boards of the relevant Circle group companies and the 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.

Government policy and regulatory risk

There are risks that political or policy changes may mean that the number and size of contracts awarded to the Group are diminished and that fewer services provided by the Group are contracted. New regulations may be introduced which could have an adverse effect on the Group's operational and compliance costs. In addition, the Group relies on the ability and willingness of government-funded bodies such as PCTs and NHS Trusts to pay for the Group's services.

Reputational risk

Reputational risk is the risk that the Group fails to provide medical care that is of a sufficiently high quality, resulting in patient or payor dissatisfaction and negative publicity. This is mitigated by the fact that the Group provides high quality medical care that is backed up by clinical governance and quality quartet reviews.

Attracting, developing and retaining talented employees

The ability of the Group to achieve its strategic objectives depends partly on its ability to recruit, retain and develop highly skilled competent people at all levels. The Group has a performance review process and remuneration is externally benchmarked to ensure ongoing competitiveness.

Financial risk management

The Group's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk, cash flow risk, interest rate risk and contract risk. The Group seeks to limit the adverse effects of the above risks on the financial performance of the Group by monitoring levels of debt finance and the related finance costs, and by matching the risks of the financing with the risk 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.

Due to the nature of the current minimum take ISTC contract with the Department of Health ('DoH'), there is no material price or credit risk exposure for Circle's Nottingham NHS Treatment Centre.

– Price risk

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

– 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 that have high credit worthiness. Credit control procedures are designed to ensure that contracted revenue is collected according to agreed terms.

Directors Report (continued)

For the year ended 31 December 2011

– Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group aims to mitigate liquidity risk by robustly managing cash generation across its operations and by applying cash collection targets throughout the Group. Updated projections and forward plans on raising funds are prepared and current cash projections show the need for fundraising to provide ongoing working capital and to meet future growth plans.

– Cash flow risk

Cash flow risk is the exposure to variability of cash flows associated with a recognised asset or liability, such as future interest payments on a variable rate debt (see below). Operational cash flow risks are managed through detailed budgeting and tight cost control and where the need arises, significant costs savings are made in the short-term by reducing Head Office costs.

– Funding risk

Funding risk is the risk that the Group is unable to obtain sufficient funding to pursue its growth plans and expansion opportunities. This is mitigated by the fact the Group is backed by leading UK institutional investors that have financed the Company through several financing rounds over the last seven years.

– Interest rate risk

The Group's interest rate policy has the objective of minimising net interest expense against the background of a difficult credit market. The Group is exposed to variability of cash flows associated with future interest payments on variable rate debt. The Group manages this risk, where possible, by interest rate swaps and long-term debts, where appropriate. Should further interest rate hedging activities be undertaken in the future, the Board has approved the use of interest rate swaps.

– Contract risk

Contract risk is the risk that the Group is unable to renew the NHS contracts at the end of their fixed tenure. The Group aims to mitigate this risk by maintaining good relationships with contracting parties and actively pursuing contract renewals and extensions ahead of time. The contract to run the Nottingham NHS Treatment Centre expires in July 2013. Negotiations to renew the contract will commence in 2012.

On behalf of the Board

A Parsa

Ali Parsa
Chief Executive Officer
29 May 2012

Report on Corporate Governance

For the year ended 31 December 2011

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. As envisaged by the Code, the Board has established three committees: an Audit and Risk committee, a Remuneration committee and a Nominations committee. In addition, the Board has authorised a Market Disclosure committee and an Integrated Governance committee, with the latter reporting into the Audit and Risk committee. These committees operate within defined terms of reference, as determined by the Board, details of which are publicly available at the Group's registered office. The functions and responsibilities of each committee are described below and the Chair and other members of the committees are listed in the Board of Directors biographies on pages 10 to 11.

The Board

The Board of Directors comprises a Non-Executive Chairman, three 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 10 to 11. 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, judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement. The Board considers that the Company complies with the requirements of the Code in this regard.

The Non-Executive Directors contribute a wide range of skills and experience, forming a strong and independent element within the Board. The Non-Executive Directors receive a fixed fee for services rendered, are appointed for an initial period of three years, which may be extended by agreement with the Board, subject to re-election by shareholders at the AGM, and have not been employees of the Company at any time. Their opinions carry significant weight in the decision making process, both operational and financial, and they are free from any business or personal relationships 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 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 on all aspects of the role, 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 meets at regular intervals throughout the year and has reserved for its consideration matters including:

- the responsibility for the overall strategy of the Group;
- significant capital expenditure projects, budget approval and any major financial proposals;
- ensuring effective systems of internal control and risk management;
- regulatory compliance;
- approval of public announcements and communications with shareholders;
- approval of 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 Management effectively. A budget is agreed by the Board annually and performance against budget is reported monthly.

Report on Corporate Governance (continued)

For the year ended 31 December 2011

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 him or herself for reappointment at the first Annual General Meeting ('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 it 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 Integrated Governance Committee which is chaired by the Chief Medical Officer, Massoud Fouladi, who also sits on the Board. Further details are provided in the principal risks and uncertainties section of the Directors' report on pages 14 to 16.

Remuneration committee

The Remuneration committee recommends policies the Company should adopt on executive remuneration, determines the levels of remuneration for each of the Executive Directors, recommends and monitors the remuneration of members of senior management 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 21 to 23.

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, potential Board candidates as the need may arise and formulates the succession plans for the Chairman. It recommends to the Board, in conjunction with the Circle Partnership, the succession plans for the Chief Executive Officer. The Nominations committee meets at least once a year and whenever necessary to fulfil its responsibilities. The Code recommends that a majority of the Nominations committee be Non-Executive Directors and the Company complies with the requirements of the UK Corporate Governance Code in this regard.

Market Disclosure committee

The Market Disclosure committee assists the Company 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 UK Corporate Governance Code does not require companies to have a Market Disclosure committee but the Directors consider it best practice to have such a committee.

Report on Corporate Governance (continued)

For the year ended 31 December 2011

Performance evaluation and attendance

As the Board was only set up immediately prior to the Group listing on AIM, it has not yet undertaken a formal evaluation of its performance to ensure the committees continue to be effective, that individual Directors demonstrate commitment to their respective role and have sufficient time to meet their commitment to the Company. The Board intends to do this in the coming year.

Attendance by the Directors at the various committees from 17 June 2011 when the Group listed, was as follows:

	Board	Audit and Risk committee	Remuneration committee*	Nomination committee	Market disclosure committee
Ali Parsa	5	n/a	n/a	n/a	1
Massoud Fouladi	4	n/a	n/a	n/a	n/a
Paolo Pieri	5	n/a	n/a	n/a	1
Michael Kirkwood, CMG	5	n/a	n/a	2	1
Lorraine Baldry	5	3	n/a	2	n/a
Peter Cornell	5	3	n/a	2	n/a
Andrew Shilston**	3	2	n/a	n/a	n/a
Tim Bunting	5	3	n/a	n/a	n/a
Jamie Wood***	5	n/a	n/a	n/a	n/a
Total meetings held	**5**	**3**	**–**	**2**	**1**

* There were no remuneration committees held during 2011.
**Andrew Shilston was appointed to the Board on 5 August 2011.
***Jamie Wood was appointed to the Board on 6 July 2011.

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 Annual General Meeting 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 commercial and operational success. Communication is critical to employee relations and the Group uses 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. Bi-annual offsite meetings are held for Management and Directors to review strategy implementation and key business opportunities. 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 25 to the financial statements.

Report on Corporate Governance (continued)

For the year ended 31 December 2011

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. CircleReading, the next new-build hospital, is designed to be the most energy efficient hospital in the UK.

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 the 'bike-to-work' scheme that it has recently introduced.

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 Integrated Governance Committee. Under the framework, significant incidents are reported without delay to the Board.

Michael Kirkwood, CMG
Chairman
29 May 2012

Directors' Remuneration Report

For the year ended 31 December 2011

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 10 to 11 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.

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. The Group did not contribute to any pension schemes on behalf of Directors in 2011. A defined contribution pension scheme was introduced in March 2012.

Share ownership plan

Circle Partnership is an employee share ownership plan and currently owns 49.9% of the shares in Circle Health. 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.

Share warrants

Health Trust (Jersey), a family trust of which Ali Parsa is a beneficiary, holds a total of 2,340,765 share warrants at an exercise price of £1.52 which entitle the holder to an equivalent number of ordinary shares in the Company. They vest over a 24 month period from May 2011 and are exercisable from the date they vest (1/24 every month from May 2011).

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.

There have been no 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 months' notice. None of the Non-Executive Directors are engaged on a service contract with the Company.

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

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

Individual emoluments for the year

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

	Annual contracted salaries/fees £'000	Actual salaries/fees 2011 £'000	Actual salaries/fees 2010 £'000	Actual taxable and other benefits 2011 £'000	Actual taxable and other benefits 2010 £'000	Total 2011 £'000	Total 2010 £'000
Executive							
Ali Parsa	**400**	**168**	–	**1**	–	**169**	–
Massoud Fouladi	**152**	**152**	150	**–**	–	**152**	150
Paolo Pieri	**183**	**107**	–	**–**	–	**107**	–
Non-Executive							
Michael Kirkwood, CMG	**100**	**50**	–	**–**	–	**50**	–
Lorraine Baldry	**53**	**30**	–	**–**	–	**30**	–
Peter Cornell	**40**	**20**	–	**–**	–	**20**	–
Andrew Shilston	**48**	**16**	–	**–**	–	**16**	–
Tim Bunting	**–**	**–**	–	**–**	–	**–**	–
Jamie Wood	**–**	**–**	–	**–**	–	**–**	–
	976	**543**	150	**1**	–	**544**	150

In 2010, prior to listing on AIM, there was only one Executive Director remunerated by the Group, the remainder were employed by Capita. In total, Capita charged the Group £11,000 in the year to 31 December 2011 for Director responsibility fees (2010: £22,000). Note 34 provides further details of the fiduciary services provided by Capita to the Group during the year.

No Directors waived emoluments in respect of the year ended 31 December 2011 (2010: none).

Directors' Remuneration Report (continued)

For the year ended 31 December 2011

Beneficial interests

Shares in Circle Partnership

	At 1 January 2011 (number)	Exchanged in the year** (number)	Awards in year (number)	At 31 December 2011 (number)
Health Partners Limited*	–	3,655,016	1,618,635	5,273,651
Massoud Fouladi	4,980,000	–	120,000	5,100,000
	4,980,000	3,655,016	1,738,635	10,373,651

*Health Partners Limited ('Health Partners') is a wholly owned subsidiary of Health Trust (Jersey), a family trust of which Ali Parsa is a beneficiary.

**There is a legal agreement dated 24 May 2011 to issue these shares to Health Partners. As at 31 December 2011 the shares had not been issued.

Shares in Circle Holdings plc

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

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

Warrants in Circle Holdings plc

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

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

Lorraine Baldry
Chair, Remuneration committee
29 May 2012

Statement of Directors' Responsibilities

For the year ended 31 December 2011

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') 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.

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

Ali Parsa
Chief Executive Officer
29 May 2012

Independent Auditors' Report to the members of Circle Holdings plc

For the year ended 31 December 2011

We have audited the Group financial statements of Circle Holdings plc for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chief Executive Officer's Report, Chairman's Statement, Operating and Financial Review, Directors' report, Corporate Governance Report and Remuneration Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of the Group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matter

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Circle Holdings plc for the year ended 31 December 2011.

Nigel Reynolds
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditors
London
29 May 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	5	**74,607**	76,472
Cost of sales		**(50,887)**	(49,775)
Gross profit		**23,720**	26,697
Administrative expenses before exceptional items		**(40,853)**	(46,346)
Operating loss before exceptional items	7	**(17,133)**	(19,649)
Exceptional operating items	7	**(1,413)**	(15,067)
Operating loss		**(18,546)**	(34,716)
Finance income	11	**3,454**	3,451
Finance costs	10	**(6,809)**	(6,789)
Exceptional finance items	7	**(10,097)**	(451)
Provision for joint venture deficit	16	**(926)**	(255)
Loss before taxation		**(32,924)**	(38,760)
Income tax credit/(expense)	13	**613**	(645)
Loss and total comprehensive loss for the financial year		**(32,311)**	(39,405)
Loss and total comprehensive loss for the year attributable to:			
– Owners of the parent		**(28,693)**	(34,290)
– Non-controlling interests	25	**(3,618)**	(5,115)
		(32,311)	(39,405)
Basic and diluted loss per ordinary share (pence)	12	**(64.4)**	(173.3)

There is no other comprehensive income arising in the Group or joint venture (2010: £nil) and therefore no separate Statement of Other Comprehensive Income has been prepared.

Consolidated Balance Sheet

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	14	**5,391**	5,384
Property, plant and equipment	15	**20,594**	7,939
Trade and other receivables	18	**43,961**	47,281
		69,946	60,604
Current assets			
Inventories	17	**901**	1,309
Trade and other receivables	18	**19,788**	14,715
Cash and cash equivalents	19	**26,004**	12,322
		46,693	28,346
Total assets		**116,639**	88,950
Current liabilities			
Trade and other payables	20	**(15,303)**	(20,399)
Loans and other borrowings	21	**(22,099)**	(21,966)
Provisions for other liabilities and charges	22	**(924)**	(602)
Warrant liability	26	**–**	(1,971)
		(38,326)	(44,938)
Non-current liabilities			
Loans and other borrowings	21	**(46,259)**	(42,726)
Deferred tax liabilities	13	**–**	(645)
Provision for joint venture deficit	16	**(2,688)**	(1,762)
Provisions for other liabilities and charges	22	**(707)**	(608)
Derivative financial instruments	23	**(2,475)**	(3,494)
		(52,129)	(49,235)
Total liabilities		**(90,455)**	(94,173)
Net assets/(liabilities)		**26,184**	(5,223)
Shareholders' equity			
Share capital	24	**1,255**	425
Share premium	24	**148,548**	111,680
Other reserve	24	**22,182**	–
Warrant reserve	26	**21,475**	19,878
Retained deficit		**(147,106)**	(128,049)
Equity attributable to owners of the parent		**46,354**	3,934
Non-controlling interests	25	**(20,170)**	(9,157)
Total shareholders' equity		**26,184**	(5,223)

The financial statements on pages 27 to 83 were approved by the board of Directors on 29 May 2012 and were signed on its behalf

Ali Parsa
Chief Executive Officer

Paolo Pieri
Chief Financial Officer

Circle Holdings plc

Registered number: 100016 (Jersey)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital £'000	Share premium £'000	Other reserve £'000	Warrant reserve £'000	Retained deficit £'000	Total equity attributable to owners of the parent £'000	Non-controlling interests £'000	Total shareholders' equity £'000
At 1 January 2010	**386**	**101,190**	**–**	**16,524**	**(93,759)**	**24,341**	**(4,042)**	**20,299**
Loss and total comprehensive loss for the year	–	–	–	–	(34,290)	(34,290)	(5,115)	(39,405)
Transactions with owners:								
Issue of shares (note 24)	39	10,490	–	–	–	10,529	–	10,529
Share-based charges (note 27)	–	–	–	3,354	–	3,354	–	3,354
At 1 January 2011	**425**	**111,680**	**–**	**19,878**	**(128,049)**	**3,934**	**(9,157)**	**(5,223)**
Loss and total comprehensive loss for the year	–	–	–	–	(28,693)	(28,693)	(3,618)	(32,311)
Transactions with owners:								
Issue of shares (note 24)	535	40,674	–	–	2,241	43,450	–	43,450
Issue of shares under warrants (note 24)	295	–	22,182	–	–	22,477	–	22,477
Share-based charges (note 27)	–	–	–	1,597	–	1,597	–	1,597
Capitalised costs in relation to fundraising	–	(3,806)	–	–	–	(3,806)	–	(3,806)
Effect of shares vesting in the year (note 25)	–	–	–	–	1,438	1,438	(1,438)	–
Shares issued to Health Partners (note 25)	–	–	–	–	2,204	2,204	(2,204)	–
Winding up of Health Properties Benefit Trust (note 25)	–	–	–	–	835	835	(835)	–
Effect of Nations Healthcare group restructure (note 25)	–	–	–	–	2,383	2,383	(2,383)	–
Effect of anti-dilutive shares issued to Health Partners (note 25)	–	–	–	–	535	535	(535)	–
At 31 December 2011	**1,255**	**148,548**	**22,182**	**21,475**	**(147,106)**	**46,354**	**(20,170)**	**26,184**

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash used in operating activities	31	**(23,575)**	(18,184)
Interest paid		**(6,040)**	(6,387)
Interest received	11	**3,454**	3,451
Net cash used in operating activities		**(26,161)**	(21,120)
Cash flows from investing activities			
Additional consideration paid for Circle Clinic Windsor	20	**(10)**	(13)
Purchase of intangible assets	14	**(185)**	(94)
Proceeds from disposal of property, plant and equipment		**–**	5,580
Proceeds on cessation of contract to run Circle's Burton NHS Treatment Centre	4	**2,500**	–
Purchase of property, plant and equipment		**(10,530)**	(7,795)
Net cash used in investing activities		**(8,225)**	(2,322)
Cash flows from financing activities			
Net proceeds from issuance of warrants	24	**295**	1,971
Proceeds from issuance of ordinary shares	24	**52,545**	10,529
Capitalised costs in relation to fundraising	24	**(3,806)**	–
Repayment of borrowings	32	**(5,922)**	(3,502)
Proceeds from borrowings	32	**5,000**	696
Sale and leaseback proceeds	32	**–**	252
Repayment of finance lease	32	**(44)**	(6)
Movement in restricted cash:			
– Release of minimum balance – GE Capital Equipment Finance Limited ('GE') and DoH	19	**600**	500
– Release of DoH performance bond	19	**500**	3,900
– Release of Circle's North Bradford NHS Treatment Centre rental bond		**–**	213
– Committed cash in respect of future interest on Allied Irish Bank ('AIB') loan	19	**(175)**	–
Net cash inflow from financing activities		**48,993**	14,553
Net increase/(decrease) in unrestricted cash and cash equivalents		**14,607**	(8,889)
Unrestricted cash and cash equivalents at the beginning of the year		**8,122**	17,011
Unrestricted cash and cash equivalents at the end of the year		**22,729**	8,122
Cash and cash equivalents consist of:			
Cash at bank and in hand		**26,004**	12,322
Restricted cash:			
– Minimum balance – GE and DoH	19	**(1,300)**	(1,900)
– Letter of Credit – GE	19	**(1,800)**	(1,800)
– DoH Performance Bond	19	**–**	(500)
– Committed cash in respect of future interest on AIB loan	19	**(175)**	–
Unrestricted cash at bank and on hand		**22,729**	8,122

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 General information

Circle Holdings plc, its subsidiaries and joint venture provide medical and property services in the UK.

The Company is a public limited company and is incorporated in Jersey. The registered office is 12 Castle Street, St Helier, Jersey. Following a resolution on 23 May 2011 passed by the Board of Directors, the Company is now resident in the UK for tax purposes.

2 Significant accounting policies

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

Basis of preparation

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

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

Changes in accounting policy and disclosure

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 2011. The following new standards are effective for accounting periods beginning 1 January 2011 but have not had a material impact on the results or financial position of the Group:

- IFRS 7 'Financial instruments: disclosures' – Amendments resulting from May 2010 Annual Improvements to IFRSs
- IAS 1 'Presentation of financial statements' – Amendments resulting from May 2010 Annual Improvements to IFRSs
- IAS 24 'Related party disclosures' – Revised definition of related parties
- IFRS 7 'Financial instruments: disclosures' – Amendments enhancing disclosures about transfers of financial assets
- IAS 32 'Financial instruments: Presentation' -Amendments to classification of rights issues
- IFRIC 19 'Extinguishing financial liabilities with equity instruments' – Clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability

IFRS standards in issue, not yet effective as at 31 December 2011, but which will apply in the future are as follows:

- IAS 12 'Income Taxes' (amended regarding recovery of underlying assets)
- IAS 19 'Employee benefits' (as amended in June 2011)
- IFRS 9 'Financial instruments: classification and measurement'
- IFRS 10 'Consolidated financial instruments'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair value measurement'

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

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 2011. These forecasts include the underwritten commitments received by the Company to raise a further (i) £46,000,000 of funds from Numis Securities, subject to the terms of the placing agreement and shareholder consent, and (ii) £1,500,000 of funds from Balderton Capital III L.P. subject to the terms of the subscription agreement and shareholder consent, such shareholder consent expected on or about 18 June 2012 together with existing cash balances and cash flows from the operating businesses.

The Board currently believes that, following the completion of the fundraising, the Group will have sufficient funding to carry out its current plans. Should the Group not perform in line with the Board's current expectations or unforeseen circumstances occur the Group may need to seek additional debt and/or equity funding. Based on this, the Directors believe that the Group has adequate resources to continue in operational existence for the foreseeable future and as such, consider it appropriate for these financial statements to be prepared on a going concern basis.

Basis of consolidation

i *Subsidiaries*

The results of subsidiaries (defined as where the Group has control) 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 share scheme*

The results of 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 25), whereby employees, consultants and GPs 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 venturer 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.

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

The results of the subsidiaries and joint venture are measured as at the same reporting date as the parent company using consistent accounting polices. Intra-group transactions and balances are eliminated on consolidation.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

Revenue

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

– *Contracts with guaranteed volumes and payments*

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

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

– *Extended Choice Network*

Such NHS contracts offer payment by result, where the Group invoices directly 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 whereas for self-pay, an element of the revenue is used to pay the costs of the consultants.

– *Other miscellaneous income*

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

Operating financial asset

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

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

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

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

Exceptional items

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

Finance costs

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

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

Finance income

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

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 hardwareequipment) 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 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 discount rate. Gains and losses on disposal of a business include the carrying amount of goodwill relating to the business sold.

Computer software and other intangible assets are recognised at cost, comprising purchase price from third parties as well as internally generated development costs where relevant. 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

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

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

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

Assets under construction

i *Commissioning costs in course of construction*

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

ii *Development costs in course of construction*

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

Leases

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

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

Inventories

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

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

Amounts recoverable on contracts

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

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 comprise cash at bank and in hand and overnight deposits.

In the consolidated statement of cash flows, cash and cash equivalents includes cash at hand and overnight deposits, less cash which is not freely available.

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, otherwise they are classified as non-current liabilities.

Pension costs

Nations Healthcare (Nottingham) Limited, Nations Healthcare (Burton) Limited and Nations Healthcare Limited (together the 'Nations Healthcare group'), Circle Hospital (Bath) Limited and Windsor Hand Surgery Limited operate 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.

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 substantially enacted, at the end of the reporting period. Deferred tax is charged or credited in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

Derivative financial instruments

The Group has entered into derivative financial instrument arrangements to manage its exposure to interest rate risk. The Group's criteria for entering into such arrangements, namely interest rate swaps, are that the instrument must be related to an asset or a liability and it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

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

Provisions for other liabilities and charges

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

Loans and borrowings

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

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

Compound financial instruments

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

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

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

Warrants

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

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

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

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 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 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 Group are presented as a liability in the balance sheet, measured initially at fair value, net of transaction costs, and subsequently at fair value through profit and loss until extinguished on conversion or redemption. The initial fair value of the warrant liability is determined using an appropriate valuation methodology.

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 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.

Dividends

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

Share capital

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

Significant accounting judgements and estimates

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

Judgements

The key judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i *Revenue recognition*

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

ii *Lease classification*

The Group has entered into various lease arrangements, the majority of which have been classified as operating rather than finance leases under the interpretation of IAS 17 ('Leases').

iii *Consolidation of Circle Partnership 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 has 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.

iv *Amounts recoverable on contracts*

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

Estimates

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

i *Tax*

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

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 income statement in future years.

iii *Equity instruments*

The issuance of equity instruments, in particular warrants, are valued dependent on the specific terms and conditions of each instrument. Warrant valuations are calculated using several assumptions (eg: share price volatility, probability of vesting events and time constraints) included within an option pricing model. Where the value of any equity instrument is conditional on a number of potential outcomes, a Monte Carlo simulation, a complex mathematical algorithm valuation ('Monte Carlo simulation') may be used. In the event that estimates are wrong, this may impact the charge in future years.

iv *Share-based charges*

Share-based charges are based on the warrant valuations calculated using several assumptions (eg: 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 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 income statement in future years.

vi *Fair value of financial instruments*

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

vii *Allowance for impairment of trade receivables*

An allowance for impairment of trade receivables is made, based on the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. In the event that estimates are wrong, this may impact the income statement in future years.

viii *Goodwill and intangibles*

Goodwill and intangibles are recognised at cost less impairment losses. The carrying amount of goodwill is assessed annually based on value in use calculations, using cash flow projections based on three year financial forecasts prepared by Management. Key assumptions relating to forecasts in revenue growth and decline are used and in the event that these estimates are wrong, this may impact the income statement in future years.

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

3 Segmental reporting

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources, and 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. Revenue from external customers in the segmental analysis is measured in a manner consistent with the income statement. Geographic factors are not considered as all of the Group's operations take place within the United Kingdom.

During the year, the Board has changed the way it reviews the results of the business and no longer allocates the majority of head office and other central costs across the business segments. This has resulted in the 2010 segmental information being restated. 'IFRS Improvement' (endorsed 23 March 2010) has been adopted in relation to non-disclosure of segment assets under IFRS 8. Assets and liabilities are not disclosed by segment as they are not reported to the Board.

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

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

Other information				
– Capital additions	235	1,005	13,517	14,757

2010	Circle Independent Restated £'000	Circle NHS Restated £'000	All Other Segments and Unallocated Items Restated £'000	Total Group Restated £'000
Revenue from external customers	6,000	70,416	56	76,472
Cost of sales	(5,978)	(43,792)	(5)	(49,775)
Gross Profit	**22**	**26,624**	**51**	**26,697**
Administrative expenses before exceptional items, depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(10,682)	(19,092)	(12,364)	(42,138)
EBITDA before exceptional items	**(10,660)**	**7,532**	**(12,313)**	**(15,441)**
Depreciation, amortisation and charge recognised in respect of amounts recoverable on contract	(368)	(3,701)	(139)	(4,208)
Share-based charges in respect of warrants issued	–	–	(3,354)	(3,354)
Impairment of property, plant and equipment	(9,576)	–	–	(9,576)
Impairment of goodwill	–	(2,845)	–	(2,845)
Reversal of onerous lease provision	–	–	367	367
Other exceptional items	–	(295)	636	341
Operating (loss)/profit	**(20,604)**	**691**	**(14,803)**	**(34,716)**
Finance income				3,451
Finance costs				(6,789)
Exceptional finance costs				(451)
Provision for joint venture deficit				(255)
Loss before taxation				**(38,760)**

Other information				
– Capital additions	2,656	418	4,721	7,795

4 Disposals and discontinued operations

In July 2011, the contract to run Burton NHS Treatment Centre came to an end after its five year term. The business assets, comprising property, plant and equipment (including the GE equipment) and inventories were sold to Burton Hospitals NHS Foundation Trust for an agreed consideration of £2,500,000 (which included managing the transition and passing on established knowledge up to 31 July 2011). The profit on cessation of contract has been determined as follows:

	2011 £'000
Proceeds	**2,500**
Property, plant and equipment	**882**
Inventories	**125**
Profit on disposal	**1,493**

Revenue for the seven months to July 2011 was £9,988,000 (year to 31 December 2010: £16,781,000). The operation has not been classified as discontinued under IFRS 5 'Non-current assets held for resale and discontinued operations' since it is not managed as a single Cash Generating Unit ('CGU') nor represents a separate major line of business.

5 Revenue

	2011 £'000	2010 £'000
Provision of healthcare services	**74,339**	76,108
Income from third party use of treatment centre facilities	**–**	219
Other miscellaneous income	**268**	145
	74,607	76,472

6 Operating loss

Operating loss is stated after charging/(crediting):

	2011 £'000	2010 £'000
Charge recognised in respect of amounts recoverable on contracts (note	**2,253**	2,853
Amortisation of intangible assets (note 14)	**57**	85
Depreciation of property, plant and equipment (note 15):		
– owned	**1,091**	1,270
– leased	**99**	–
Auditors' remuneration (see below)	**397**	399
Plant and machinery operating lease rental	**4,762**	5,236
Land and buildings operating lease rental	**6,038**	6,511
Reversal of amounts previously written off (note 18)	**–**	(783)
Exceptional operating items (note 7)	**1,413**	15,067

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2011

Auditors remuneration payable to PricewaterhouseCoopers LLP:

	2011 £'000	2010 £'000
For the provision of audit services:		
– Fees payable for the audit of the Company	**25**	22
– Fees payable for the audit of the consolidated financial statements	**84**	62
– Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	**171**	171
Services relating to taxation	**117**	84
All other services	**–**	60
Charged to operating loss	**397**	399
Assurance services relating to listing on AIM	**888**	–
	1,285	399

Assurance services relating to the listing on AIM have been capitalised within equity (note 24).

7 EBITDA and exceptional items

Exceptional operating items

	2011 £'000	2010 £'000
Impairment of property, plant and equipment (note 15)	**30**	9,576
Impairment of goodwill (after post-acquisition adjustment) (note 14)	**33**	2,845
Share-based charges in respect of warrants issued (note 27)	**1,597**	3,354
AIM listing costs not capitalised	**293**	–
Net gain on sale of assets	**–**	(443)
Profit on cessation of contract to run Circle's Burton NHS Treatment Centre (note 4)	**(1,493)**	–
Increase in/(net reversal of) provision for onerous leases, including dilapidations (note 22)	**999**	(367)
Other exceptional (income)/costs	**(46)**	102
	1,413	15,067

Exceptional finance items

		2011 £'000	2010 £'000
Shareholder warrant expense	– November 2010 warrants (note 26)	**7,373**	–
	– March 2011 warrants (note 26)	**3,506**	–
Issue costs associated with warrant liability		**237**	–
(Gain)/loss on fair value of interest rate derivative (note 23)		**(1,019)**	451
		10,097	451

The shareholder warrant expense relates to the mark to market charge on the warrant instruments issued as part of equity raises.

Operating loss and EBITDA before exceptional items

	2011 £'000	2010 £'000
Operating loss before exceptional items	**(17,133)**	(19,649)
Depreciation	**1,190**	1,270
Amortisation of intangibles	**57**	85
Charge recognised in respect of amounts recoverable on contracts	**2,253**	2,853
EBITDA before exceptional items	**(13,633)**	(15,441)

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

8 Employee information

Staff costs

	2011 £'000	2010 £'000
Wages and salaries	**16,922**	16,747
Share-based charges in respect of warrants issued (notes 27)	**1,597**	3,354
Social security costs	**1,699**	1,737
Other pension costs (note 29)	**228**	189
	20,446	22,027
Less: amounts capitalised in balance sheet	**–**	(460)
	20,446	21,567

Share-based charges in respect of warrants issued were charged to exceptional operating items in 2011 and 2010 (note 7).

Monthly average number of employees

	2011 Number	2010 Number
Administrative	**323**	357
Clinical	**208**	276
	531	633

The average number of employees includes Directors on a service contract.

The 2010 split of employees between administrative and clinical has been restated for Circle's Nottingham NHS Treatment Centre as previously the administrative employees were disclosed as clinical and vice versa.

9 Directors' emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	**544**	150

In 2011, Directors' emoluments relate to the Non-Executive and Executive Directors, who are remunerated by Circle Holdings plc and Circle Health. In 2010, prior to listing on AIM, there was only one Executive Director remunerated by the Group, the remainder being employed by Capita, a fiduciary services company based in Jersey. In total, Capita charged the Group £11,000 in the year to 31 December 2011 in their capacity as Directors of Circle Holdings plc (2010: £22,000). Note 34 provides further details of the fiduciary services provided by Capita to the Group during the year.

The Directors do not have any retirement benefits accruing under money purchase schemes (2010: none).

Included within 2011 is an amount for Ali Parsa, who is a beneficiary of Health Trust (Jersey), in which an associated share-based charge arises. Note 27 provides more details.

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:

	2011 £'000	2010 £'000
Short-term employment benefits	**624**	593

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

Included within the above for both years is an amount for Ali Parsa, who is a beneficiary of Health Trust (Jersey), in which an associated share-based charge arises. Note 27 provides more details.

10 Finance costs

	2011 £'000	2010 £'000
Interest on Barclays plc ('Barclays') loan	**2,246**	2,317
Interest on JCAM (i) loan	**4,122**	3,901
Interest on AIB loan	**359**	279
Interest on JCAM (ii) loan	**–**	259
Finance lease interest	**57**	–
Unwind of discount on deferred consideration for Circle Clinic Windsor (note 21)	**25**	33
	6,809	6,789

(i) James Caird Asset Management loan facility of £13,300,000 expiring February 2013
(ii) James Caird Asset Management loan facility of £2,500,000 expired May 2010

During the year, £296,000 of directly attributable interest arising on the Vinci Construction loan (note 21) was capitalised (2010: £nil).

11 Finance income

	2011 £'000	2010 £'000
Bank interest receivable	**77**	74
Interest receivable on operating financial asset	**3,377**	3,377
	3,454	3,451

12 Loss per share

Basic loss per ordinary share is calculated by dividing the loss attributable to equity holders 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:

	2011	2010
Loss and total comprehensive loss for the year attributable to owners of the parent (£000's)	**(28,693)**	(34,290)
Weighted average number of ordinary shares in issue (number)	**44,547,591**	19,790,301
Basic and diluted loss per ordinary share (pence)	**(64.4)**	(173.3)

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.

13 Tax

i *Analysis of income tax (credit)/expense in year*

	2011 £'000	2010 £'000
Current tax		
UK corporation tax	**32**	–
Deferred tax		
Originating and reversal of temporary differences	**94**	645
Effect of reduction in tax rate	**60**	–
Recognition of previously unrecognised temporary difference	**(799)**	–
Income tax (credit)/expense	**(613)**	645

ii *Factors affecting the current tax (credit)/expense for the year*

Although the parent company is registered in Jersey, it became resident for UK tax purposes during the year and is subject to UK corporation tax. The tax assessed on the Group's loss for the year differs from the average standard rate of UK corporation tax of 26.5% (2010: 28.0%). The differences are explained below:

	2011 £'000	2010 £'000
Loss before taxation	**(32,924)**	(38,760)
Loss before taxation multiplied by the average standard rate of corporation tax in the UK of 26.5% (2010: 28.0%)	**(8,721)**	(10,853)
Effects of:		
Expenses not deductible for tax purposes	**3,492**	3,009
Depreciation in excess of capital allowances	**81**	(303)
Other temporary differences	**(270)**	1,027
Unrelieved losses	**4,850**	7,227
Group relief	**–**	(1)
Effect of Jersey tax at 0.0%	**694**	(106)
Deferred tax previously not recognised	**(799)**	645
Change in tax rate	**60**	–
Total income tax (credit)/expense for the year	**(613)**	645

iii *Factors that may affect future tax charges*

The standard rate of corporation tax in the UK changed from 28.0% to 26.0% with effect from 1 April 2011. Further changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. The Finance Bill 2011 includes legislation to reduce the main rate of corporation tax from 26.0% to 25.0% from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1.0% per annum to 23.0% by 1 April 2014.

Subsequently on 21 March 2012, the March 2012 Budget Statement announced that the UK Corporation tax rate would be reduced to 24.0% from 1 April 2012. This was substantively enacted on 26 March 2012. As this rate had not been substantively enacted at balance sheet date, deferred tax has been provided at 25.0%. There will not be a material difference in the value of deferred tax based on the change of rate.

The proposed reduction of the main rate of corporation tax to 23.0% from 1 April 2013 is expected to be enacted at Royal Assent in July 2012. A further reduction to 22.0% from 1 April 2014 is also expected.

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

iv *Deferred tax*

UK deferred tax has been calculated at 25.0% after the enactment of Finance Act 2011. The net deferred tax recognised in the balance sheet is as follows:

	2011 £'000	2010 £'000
At 1 January	**(645)**	–
Recognised during the year	**645**	(645)
At 31 December	**–**	(645)

The net deferred tax liability comprises:

	2011 £'000	2010 £'000
Tax losses carried forward	**7,205**	7,777
Depreciation in advance of capital allowances	**595**	1,431
Short-term temporary differences	**(7,800)**	(9,853)
	–	(645)

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.

	2011 £'000	2010 £'000
Deferred tax assets	**10,751**	11,239
Deferred tax liabilities	**(10,751)**	(11,884)
	–	(645)

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

	2011 £'000	2010 £'000
Tax losses carried forward	**25,888**	22,517
Depreciation in advance of capital allowances	**2,741**	2,585
Short-term temporary differences	**1,061**	2,753
Pension provision	**–**	6
	29,690	27,861

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.

14 Intangible assets

Cost	Goodwill £'000	Computer software £'000	Other intangible assets £'000	Total £'000
At 1 January 2010	8,306	259	146	8,711
Additions	–	74	20	94
Post-acquisition goodwill adjustment	(35)	–	–	(35)
At 1 January 2011	8,271	333	166	8,770
Additions	–	185	–	185
Post-acquisition goodwill adjustment	(88)	–	–	(88)
At 31 December 2011	**8,183**	**518**	**166**	**8,867**

Accumulated amortisation and impairment	Goodwill £'000	Computer software £'000	Other intangible assets £'000	Total £'000
At 1 January 2010	334	122	–	456
Amortisation charge for the year	–	85	–	85
Impairment charge for the year	2,845	–	–	2,845
At 1 January 2011	3,179	207	–	3,386
Amortisation charge for the year	–	57	–	57
Impairment charge for the year	33	–	–	33
At 31 December 2011	**3,212**	**264**	**–**	**3,476**
Net book amount				
At 31 December 2011	**4,971**	**254**	**166**	**5,391**
At 31 December 2010	5,092	126	166	5,384
At 1 January 2010	7,972	137	146	8,255

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 CGUs:

	2011 £'000	2010 £'000
Circle's Nottingham NHS Treatment Centre	**4,971**	4,971
Circle Clinic Windsor	**–**	121
	4,971	5,092

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 three 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. Cash flows for the three year period are discounted back to present value using a risk adjusted pre-tax discount rate of 10.0%, which represents the industry average cost of capital, adjusted to reflect the asset specific risks.

Based on this, the Group has impaired its goodwill on Circle Clinic Windsor by £33,000 (2010: £nil) in the year to 31 December 2011. The circumstances leading to the impairment are that the cash flows have been lower than the original business plan. This has also resulted in a reduction to the contingent consideration and loan notes of £15,000 (2010: £8,000, note 20) and £73,000 (2010: £27,000, note 21) respectively.

The management approved budgets for Circle's Nottingham NHS Treatment Centre are based on historic performance and include assumptions that the contract will be renewed in July 2013 and a long-term growth rate of 2.0%. The value in use calculations are sensitive to changes in the key assumptions used, most notably the discount rate and the long-term growth rate of 10.0% and 2.0% respectively, however it is estimated that a quantity change in key assumptions will not cause an impairment in the goodwill related to Circle's Nottingham NHS Treatment Centre.

ii *Computer software*

Computer software represents third party costs incurred in relation to the Group's information technology systems. Included within this category is £175,000 (2010: £70,000) spent on Manhattan, a relational database software with specific abilities for facilities management.

iii *Other intangible assets*

Other intangible assets include the development of 'know-how' for a new programme to build hospitals within a shortened time frame. This is achieved by utilising standard build components which have been manufactured off site at a reduced cost and reducing the amount of build time on site. During the year, Health Properties Limited (Health Properties) invested £nil (2010: £20,000) in 'know-how'. As the programme is still in the development phase, amortisation has not yet been charged on these other intangibles. Once the programme has been fully developed, the 'know-how' will be amortised over five years.

15 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 2010	9,604	11,819	835	1,538	3,115	26,911
Additions	995	4,587	206	545	1,462	7,795
Reclassifications	–	(10,123)	–	–	10,123	–
Disposals	(1,575)	(4,571)	–	(319)	(480)	(6,945)
At 1 January 2011	9,024	1,712	1,041	1,764	14,220	27,761
Additions	10,677	2,600	204	814	462	14,757
Disposals	–	(1,025)	(499)	(1,106)	(230)	(2,860)
At 31 December 2011	**19,701**	**3,287**	**746**	**1,472**	**14,452**	**39,658**

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 2010	4,189	3,369	390	809	2,027	10,784
Depreciation charge for the year	–	–	149	334	787	1,270
Impairment charge for the year	304	(304)	–	–	9,576	9,576
Reclassifications	–	(547)	–	–	547	–
Disposals	–	(1,441)	–	(208)	(159)	(1,808)
At 1 January 2011	4,493	1,077	539	935	12,778	19,822
Depreciation charge for the year	–	–	116	308	766	1,190
Impairment charge for the year	–	–	–	–	30	30
Disposals	–	(1,025)	(439)	(361)	(153)	(1,978)
At 31 December 2011	**4,493**	**52**	**216**	**882**	**13,421**	**19,064**
Net book amount						
At 31 December 2011	**15,208**	**3,235**	**530**	**590**	**1,031**	**20,594**
At 31 December 2010	4,531	635	502	829	1,442	7,939
At 1 January 2010	5,415	8,450	445	729	1,088	16,127

During 2011, assets relating to Circle's Burton NHS Treatment Centre, including £882,000 of fixed assets, were sold to the Burton Healthcare Foundation Trust for £2,500,000, resulting in an overall profit on disposal of £1,493,000 (notes 4 and 31).

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

	2011 £'000	2010 £'000
Leasehold land	**4,377**	–
Furniture, fittings and office equipment	**230**	246
	4,607	246

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

	2011 £'000	2010 £'000
Freehold	**10,831**	4,531
Leasehold	**4,377**	–
	15,208	4,531

16 Provision for joint venture deficit

	2011 £'000	2010 £'000
At 1 January	**(1,762)**	(1,507)
Increase in the year	**(926)**	(255)
At 31 December	**(2,688)**	(1,762)

	2011 £'000	2010 £'000
Group's share of net liabilities of joint venture (38.7%)		
Non-current assets	**13,571**	13,571
Current assets	**1,014**	971
	14,585	14,542
Current liabilities	**(15,902)**	(14,972)
Non-current liabilities	**(1,371)**	(1,332)
	(17,273)	(16,304)
Group's share of net liabilities	**(2,688)**	(1,762)

	2011 £'000	2010 £'000
Group's share of results of joint venture (38.7%)		
Revenue	**1,302**	1,239
Operating expenses	**(46)**	(51)
Finance costs	**(2,182)**	(1,443)
Group's share of loss after tax of joint venture	**(926)**	(255)

The Group has one joint venture, Health Properties Bath, which is incorporated in Jersey, owns the Bath 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, 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. No party to the joint venture has control as a resolution can only be made by the Board of Directors, with a majority of Directors.

As at 31 December 2011, the joint venture does not have any contingent liabilities or capital commitments. As at 31 December 2011, Group guarantees of up to £1,000,000 (2010: £4,000,000) were provided to Lehmans in respect of certain contractual obligations of Health Properties Bath.

17 Inventories

	2011 £'000	2010 £'000
Consumables	**901**	1,309

At 31 December 2011, an amount of £2,000 (2010: £90,000) has been provided against the gross cost of inventories. The cost of inventories recognised as an expense in the year is £5,338,000 (2010: £4,642,000).

18 Trade and other receivables

	Current		Non-current	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade receivables	**2,865**	1,971	**–**	–
Less: allowance for impairment of trade receivables	**(141)**	(163)	**–**	–
Net trade receivables	**2,724**	1,808	**–**	–
Prepayments and accrued income	**10,494**	5,816	**802**	802
Other receivables	**390**	1,022	**–**	–
Operating financial asset	**1,012**	1,012	**41,991**	43,003
Amounts recoverable on contracts	**2,040**	1,985	**1,168**	3,476
Amounts owed by joint venture (note 34)	**3,128**	3,072	**–**	–
	19,788	14,715	**43,961**	47,281

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

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 11) 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.

Amounts owed by the joint venture are unsecured, interest-bearing and are repayable on demand. The Directors have considered current cash flow forecasts and consider all related party balances to be fully recoverable.

During the year, there was an extension of the JCAM loan agreement from August 2012 to February 2013 and the Group made an advance payment of £6,204,000 under the loan. Of this amount, £4,258,000 remains in prepayments and accrued income.

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

	2011	2010
	£'000	£'000
At 1 January	**163**	96
(Credit)/charge for the year	**(22)**	67
At 31 December	**141**	163

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

	2011	2010
	£'000	£'000
Not past due	**1,917**	1,220
Past due 0-30 days, but not impaired	**445**	141
Past due 31-60 days but not impaired	**131**	196
Past due by more than 60 days but not impaired	**231**	251
	2,724	1,808

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:

	2011 £'000	2010 £'000
At 1 January	**44,015**	44,244
Reversal of amounts previously written off	**–**	783
Amounts received	**(1,012)**	(1,012)
At 31 December	**43,003**	44,015

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

	2011 £'000	2010 £'000
Due within 1 year	**1,012**	1,012
Due between 1 and 2 years	**41,991**	1,012
Due between 2 and 3 years	**–**	41,991
	43,003	44,015

The movement in amounts recoverable on contracts is as follows:

	2011 £'000	2010 £'000
At 1 January	**5,461**	8,314
Recognised in income statement (note 7)	**(2,253)**	(2,853)
At 31 December	**3,208**	5,461

19 Cash and cash equivalents

	Note	2011 £'000	2010 £'000
Cash and cash equivalents		**26,004**	12,322
Less restricted balances:			
– Minimum balance – GE and DoH	a	**(1,300)**	(1,900)
– Letter of Credit – GE	b	**(1,800)**	(1,800)
– DoH Performance Bond	c	**–**	(500)
– Committed cash in respect of future interest on AIB loan	d	**(175)**	–
		(3,275)	(4,200)
Unrestricted cash and cash equivalents		**22,729**	8,122

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

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

a A condition of the ISTC contracts with the DoH and GE, who lease the medical equipment, is that the following minimum cash balances are maintained at each month end:

– A minimum balance of £1,300,000 (2010: £1,300,000) for Nations Healthcare (Nottingham) Limited

– A minimum balance of £nil (2010: £600,000) for Nations Healthcare (Burton) Limited b As part of the contractual agreement with GE to provide operating leases to CircleBath, Circle International plc has provided a counter indemnity to Barclays by way of a fixed charge over a deposit of £1,800,000 (2010: £1,800,000) credited to a deposit account with the bank.

c Nations Healthcare Limited provided a counter indemnity to Barclays by way of a fixed charge over a deposit of £nil (2010: £500,000) credited to a deposit account with the bank for Circle's North Bradford NHS Treatment Centre, as part of the Performance Guarantee Bonds to the DoH. The counter indemnity fell away as a result of the termination of contractual arrangements with the DoH.

d During the year, the AIB loan facility was extended from March 2011 to June 2012. As a result, an amount of £354,000 was paid into a restricted deposit account in respect of future interest payable to AIB. The balance at 31 December 2011 amounted to £175,000 (2010: £nil).

20 Trade and other payables

	2011 £'000	2010 £'000
Trade payables	**9,646**	9,996
Deferred income	**2,026**	4,325
Accruals	**2,906**	5,221
Social security and other taxes	**681**	636
Amounts owed to joint venture (note 34)	**34**	34
Amounts owed to other related parties (note 34)	**–**	152
Contingent consideration	**10**	35
	15,303	20,399

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 rate of 10.0%, with the discount unwinding over the five years post-acquisition. During the year, the cash flow liabilities were reassessed based on actual and budgeted turnover over the remaining life of the agreement, less payments already made during the year (note 14).

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

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

	2011 £'000	2010 £'000
At 1 January	**35**	53
Reassessment of future cash flows	**(15)**	(8)
Unwind of discount on acquisition	**–**	3
Payments made	**(10)**	(13)
At 31 December	**10**	35

21 Loans and other borrowings

	Current		Non-current	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Barclays	**920**	922	**41,701**	42,556
AIB	**7,380**	7,380	**–**	–
JCAM	**13,614**	13,224	**–**	–
Secured bank loans (i)	**21,914**	21,526	**41,701**	42,556
Unsecured loan notes (ii)	**316**	364	**–**	–
Secured finance leases (iii)	**(131)**	76	**4,558**	170
	22,099	21,966	**46,259**	42,726

i *Secured bank loans*

	Note	Loan commenced	Effective interest rate	Loan facility £'000	2011 £'000	2010 £'000
Barclays	a	July 2005	5.0% (swapped)	44,474	**42,621**	43,478
AIB	b	March 2008	LIBOR + 4.0%	7,380	**7,380**	7,380
JCAM	c	August 2008	28.8%	13,300	**13,614**	13,224
					63,615	64,082

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

As at 31 December 2011, the Group had breached certain covenants under the terms of the loan agreements. A total of £13,930,000 (£13,614,000 JCAM and £316,000 unsecured loan notes) is repayable after 12 months from the balance sheet date, but has been presented as current due to the breaches.

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

a The Barclays Private Finance Initiative ('PFI') loan is secured by way of a fixed and floating charge over the assets of Circle's Nottingham NHS Treatment Centre. Barclays also have a charge over the shares of Nations Healthcare (Nottingham) Limited that can be exercised in the event that it does not meet its financial obligation to Barclays. The loan is being repaid in quarterly instalments of £227,000 to £232,000, subject to the repayment re-scheduling as agreed under the Deed of Variation ('DoV'). Payment holidays were granted for the scheduled payments on 1 June 2010 and 1 September 2010 and a partial repayment was granted for the payment due on 1 December 2010. The loan has been hedged by means of an interest rate swap (note 23), fixing interest at a total rate of 5.0% per annum.

The Barclays PFI loan of £42,621,000 (2010: £43,478,000) is not under any defaults or cross-defaults as at 31 December 2011.

b The AIB loan facility is a term loan facility secured on land owned in Edinburgh. The loan was originally for a one year term from 26 March 2008. The facility was extended twice during 2009, and subsequently during 2010 the facility was again extended until 31 March 2011, increasing the interest rate of the facility from LIBOR + 3.0% to LIBOR + 4.0%. In March 2011, a further extension of the loan maturity date was agreed, until 30 June 2012. The interest rate remains at LIBOR + 4.0% for the extension period but a requirement of the extension agreement was to pay the entire interest amount into a restricted deposit account (note 19d).

The loan is secured on the assets of Health Properties (Edinburgh) Limited. Interest charged during the year has been taken to the income statement.

c The JCAM loan facility provides £13,300,000 together with rolled up interest of £831,000 giving a total amount due at redemption of £14,131,000 (2010: £14,131,000). The loan is repayable in February 2013 and carries an interest charge of 25.0%, payable quarterly. Warrants were issued to the lender at inception, and the loan was fair valued, split between loans and warrants. The amount relating to warrants was valued at £1,616,000 and taken to the warrant reserve in equity, giving rise to a loan balance at inception of £11,684,000. At 31 December 2011 the loan was carried at £13,614,000 (2010: £13,224,000) and had an effective interest rate of 28.8% (2010: 30.0%), taking into account both interest and accretion towards the redemption amount. During 2011, the loan repayment date was extended from 29 August 2012 until 28 February 2013. The loan is secured over the shares of Nations Healthcare Limited, Nations Healthcare (Burton) Limited and Nations Healthcare (North Bradford) Limited.

As a consequence of moving its tax residency to the UK in May, the Group is in technical breach under the loan agreement with JCAM, due to the late payment of withholding tax, which has resulted in the loan being disclosed within current liabilities. The Group reached resolution with JCAM in February 2012 to remedy this breach and is otherwise compliant with all other obligations under the loan agreement (note 35).

In May 2011, the Group secured a short-term loan facility of £5,000,000 from Vinci to enable the purchase of land in Didsbury, Manchester. The loan was repaid in December 2011 and the interest of £296,000 was capitalised (note 10).

ii *Unsecured loan notes*

	Loan commence	**Effective interest rate**	**Loan facility £'000**	**2011 £'000**	2010 £'000
Loan notes	July 2008	n/a	n/a	**316**	364

In relation to the acquisition of Circle Clinic Windsor, the Group has issued loan notes to the former owners David Evans and Pat Morrish that mature over five years from the date of acquisition and are dependent on performance over that period. The Directors believe the undiscounted values of these loan notes are £273,000 (2010: £359,000) and £91,000 (2010: £91,000) respectively. These are payable on 4 July 2013 and do not attract interest.

The Loan Note Instrument, which determines the unsecured loan notes and contingent consideration payable upon the acquisition of Circle Clinic Windsor, sets out covenants and guarantees related to the acquisition. These covenants are currently in breach (note 20) and the balance has therefore been classified as a current liability.

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

	2011 £'000	2010 £'000
At 1 January	**364**	361
Reassessment of future cash flows	**(73)**	(27)
Unwind of discount on acquisition	**25**	30
At 31 December	**316**	364

iii *Finance leases*

Finance leases comprise the 125 year lease for land in Birmingham entered into with Pebble Mill Investments Limited ('Pebble Mill') in November 2011 and the three year lease for information technology assets which were sold to Singers Healthcare Finance Limited ('Singers') in a sale and leaseback transaction in December 2010.

	2011 £'000	2010 £'000
Gross finance lease liabilities – minimum lease payments		
Falling due:		
– No later than 1 year	**204**	99
– Later than 1 year and no later than 5 years	**4,706**	190
– Later than 5 years	**1,197**	–
	6,107	289
Future finance charges on finance leases	**(1,680)**	(43)
	4,427	246

	2011 £'000	2010 £'000
The breakdown of the present value of finance leases is as follows:		
Falling due:		
– No later than 1 year	**(131)**	76
– Later than 1 year and no later than 5 years	**4,420**	170
– Later than 5 years	**138**	–
	4,427	246

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 requiring 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 £4,225,000 (note 32), the implicit interest rate and the profile of the annual rent in the early years of the lease initially gives rise to an interest charge greater than the rent payment. The interest charge in excess of the rent payment is treated as an increase in the principal amount, which results in the debit balance in the less than one year category.

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

iv *Maturity profile*

Under the terms of the loan, the amounts fall due as follows:

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

2010	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Greater than 4 years	Total £'000
Barclays	922	922	41,634	–	43,478
AIB	7,380	–	–	–	7,380
JCAM	13,224	–	–	–	13,224
Loan notes	364	–	–	–	364
Finance leases	76	84	86	–	246
	21,966	**1,006**	**41,720**	**–**	**64,692**

22 Provisions for other liabilities and charges

	2011 £'000	2010 £'000
Current	**924**	602
Non-current	**707**	608
	1,631	1,210

	Dilapidations £'000	Onerous leases (property) £'000	Onerous leases (equipment) £'000	Total £'000
At 1 January 2010	–	2,327	48	2,375
Unused amounts released to income statement	–	(367)	–	(367)
Utilised during the year	–	(766)	(32)	(798)
At 1 January 2011	–	1,194	16	1,210
Charged to the income statement	450	549	–	999
Utilised during the year	–	(562)	(16)	(578)
At 31 December 2011	**450**	**1,181**	**–**	**1,631**

Dilapidations

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

Onerous leases (property)

A lease for a property in West London was taken on in 2006, but since the premises are no longer required by the Group, the site has been used to earn additional advertising revenue from the prime advertising space on top of the building and rental income from renting out office space. The provision of £1,027,000 (2010: £939,000) has been calculated based on the total net costs expected to be incurred by the Group until the first opportunity to exit the lease arrangement, and has been reassessed at the year end based on the actual revenues achieved in 2011. The resulting charge to the income statement of £549,000 (2010: net credit of £367,000) has been classified as an exceptional item (note 7).

A lease for a property in Ashford, Kent was incepted in 2008, but since the premises are no longer required by the Group, management intends to either sub-let the vacant premises or exit the lease early. Management are currently negotiating with potential tenants and the provision of £154,000 (2010: £255,000) has been calculated based on the total net costs expected to be incurred by the Group until the first opportunity to sub-let the property or exit the lease arrangement.

This provision related to the lease of an item of clinical equipment at Circle's Burton NHS Treatment Centre which was no longer in use and therefore was fully provided for until the end of the lease term. The lease has now ended following the cessation of the contract to run the Burton Treatment Centre and there are no further commitments.

No discount has been applied to these provisions on the basis that the leases expire in the short-term and any discount would be immaterial.

23 Derivative financial instruments

	Barclays interest rate swap £'000
At 1 January 2010	3,043
Loss on fair value charged to income statement	451
At 1 January 2011	3,494
Gain in fair value credited to income statement	(1,019)
At 31 December 2011	**2,475**
Effective interest rate	5.0%

At 31 December 2011, the notional amounts on the interest rate swap contract, which take the interest rate from floating to fixed, were £42,727,000 (2010: £43,649,000). Note 33 provides more details.

24 Share capital and share premium

Authorised

	2011 £'000	2010 £'000
Ordinary shares of £0.02 each	**2,000**	–
Limited shares of £0.10 each	**–**	700
	Number	Number
Number of authorised shares	**100,000,000**	7,000,000

On 13 May 2011, share capital was increased from £700,000 (divided into 7,000,000 limited shares of £0.10 each) to £2,000,000 (divided into 20,000,000 limited shares of £0.10 each).

On 1 June 2011, the shareholders passed a resolution adopting new Articles of Association ahead of the listing on AIM. These articles, among other items, reclassified the share capital of the Company into a single class of ordinary shares, thereby eliminating the previously authorised preference shares.

On the same date, pursuant to special resolutions passed by the shareholders of the Company at an Extraordinary General Meeting, it was resolved that each issued and unissued ordinary share of the Company of £0.10 be sub-divided into five ordinary shares of £0.02 each, effective 14 June 2011.

Allotted and fully paid up

Ordinary shares:		Shares (number)	Share capital £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 January 2010	£0.10	3,857,675	386	101,190	–	101,576
Shares issued – August 2010	£0.10	156,250	16	4,984	–	5,000
Shares issued – November 2010	£0.10	234,375	23	5,506	–	5,529
At 1 January 2011		4,248,300	425	111,680	–	112,105
Shares issued – March 2011	£0.10	234,375	23	2,277	–	2,300
Shares issued – May 2011	£0.10	1,793,722	179	13,448	–	13,627
		6,276,397	627	127,405	–	128,032
Five-for-one share split	£0.02	31,381,984	627	127,405	–	128,032
Shares issued – June 2011 (net of costs)	£0.02	16,633,552	333	21,143	–	21,476
Shares issued from warrants – June 2011	£0.02	14,755,513	295	–	22,182	22,477
At 31 December 2011		**62,771,049**	**1,255**	**148,548**	**22,182**	**171,985**

Transaction costs incurred in relation to the 2011 equity raises totalled £4,336,000, of which £3,806,000 have been capitalised within equity (2010: £27,000, all of which were expensed due to their immaterial amount). The 2011 proceeds are net of a warrant liability of £9,332,000 (31 December 2010: £1,971,000).

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

In addition, a further consequence of the March 2011 equity raise was that all outstanding share warrants held by those shareholders participating in the equity raise, priced at either £10.31* or £5.97*, were re-priced (note 26(i) b).

In May 2011, the Group received £20,000,000 of equity investment. Of the total consideration received, £179,000 has been allocated to share capital (1,793,070 ordinary shares at £0.10 each), £13,448,000 to share premium, and £6,373,000 to financial liabilities, being the warrants attached to the shares issued (note 26(ii)).

On 17 June 2011, the Group listed on AIM and raised gross proceeds of £25,577,000, before costs, in an Initial Public Offering ('IPO'). Of the total consideration received, £333,000 has been allocated to share capital (16,633,552 ordinary shares at £0.02 each) and £21,143,000 to share premium.

The following table details the movement in share ownership in the year ending 31 December 2011 by major shareholder. Note 26 provides further details.

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

* Reflects the five-for-one share split

In August 2010, the Group received £5,000,000 of equity investment from existing shareholders. Of the total consideration received, £16,000 was allocated to share capital (156,250 ordinary shares at £0.10 each) and £4,984,000 to share premium.

In November 2010, the Group received £7,500,000 of equity investment from existing shareholders. Of the total consideration received, £23,000 was allocated to share capital (234,375 ordinary shares at £0.10 each), £5,506,000 to share premium and £1,971,000 to financial liabilities, being the warrants attached to the shares issued (note 26(ii)).

The following table details the movement in share capital in the year to 31 December 2010 by major shareholder:

Number	At 1 January 2010	August 2010 issue (at £32.00 each)	November 2010 issue (at £32.00 each)	At 31 December 2010
Health Partners	985,610	–	–	985,610
Balderton Capital	843,813	–	78,125	921,938
Lansdowne Partners	807,942	78,125	78,125	964,192
BlackRock	540,234	78,125	46,875	665,234
BlueCrest Capital Management	385,768	–	31,250	417,018
JCAM	95,960	–	–	95,960
ING Capital	100,168	–	–	100,168
Meditor Capital Management	83,790	–	–	83,790
Archletter	14,390	–	–	14,390
	3,857,675	156,250	234,375	4,248,300

25 Non-controlling interest

	Circle Health £'000	Health Properties £'000	Total £'000
At 1 January 2010	(4,042)	–	(4,042)
Non-controlling interest's share of losses	(4,747)	(368)	(5,115)
At 1 January 2011	(8,789)	(368)	(9,157)
Effect of shares vesting in period	(1,438)	–	(1,438)
Fair value of shares issued to Health Partners	(2,204)	–	(2,204)
Winding up of Health Properties Benefit Trust	(1,203)	368	(835)
Effect of Nations Healthcare group restructure	(2,383)	–	(2,383)
Effect of anti-dilutive shares issued to Health Partners	(535)	–	(535)
Non-controlling interest's share of losses	(3,618)	–	(3,618)
At 31 December 2011	(20,170)	–	(20,170)

Circle Health

Circle Health (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 employee share ownership plan which therefore represents an interest outside the Group (note 27). Circle Partnership has an authorised share capital of 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 the Circle Partnership.

Up to 31 December 2011, Circle Partnership had issued subscription letters for a total 47,463,000 shares (2010: 36,364,000 shares) to employees, consultants and GPs. Of these, the number of shares in Circle Partnership that had vested unconditionally as at 31 December 2011 amounted to 26,608,000 shares (2010: 16,668,000 shares). This portion of unconditionally vested shares gives 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% (2010: 61.8%) owned by Circle Health.

Nations Healthcare group

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

Health Properties

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

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

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 (note 34 (h)).

The transfer of these shares was conditional on Circle Health confirming it would allot shares in Circle Partnership to Health Partners. As such, on 15 March 2011 and 24 May 2011, Circle Partnership agreed to issue ordinary shares of £0.01 to Health Partners, equal to an aggregate 10.0% of the issued share capital in Circle Partnership. Alongside the issuance of these shares at par value, it was agreed that in the event that Circle Partnership allotted any further shares, Health Partners would be entitled to the same proportion, so that its 10.0% holding was not diluted. Although these shares have yet to be issued, the grant has been authorised and there is a contractual agreement to issue them.

The effect of the Share Transfer Agreement on the non-controlling interest's share of current year losses was £2,204,000. The effect of the anti-dilutive shares issued during 2011 was £535,000.

26 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.

i *Warrants treated as equity instruments*

Movements in the warrant reserve during the year are as follows:

	2011 £'000	2010 £'000
At 1 January	**19,878**	16,524
Share-based charges in respect of warrants issued (note 27)	**1,597**	3,354
At 31 December	**21,475**	19,878

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		Revised exercise price £	Original warrants, restated for five-for-one split (number)	Modified (number)	Revised warrants (number)	Warrant reserve: At 1 January 2011 £'000	Sharebased charges £'000	At 31 December 2011 £'000
Warrants issued in 2008:								
– Health Trust (Jersey)	a	–	1,338,400	(1,338,400)	–	9,721	(9,721)	–
– 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:								
– Health Trust (Jersey) – Option Pool	a	–	1,002,365	(1,002,365)	–	2,197	(2,197)	–
– 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
Modification of warrants in 2011:								
– Health Trust (Jersey)	a	£1.52	–	2,340,765	2,340,765	–	13,515	13,515
			3,623,005	**–**	**3,623,005**	**19,878**	**1,597**	**21,475**

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 27.

b In March 2011, the 623,090* warrants issued to existing shareholders in March 2008 with an exercise price of £10.31*, and the 420,220* warrants issued to existing shareholders in November 2009 with an exercise price of £5.97*, were modified with the exercise price being reduced to the IPO price of £1.52 per new ordinary share issued. In total, 1,043,310* of such warrants remain in issue. The fair value of the warrants was determined using a Monte Carlo simulation, owing to the exercise price being conditional on the IPO, and the fair value of the warrants was assessed at £1,398,000. Since this is lower than the fair value of £6,344,000 calculated on the grant date, there is no change to the carrying value of these warrants.

* Reflects the five-for-one share split

Other than the warrants issued to Health Trust (Jersey) outlined in (a) above and note 27, no new warrants treated as equity instruments were issued during the year. The warrants issued to JCAM in 2008 remain at an exercise price of £10.31* based on an assessment of the market price for the associated JCAM loan.

ii *Warrants recognised as financial liabilities*

The following table details all warrants issued by the Group in November 2010 which were recognised as a financial liability in the consolidated balance sheet at 31 December 2010, together with all warrants issued by the Group in March and May 2011, and their associated exceptional mark to market charge:

Warrant liability issues:	**Exercise price £**	**Warrant liability £'000**	**Exceptional mark to market charge £'000**	**Other reserve £'000**
Warrants issued - November 2010				
– Balderton Capital	£0.10	657	2,458	–
– Lansdowne Partners	£0.10	657	2,458	–
– BlackRock	£0.10	394	1,473	–
– BlueCrest Capital Management	£0.10	263	984	–
		1,971	7,373	–
Warrants issued - March 2011				
– Balderton Capital	£0.10	222	263	–
– Lansdowne Partners	£0.10	1,701	2,016	–
– BlackRock	£0.10	592	701	–
– BlueCrest Capital Management	£0.10	444	526	–
		2,959	3,506	–
Warrants issued – May 2011				
– Balderton Capital	£0.02	1,593	–	–
– Odey Asset Management	£0.02	4,780	–	–
		6,373	–	–
Shares issued from warrants - June 2011		(11,303)	(10,879)	22,182
At 31 December 2011		–	**(10,879)**	**22,182**

* Reflects the five-for-one share split

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November 2010 and March 2011 warrants

As a result of the various equity raises with existing shareholders detailed below, in the case of a further equity raise prior to 30 September 2011 and 30 May 2011 respectively, these existing investors would be allotted £0.10 anti-dilutive ordinary share warrants with the number of warrants issued being based on the share price of the equity raised in the subsequent offering. These warrants were valued by an independent external valuation firm using a Monte Carlo simulation. Since the number of warrants to be issued was variable, the warrant portion of equity raised was treated as a financial liability under IAS 32 'Financial instruments; presentation'. In June 2011 the Group completed a further equity raise with the listing on AIM. As a result of all warrants being issued and subsequently exercised, all associated financial liabilities have been extinguished. Further specific details are provided below:

November 2010 warrants

In November 2010, the Company raised £7,500,000 from a number of existing shareholders (note 24). The total fair value of the accompanying anti-dilutive warrants was calculated to be £1,971,000 and the balance was classified as current at 31 December 2010 as the liability was required to be settled at the earlier of a further equity raise or 30 September 2011. At the point of listing on AIM, 6,229,071* warrants were issued and exercised immediately for total consideration of £125,000. The issuance of the warrants resulted in an exceptional mark to market charge of £7,373,000 (note 7) which represented the fair value movement of the warrant instruments between November 2010 and the subsequent offering, being the IPO.

March 2011 warrants

In March 2011, the Company raised £7,500,000 from a number of existing shareholders (note 24). The total fair value of the accompanying anti-dilutive warrants was calculated to be £2,959,000 and the balance was classified as current as the liability was required to be settled at the earlier of a further equity raise or 30 May 2011. At the point of listing on AIM, 4,310,581* warrants were issued and exercised immediately for total consideration of £86,000. The issuance of the warrants resulted in an exceptional mark to market charge of £3,506,000 (note 7) which again represented the fair value movement of the warrant instruments between March 2011 and the subsequent offering, being the IPO.

May 2011 warrants

In May 2011, the Company raised £20,000,000. A condition of the raise was that warrants were issued, exercisable at nominal value, equal to 30.0% and 10.0% respectively of the warrants issued pursuant to the November 2010 and March 2011 warrant instruments. The warrants were valued by using the subscription price of £11.15* and calculating the impact of the November 2010 and March 2011 warrants at this price. This resulted in the fair value of the warrants being determined at £6,373,000. In June 2011 the Company completed a further equity raise with the listing on AIM. At the point of listing, 4,215,861* warrants were issued and exercised immediately for total consideration of £84,000. As a result of all warrants being issued and subsequently exercised the financial liability was extinguished.

* Reflects the five-for-one share split

27 Share-based charges

Shares and share warrants are issued to employees, consultants, GPs 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	2011 £'000	2010 £'000
Issued by Circle Partnership	a	Shares	–	–
Awarded to Health Trust (Jersey)	b	Warrants	**1,597**	1,767
Awarded to Health Trust (Jersey) - option pool	c	Warrants	–	1,587
			1,597	3,354

a Circle Partnership

Circle Partnership 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, consultants and GPs) 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. 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)

Health Trust (Jersey), of which Ali Parsa is a beneficiary, received 1,100,950* share warrants on 29 May 2008 as additional consideration for the sale of 100.0% of the shares in Health Properties to the Group and received a further 237,450* warrants on 4 June 2008. The original exercise price was £11.93* per share and the fair value of the warrants at the date of issue was determined to be £7.86* per warrant and £10,514,000 in total, according to the Black-Scholes pricing methodology ('Black-Scholes').

The share warrants, which were conditional on Ali Parsa remaining with the Group for a specified period of up to 48 months, entitled the holder to acquire an equivalent number of ordinary shares in the Group and have no expiry date.

c Health Trust (Jersey) – option pool

Health Trust (Jersey) – option pool received 1,002,365* warrants on 27 November 2009. The original exercise price was £10.31* and the fair value of the warrants at the date of issue was determined to be £2.74* per warrant and £2,750,000 in total, according to Black-Scholes. The warrants had the same conditions as (a) above except that they vested in 20.0% increments based upon the next five hospitals opening during the hospital plan period and were conditional on Ali Parsa remaining with the Group at the time of each hospital opening.

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In May 2011, the Health Trust (Jersey) and Health Trust (Jersey) -option pool share warrants were cancelled, in exchange for which new warrants with a different exercise price and vesting conditions were granted exclusively to Health Trust (Jersey). Under the terms of the new warrants, the exercise price was set to the IPO price of £1.52* per new ordinary share issued and the 2,340,765* share warrants vest over a 24 month period from May 2011 and are exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date. A fair value assessment was completed based on the value of the existing warrants prior to cancellation and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined on the next page.

* Reflects the five-for-one share split

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 cancellation of share warrants issued to Health Trust (Jersey) and Health Trust (Jersey) -option pool and re-issue of share warrants to Health Trust (Jersey) has been accounted for as a modification as it was intended to be a replacement for the original awards. 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 2011 is £1,597,000 (2010: £3,354,000) with the credit being recognised in the warrant reserve over the warrant vesting period. Aside from the cancellation and re-issue outlined above, there were no new warrant issues qualifying as share-based charges during 2011 (2010: nil). None of the warrants were exercised in 2011 (2010: nil). All the outstanding warrants have an exercise price of £1.52* (2010: £11.93* and £10.31*).

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

	2011 Warrants (number)	**2011 Average exercise price (£ per share)**	2010 Warrants (number)	2010 Average exercise price (£ per share)
At 1 January	**468,153**	**£51.55**	468,153	£51.55
Five-for-one share split	**1,872,612**	**(£41.24)**	–	–
Modification	**–**	**(£8.79)**	–	–
At 31 December	**2,340,765**	**£1.52**	468,153	£51.55

* Reflects the five-for-one share split

28 Capital commitments

At 31 December 2011, the Group had capital commitments as follows:

	2011 £'000	2010 £'000
Contracted for but not provided in these financial statements	–	–

29 Pension commitments

The Nations Healthcare Group, Circle Hospital (Bath) Limited and Windsor Hand Surgery Limited participate in a personal defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions by the Group for the year were £228,000 (2010: £189,000). As at 31 December 2011 outstanding contributions totalled £27,000 (2010: £23,000).

30 Operating lease commitments

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

	Plant and machinery		Land and buildings	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
No later than 1 year	4,226	4,632	4,724	5,433
Later than 1 year and no later than 5 years	3,614	7,113	15,761	15,261
Later than 5 years	–	–	63,725	63,134
	7,840	11,745	84,210	83,828

On 3 December 2010 Circle Hospital (Reading) Limited ('CircleReading') entered into an Agreement for Lease to lease a hospital in Reading for 25 years at £4,750,000 per year from the date of completion of the hospital. CircleReading's obligations under the Agreement for Lease are guaranteed by the Company and its obligation to lease the hospital is contingent upon the hospital being developed by the Developer in accordance with the terms of the Agreement for Lease. The lease commitment is not included in the disclosure above.

During the year, non-repayment of the mezzanine loan provided to Health Properties Bath triggered a cross-default under Circle International plc's equipment lease with GE. The default was waived by GE on 22 May 2012 (note 35).

31 Net cash outflow from operating activities

	2011 £'000	2010 £'000
Loss before tax	**(32,924)**	(38,760)
Provision for joint venture deficit	**926**	255
Exceptional finance items	**10,097**	451
Finance costs	**6,809**	6,789
Finance income	**(3,454)**	(3,451)
Impairment of goodwill (note 14)	**33**	2,845
Amortisation of intangible assets (note 14)	**57**	85
Depreciation of property, plant and equipment (note 15)	**1,190**	1,270
Impairment of property, plant and equipment (note 15)	**30**	9,576
(Gain)/loss on sale of assets:		
– Gain on sale of assets in Health Properties (Reading) Limited	**–**	(636)
– Loss on sale of assets in Circle's North Bradford NHS Treatment Centre	**–**	193
– Profit on cessation of contract to run Circle's Burton NHS Treatment Centre (notes 4 and 15)	**(1,493)**	–
Charge recognised in respect of amounts recoverable under contract (note 18)	**2,253**	2,853
Share-based charges in respect of warrants issued (note 27)	**1,597**	3,354
Other exceptional items	**(46)**	–
Movements in working capital:		
– Decrease/(increase) in inventories	**283**	(529)
– Increase in trade and other receivables	**(3,968)**	(1,508)
– (Decrease)/increase in trade and other payables	**(5,386)**	194
– Increase/(decrease) in provisions	**421**	(1,165)
	(23,575)	(18,184)

32 Reconciliation of net debt

	2011 £'000	2010 £'000
Increase/(decrease) in unrestricted cash in the year	**14,607**	(8,889)
Decrease in restricted cash in the year	**(925)**	(4,613)
Repayment of borrowings	**5,922**	3,502
Proceeds from borrowings	**(5,000)**	(696)
Repayment of finance lease	**44**	–
Sale and leaseback proceeds	**–**	(246)
Movement in net debt from cash flow	**14,648**	(10,942)
Other non-cash movements	**(4,632)**	(438)
Movement in net debt	**10,016**	(11,380)
Net debt at 1 January	**(52,370)**	(40,990)
Net debt at 31 December	**(42,354)**	(52,370)

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

2010	At 1 January 2010 £'000	Cash flow £'000	Re-classifications £'000	Other non-cash changes £'000	At 31 December 2010 £'000
Liquid resources					
Unrestricted cash	17,011	(8,889)	–	–	**8,122**
Restricted cash	8,813	(4,613)	–	–	**4,200**
Debt due within one year					
AIB	(7,380)	–	–	–	**(7,380)**
Barclays	(43,717)	306	42,556	(67)	**(922)**
JCAM	(2,500)	2,500	(12,856)	(368)	**(13,224)**
Loan notes	–	–	(361)	(3)	**(364)**
Finance leases	–	(76)	–	–	**(76)**
Debt due after one year					
JCAM	(12,856)	–	12,856	–	–
Barclays	–	–	(42,556)	–	**(42,556)**
Loan notes	(361)	–	361	–	–
Finance leases	–	(170)	–	–	**(170)**
Net debt	(40,990)	(10,942)	–	(438)	**(52,370)**

Non-cash movements include the following:

– Amortisation of £65,000 (2010: £67,000) of Barclays loan issue costs that are set off against the loan and spread over the life of the loan.

– Unwinding of equity portion of the JCAM loan, £390,000 (2010: 368,000).

– Reassessment of future cash flows resulting in £73,000 decrease in loan notes owing (2010: £27,000 decrease), offset by unwinding of discount on acquisition of £25,000 (2010: £30,000).

– Recognition of Birmingham finance lease (note 21) of £4,225,000 (£4,455,000 and (£230,000)).

33 Financial risk management

i *Financial risk factors*

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

Classes of financial instruments

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

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

As at 31 December 2011	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total £'000
Financial assets				
Trade and other receivables	49,245	–	–	49,245
Cash and cash equivalents (note 19)	26,004	–	–	26,004
Total financial assets	**75,249**	**–**	**–**	**75,249**
Financial liabilities				
Trade and other payables	–	–	(9,690)	(9,690)
Social security and other taxes	–	–	(681)	(681)
Derivative financial instruments (note 23)	–	(2,475)	–	(2,475)
Bank loans (note 21)	–	–	(63,615)	(63,615)
Loan notes (note 21)	–	–	(316)	(316)
Finance lease liabilities (note 21)	–	–	(4,427)	(4,427)
Total financial liabilities	**–**	**(2,475)**	**(78,729)**	**(81,204)**

As at 31 December 2010	Loans and receivables £'000	Fair value through profit and loss £'000	Amortised cost £'000	Total £'000
Financial assets				
Trade and other receivables	49,917	–	–	49,917
Cash and cash equivalents (note 19)	12,322	–	–	12,322
Total financial assets	**62,239**	**–**	**–**	**62,239**
Financial liabilities				
Trade and other payables	–	–	(10,217)	(10,217)
Social security and other taxes			(636)	(636)
Derivative financial instruments (note 23)	–	(3,494)	–	(3,494)
Bank loans (note 21)	–	–	(64,082)	(64,082)
Loan notes (note 21)	–	–	(364)	(364)
Finance lease liabilities (note 21)	–	–	(246)	(246)
Warrant liability (note 26)	–	(1,971)	–	(1,971)
Total financial liabilities	**–**	**(5,465)**	**(75,545)**	**(81,010)**

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 market risk include bank loans, short-term deposits and derivative financial instruments. The Group is primarily sensitive to changes in UK interest rates. This affects future cash flows from short-term cash deposits and the cost of variable rate debt. The Group manages this risk, where significant, by holding long-term loans and entering into interest rate swaps in order to fix the interest payable on these. As at 31 December 2011, 62.4% (2010: 67.5%) of the Group's loan and borrowings were either held under fixed rate terms or fixed by interest rate swaps (note 23). Short-term deposits held at floating rates of interest represented 22.2% (2010: 13.9%) of total assets of the Group.

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

	Variable £'000	Fixed £'000	Interest-free £'000	Total £'000
At 31 December 2011				
Loans and other borrowings	7,380	60,662	316	68,358
At 31 December 2010				
Loans and other borrowings	7,380	56,948	364	64,692

The following derivative contracts were in place at the reporting date:

	Carrying party	Effective interest rate %	Maturity date £'000	Notional amount £'000	Carrying value £'000
At 31 December 2011					
Interest rate swaps	Barclays	5.0%	27 Jul 13	42,727	2,475
At 31 December 2010					
Interest rate swaps	Barclays	5.0%	27 Jul 13	43,649	3,494

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 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 2011				
Variable rate bank loans	(74)	74	(74)	74
Net sensitivity	**(74)**	**74**	**(74)**	**74**
At 31 December 2010				
Variable rate bank loans	(74)	74	(74)	74
Net sensitivity	**(74)**	**74**	**(74)**	**74**

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

2) Other price risks

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

b Credit risk

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

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

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

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

Group policy is to deposit cash with counterparties that have a long-term credit rating of at least A+ by key rating agencies.

c Liquidity risk

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

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

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

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

At 31 December 2011	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
Trade and other payables	(9,690)	–	–	–	–	–
Social security and other taxes	(681)	–	–	–	–	–
Bank loans	(12,631)	(57,256)	–	–	–	–
Derivative financial instruments	(1,528)	(1,119)	–	–	–	–
Finance leases (see below)	(204)	(4,676)	(10)	(10)	(10)	(1,197)
Loan notes	(364)	–	–	–	–	–
Net outflows	**(25,098)**	**(63,051)**	**(10)**	**(10)**	**(10)**	**(1,197)**

At 31 December 2010	Less than 1 year £'000	Between 1-2 years £'000	Between 2-3 years £'000	Between 3-4 years £'000	Between 4-5 years £'000	Over 5 years £'000
Trade and other payables	(10,217)	–	–	–	–	–
Social security and other taxes	(636)	–	–	–	–	–
Bank loans	(12,423)	(18,197)	(42,164)	–	–	–
Derivative financial instruments	(1,691)	(1,655)	(1,212)	–	–	–
Finance leases	(99)	(99)	(91)	–	–	–
Loan notes	–	(450)	–	–	–	–
Net outflows	**(25,066)**	**(20,401)**	**(43,467)**	**–**	**–**	**–**

Included in the previous table are the cash flows in respect of the Birmingham lease. As outlined in note 21(iii), there are various buy down options over the term of the lease and Management's intention has been reflected in the cash flows set out above.

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

ii *Capital risk*

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

Objectives are set out at the beginning of each year in line with the imposed requirements of the shareholder agreements. Covenants are tested monthly.

iii *Fair value*

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

Level 1: quoted prices in active markets,

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This level includes the majority of Over The Counter derivative contracts, traded loans and structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3: inputs of the asset or liability that are not based on observable market data.

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

At 31 December 2011 **Liabilities**	**Level 1** **£'000**	**Level 2** **£'000**	**Level 3** **£'000**
Interest rate swap (note 23)	–	2,475	–
	–	**2,475**	**–**

At 31 December 2010 **Liabilities**	**Level 1** **£'000**	**Level 2** **£'000**	**Level 3** **£'000**
Interest rate swap (note 23)	–	3,494	–
Warrant liability (note 26)	–	1,971	–
	–	**5,465**	**–**

34 Related party transactions

Principal subsidiaries and joint ventures

Details of the investments in which the Group holds 20.0% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
Circle International plc	Ordinary shares	Holding and management	100.0%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100.0%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC** registered)	100.0%	Jersey
Health Capital Limited	Ordinary shares	Holding and management	100.0%	United Kingdom
Circle Health Limited*	Ordinary shares	Holding and management	50.1%	United Kingdom
Circle Clinics Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Windsor Hand Surgery Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Nations Healthcare Limited*	'A' Ordinary shares	Holding and management	50.1%	United Kingdom
Nations Healthcare Limited*	'C' Preferred shares	Holding and management	n/a	United Kingdom
Nations Healthcare (Nottingham) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Nations Healthcare (Burton) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Nations Healthcare (North Bradford) Limited*	Ordinary shares	Medical practice services	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

* subsidiary held indirectly

** Jersey Financial Services Commission

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
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) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Circle Hospital (Reading) Limited*	Ordinary shares	Medical practice services	50.1%	United Kingdom
Circle Hinchingbrooke Limited*	Ordinary shares	Professional services	50.1%	United Kingdom
Circle Property Development Limited*	Ordinary shares	Property development	50.1%	United Kingdom
Circle Birmingham Limited*	Ordinary shares	Property development	50.1%	United Kingdom
CH Subco Limited	Ordinary shares	Finance company	100.0%	Jersey
Health Properties Management Limited*	Ordinary shares	Property development	100.0%	United Kingdom
Health Properties (Bath) Limited*	‘A’&’B’ Ordinary shares	Property development	38.7%	Jersey
Health Properties (Edinburgh) Limited*	Ordinary shares	Property development	100.0%	Jersey
Health Properties (South Manchester) Limited*	Ordinary shares	Property development	100.0%	Jersey
Health Properties (Plymouth) Limited*	‘A’&’B’ Ordinary shares	Property development	100.0%	Jersey
Health Properties (Tunbridge Wells) Limited*	‘A’&’B’ Ordinary shares	Property development	100.0%	Jersey
Health Properties (Warwick) Limited*	‘A’&’B’ Ordinary shares	Property development	100.0%	Jersey
Circle Partnership Limited	None (quasi-subsidiary)	Employee share ownership plan	None (quasi-subsidiary)	British Virgin Islands

* subsidiary held indirectly

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	**2011** Amounts owed by related party £'000	**2011** Amounts owed to related party £'000	2010 Amounts owed by related party £'000	2010 Amounts owed to related party £'000
Circle Partnership	a	–	–	–	–
Health Properties Bath	b	**3,128**	**(34)**	3,072	(34)
JCAM	c	–	**(13,614)**	–	(13,224)
Stonehage Corporate Services ('Stonehage')	d	–	–	–	(8)
Capita	e	–	–	–	(144)
		3,128	**(13,648)**	**3,072**	**(13,410)**

a Circle Partnership

Circle Partnership 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

Health Properties Bath is a joint venture of the Group (note 16) which owns the Bath hospital.

The Group has advanced £1,200,000 (2010: £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 £1,508,000 at 31 December 2011 (2010: £1,486,000).

On 5 October 2009, Circle Hospital (Bath) Limited, 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 £3,505,000 (2010: £3,232,000) for a 25 year term and a rental deposit of £1,586,000 (2010: £1,586,000) is held by Health Properties Bath.

During the year, the Group paid rent of £3,364,000 under this lease agreement (2010: £3,212,000). At 31 December 2011, the Group had prepaid rental of £809,000 (2010: £765,000) to Health Properties Bath. The balance is included in prepayments (note 18).

The Group was recharged £nil (2010: £34,000) for leasehold improvements, rent and other expenses that were incurred by Health Properties Bath, of which £34,000 remains payable at 31 December 2011 (2010: £34,000).

c JCAM

JCAM owns 479,800* shares (0.8%) in the Company. JCAM has loaned the Group £14,131,000 (2010: £14,131,000), which includes £831,000 of rolled up interest. The loan is repayable within two years and carries an interest charge of 25.0%, payable quarterly. At inception, 238,930* warrants were issued to JCAM with a revised exercise price of £10.31* and were presented separately in equity at an amount of £1,616,000, giving rise to a loan balance at inception of £11,684,000. At 31 December 2011 the loan was carried at £13,614,000 (2010: £13,224,000) and had an effective interest rate of 28.8% (2010: 30.0%), taking into account both interest and accretion towards the redemption amount (notes 21). During the year, the Group made an advanced payment to JCAM of £6,204,000 (2010: £nil) (note 18).

d Stonehage Corporate Services

A number of Directors of subsidiary companies who served during 2011 were employed by Stonehage, a management and fiduciary services company based in Jersey. In total, Stonehage was paid £40,000 (2010: £38,000) for management and fiduciary services provided to companies within the Group. At 31 December 2011, £1,000 remained payable (2010: £nil). Ian Crosby, a director of Stonehage, is also a director of the corporate trustee of Health Trust (Jersey) and of Health Estates Limited.

e Capita

A number of the Group Directors who served during the year were employed by Capita (as disclosed in the Directors' report). In total, the Group was charged £486,000 (2010: £400,000) by Capita for fiduciary services provided to companies within the Group during the year. The amount outstanding at 31 December 2011 was £65,000 (2010: £144,000).

f Health Estates Limited

Health Estates Limited acquired a 58.1% share in Health Properties Bath, a joint venture undertaking of the Group, from Health Properties for £1,800,000 in 2009.

g Health Trust (Jersey)

Health Trust (Jersey) owns 3,136,180 shares (5.0%) in the Company (2010: 4,928,050*) through a wholly owned subsidiary, Health Partners Limited (note 24). Health Trust (Jersey) also holds 2,340,765 warrants in the Company (note 27).

During the year, the Group paid legal and advisory fees of £65,000 on behalf of Health Trust (Jersey) in respect of the transaction outlined in (h) below.

h Health Partners

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

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

* Reflects the five-for-one share split

The following are related parties by virtue of their significant shareholding. Notes 24 and 26 provide further details:

	Number of shares held	% shareholding	Number of warrants held
Balderton Capital	10,613,677	16.9%	4,786
Lansdowne Partners	18,170,570	28.9%	1,262
BlackRock	8,051,993	12.8%	–
BlueCrest Capital Management	9,252,685	14.7%	296
Odey Asset Management	10,394,930	16.6%	–

Tim Bunting and Jamie Wood are Non-Executive Directors of Circle Holdings plc who are also employed by Balderton Capital and Odey Asset Management respectively. No fees are charged for their services to the Group.

Other than the above and the equity transactions detailed in notes 24 and 26, there have been no transactions with these related parties.

35 Events after the reporting period

Hinchingbrooke Health Care NHS Trust

On 1 February 2012, the Group commenced the operation of the contract to manage the Hinchingbrooke Health Care NHS Trust.

JCAM restructure

On 3 February 2012, the Company and JCAM agreed to restructure the Company's existing £14,131,000 loan. The loan was repaid and a new loan for £14,131,000 was entered into between JCAM and CH Subco Limited, a wholly-owned Jersey subsidiary of the Company, on materially the same terms as the previous loan. As part of the restructuring, JCAM waived any breaches under the previous loan. The Group provided enhanced security over its assets and the Company placed £1,536,000 in a pledged account in favour of JCAM to cover any future liabilities arising under the loan. The new loan is due to be repaid in February 2013.

2012 fund raise

On 28 May 2012, the Company entered into an underwriting agreement with Numis Securities and a subscription agreement with Balderton Capital III L.P. to raise an aggregate of £47,500,000 by way of equity funding, before fees, at a price per share of £0.70. The equity fund raise is subject to the terms of the underwriting agreement, the subscription agreement, and shareholder approval at an extraordinary general meeting to be held on or about 18 June 2012. Shareholders representing in excess of 75% of the current issued share capital have irrevocably undertaken to vote in favour of the shareholder resolutions to approve the issue of new shares in connection with the equity fund raise.

Resolution of cross default on GE lease

The cross-default under Circle International plc's equipment lease with GE (note 30), 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 loans on 22 May 2012. Under the restructured terms, Circle Holdings plc has granted a guarantee to Lehman in respect of the repayment of the mezzanine debt, with Circle Holdings plc's liability under the guarantee being capped at £625,000.

AIB loan

The Group is currently in discussion with AIB regarding the loan facility which is secured on land owned in Edinburgh with no recourse to the Group. The loan matures on 30 June 2012 (note 21).

Independent Auditors' Report

To the members of Circle Holdings plc

We have audited the financial statements of Circle Holdings plc for the year ended 31 December 2011 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chief Executive Officer's Report, Chairman's Statement, Operating and Financial Review, Directors' report, Corporate Governance Report and Remuneration Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011;
- have been properly prepared in accordance United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matter

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

Matters on which we are required to report by exception

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

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

Independent Auditors' Report (continued)

To the members of Circle Holdings plc

Other matter

We have reported separately on the group financial statements of Circle Holdings plc for the year ended 31 December 2011.

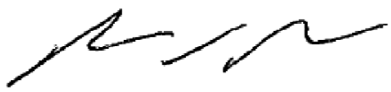
Nigel Reynolds
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Recognized Auditors
London
29 May 2012

Company Balance Sheet

As at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Investments	5	**24,194**	26,210
Current assets			
Debtors	6	**18,597**	49,920
Cash at bank and in hand		**15,452**	482
		34,049	50,402
Creditors – amounts falling due within one year	7	**(14,303)**	(17,783)
Net current assets		**19,746**	32,619
Total assets less current liabilities		**43,940**	58,829
Net assets		**43,940**	58,829
Capital and reserves			
Share capital	8	**1,255**	425
Share premium	8	**148,548**	111,680
Other reserves	8	**11,303**	–
Warrant reserve	9,11	**21,475**	19,878
Profit and loss account	9	**(138,641)**	(73,154)
Total shareholders' funds	10	**43,940**	58,829

The financial statements on pages 86 to 99 were approved by the board of Directors on 29 May 2012 and were signed on its behalf by:



Ali Parsa
Chief Executive Officer

Paolo Pieri
Chief Financial Officer

Circle Holdings plc

Registered number: 100016 (Jersey)

Notes to the Company Financial Statements

For the year ended 31 December 2011

1 Accounting policies

Basis of preparation

These financial statements are prepared for Circle Holdings plc (the 'Company') for the year ended 31 December 2011. The Company is the ultimate parent entity of the Circle Holdings plc Group (the 'Group').

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 financial statements have been prepared on a going concern basis which assumes that the Company 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 2011. These forecasts include the underwritten commitments received by the Company to raise a further (i) £46,000,000 of funds from Numis Securities, subject to the terms of the placing agreement and shareholder consent, and (ii) £1,500,000 of funds from Balderton Capital III L.P. subject to the terms of the subscription agreement and shareholder consent, such shareholder consent expected on or about 18 June 2012 together with existing cash balances and cash flows from the operating businesses.

The Board currently believes that, following the completion of the fundraising, the Company will have sufficient funding to carry out its current plans. Should the Company not perform in line with the Board's current expectations or unforeseen circumstances occur the Company may need to seek additional debt and/or equity funding. Based on this, the Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future and as such, consider it appropriate for these financial statements to be prepared on a going concern basis.

Investments

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

Deferred tax

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

Warrants

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

– it is a non-derivative and the entity is obliged to deliver a variable number of the company's own shares; or

– it is a derivative that will be settled other than by a fixed amount of cash or other assets for a fixed number of the company's own shares.

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

i *Equity warrants*

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

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

ii *Financial liability warrants*

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

Capital contributions

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

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

2 Profit and loss

The result for the year is a loss of £67,728,000 (2010: profit of £24,000).

3 Auditors' remuneration

The Company incurred £25,000 (2010: £22,000) in relation to UK statutory audit fees for the year ended 31 December 2011.

4 Directors' emoluments

During the year £116,000 was paid directly to Directors of the Company (2010: £22,000). Remuneration was paid to other Directors via subsidiary companies, total details of which are included in the Directors' Remuneration report.

5 Investments

Company

Cost	2011 £'000	2010 £'000
At 1 January	**64,346**	60,983
Additions – Circle Welbeck Limited (note 13)	**97,791**	–
Additions – Health Properties Limited	**1**	9
Additions – capital contributions (note 12)	**1,597**	3,354
At 31 December	**163,735**	64,346

Provision for impairment	2011 £'000	2010 £'000
At 1 January	**38,136**	34,782
Reclassification from trade receivables	**31,637**	–
Provision in the year	**69,768**	3,354
At 31 December	**139,541**	38,136
Net book amount		
At 31 December	**24,194**	26,210

During the year, the Company invested in £97,791,000 of 7.0% preference shares in Circle (Welbeck) Limited, in return for assigning unsecured loans of £74,917,000 and £22,874,000 previously owing from Circle Health and Nations Healthcare Limited respectively. Of the unsecured loans assigned to Circle (Welbeck) Limited, £31,637,000 was provided against at 31 December 2010 and has subsequently been reclassified to investments. Following the assignment to Circle (Welbeck) Limited, the Company has impaired the investment in preference shares by £68,171,000 to reflect the market capital of the business following the recent fundraising.

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

Name of company	Holding	Nature of business	Proportion of voting rights held	Country of incorporation
Circle International plc	Ordinary shares	Holding and management	100.0%	United Kingdom
Health Capital Limited	Ordinary shares	Holding and management	100.0%	United Kingdom
Health Properties Limited	Ordinary shares	Holding and management	100.0%	Jersey
Health Estates Managers Limited	Ordinary shares	Fund services (JFSC** registered)	100.0%	Jersey
Circle (Welbeck) Limited*	Preference shares	Finance company	n/a	United Kingdom

* subsidiary held indirectly

** Jersey Financial Services Commission

6 Debtors

	2011 £'000	2010 £'000
Prepayments and accrued income	**4,256**	–
Amounts owed by Group undertakings (note 13)	**14,341**	49,920
	18,597	49,920

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

	2011 £'000	2010 £'000
Bank loans (JCAM)	**13,614**	13,224
Trade creditors	**143**	16
Amounts owed to Group undertakings (note 13)	**–**	2,134
Accruals and deferred income	**546**	438
Warranty liability	**–**	1,971
	14,303	17,783

The JCAM loan facility provides £13,300,000 together with rolled up interest of £831,000 giving a total amount due at redemption of £14,131,000 (2010: £14,131,000). The loan is repayable within two years and carries an interest charge of 25.0%, payable quarterly. Warrants were issued to the lender at inception and were presented separately in equity at an amount of £1,616,000 giving rise to a loan balance at inception of £11,684,000. At 31 December 2011 the loan was carried at £13,614,000 (2010: £13,224,000) and had an effective interest rate of 28.8% (2010: 30.0%), taking into account both interest and accretion towards the redemption amount.

8 Called up share capital

Authorised

	2011 £'000	2010 £'000
Ordinary shares of £0.02 each	**2,000**	–
Limited shares of £0.10 each	–	700

	Number	Number
Number of authorised shares	**100,000,000**	7,000,000

On 13 May 2011, share capital was increased from £700,000 (divided into 7,000,000 limited shares of £0.10 each) to £2,000,000 (divided into 20,000,000 limited shares of £0.10 each).

On 1 June 2011, the shareholders passed a resolution adopting new Articles of Association ahead of the listing on AIM. These articles, among other items, reclassified the share capital of the Company into a single class of ordinary shares, thereby eliminating the previously authorised preference shares.

On the same date, pursuant to special resolutions passed by the shareholders of the Company at an Extraordinary General Meeting, it was resolved that each issued and unissued ordinary share of the Company of £0.10 be sub-divided into five ordinary shares of £0.02 each, effective 14 June 2011.

Allotted and fully paid up

Ordinary shares:		Shares (number)	Share capital £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 January 2010	£0.10	3,857,675	386	101,190	–	101,576
Shares issued – August 2010	£0.10	156,250	16	4,984	–	5,000
Shares issued – November 2010	£0.10	234,375	23	5,506	–	5,529
At 31 December 2010		4,248,300	425	111,680	–	112,105
Shares issued – March 2011	£0.10	234,375	23	2,277	–	2,300
Shares issued – May 2011	£0.10	1,793,722	179	13,448	–	13,627
		6,276,397	627	127,405	–	128,032
Five-for-one share split	£0.02	31,381,984	627	127,405	–	128,032
Shares issued – June 2011 (net of costs)	£0.02	16,633,552	333	21,143	–	21,476
Shares issued from warrants – June 2011	£0.02	14,755,513	295	–	11,303	11,598
At 31 December 2011		**62,771,049**	**1,255**	**148,548**	**11,303**	**161,106**

Transaction costs incurred in relation to the 2011 equity raises totalled £4,336,000, of which £3,806,000 have been capitalised within equity (2010: £27,000, all of which were expensed due to their immaterial amount). The 2011 proceeds are net of a warrant liability of £9,332,000 (31 December 2010: £1,971,000).

9 Reserves

	Share premium £'000	Warrant reserve £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2011	111,680	19,878	–	(73,154)	58,404
Issuance of shares	36,868	–	11,303	–	48,171
Loss for the financial year	–	–	–	(67,728)	(67,728)
Profit on issuance of shares (note 13(k))	–	–	–	2,241	2,241
Additions to warrants reserve (note 12)	–	1,597	–	–	1,597
At 31 December 2011	**148,548**	**21,475**	**11,303**	**(138,641)**	**42,685**

10 Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**(67,728)**	24
Profit on issuance of shares (note 13(k))	**2,241**	–
Net proceeds on issue of ordinary share capital (note 8)	**49,001**	10,529
Additions to warrant reserve (note 11)	**1,597**	3,354
Net addition to shareholders' funds	**(14,889)**	13,907
Opening shareholders' funds	**58,829**	44,922
Closing shareholders' funds	**43,940**	58,829

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

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.

i Warrants treated as equity instruments

Movements in the warrant reserve during the year are as follows:

	2011 £'000	2010 £'000
At 1 January	**19,878**	16,524
Share-based charges in respect of warrants issued (note 12)	**1,597**	3,354
At 31 December	**21,475**	19,878

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 1 January 2011 £'000**	**Share-based charges £'000**	**At 31 December 2011 £'000**
Warrants issued in 2008:								
– Health Trust (Jersey)	a	–	1,338,400	(1,338,400)	–	9,721	(9,721)	–
– 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:								
– Health Trust (Jersey) – Option Pool	a	–	1,002,365	(1,002,365)	–	2,197	(2,197)	–
– 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
Modification of warrants in 2011:								
– Health Trust (Jersey)	a	£1.52	–	2,340,765	2,340,765	–	13,515	13,515
			3,623,005	**–**	**3,623,005**	**19,878**	**1,597**	**21,475**

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 12.

b In March 2011, the 623,090* warrants issued to existing shareholders in March 2008 with an exercise price of £10.31*, and the 420,220* warrants issued to existing shareholders in November 2009 with an exercise price of £5.97*, were modified with the exercise price being reduced to the IPO price of £1.52 per new ordinary share issued. In total, 1,043,310* of such warrants remain in issue. The fair value of the warrants was determined using a Monte Carlo simulation, owing to the exercise price being conditional on the IPO, and the fair value of the warrants was assessed at £1,398,000. Since this is lower than the fair value of £6,344,000 calculated on the grant date, there is no change to the carrying value of these warrants.

* Reflects the five-for-one share split

Other than the warrants issued to Health Trust outlined in (a) above and note 12, no new warrants treated as equity instruments were issued during the year. The warrants issued to JCAM in 2008 remain at an exercise price of £10.31* based on an assessment of the market price for the associated JCAM loan.

ii *Warrants recognised as financial liabilities*

The following table details all warrants issued by the Company in November 2010 which were recognised as a financial liability in the balance sheet at 31 December 2010, together with all warrants issued by the Company in March and May 2011:

Warrant liability issues:	Exercise price £	Warrant liability £'000	Other reserve £'000
Warrants issued – November 2010			
– Balderton Capital	£0.10	657	–
– Lansdowne Partners	£0.10	657	–
– BlackRock	£0.10	394	–
– BlueCrest Capital Management	£0.10	263	–
		1,971	–
Warrants issued – March 2011			
– Balderton Capital	£0.10	222	–
– Lansdowne Partners	£0.10	1,701	–
– BlackRock	£0.10	592	–
– BlueCrest Capital Management	£0.10	444	–
		2,959	–
Warrants issued – May 2011			
– Balderton Capital	£0.02	1,593	–
– Odey Asset Management	£0.02	4,780	–
		6,373	–
Shares issued from warrants – June 2011		(11,303)	11,303
At 31 December 2011		**–**	**11,303**

* Reflects the five-for-one share split

November 2010 and March 2011 warrants

As a result of the various equity raises with existing shareholders detailed below, in the case of a further equity raise prior to 30 September 2011 and 30 May 2011 respectively, these existing investors would be allotted £0.10 anti-dilutive ordinary share warrants with the number of warrants issued being based on the share price of the equity raised in the subsequent offering. These warrants were valued by an independent external valuation firm using a Monte Carlo simulation. Since the number of warrants to be issued was variable, the warrant portion of equity raised was treated as a financial liability under IAS 32 'Financial instruments; presentation'. In June 2011 the Company completed a further equity raise with the listing on AIM. As a result of all warrants being issued and subsequently exercised, all associated financial liabilities have been extinguished. Further specific details are provided below:

November 2010 warrants

In November 2010, the Company raised £7,500,000 from a number of existing shareholders (note 24). The total fair value of the accompanying anti-dilutive warrants was calculated to be £1,971,000 and the balance was classified as current at 31 December 2010 as the liability was required to be settled at the earlier of a further equity raise or 30 September 2011. At the point of listing on AIM, 6,229,071* warrants were issued and exercised immediately for total consideration of £125,000.

March 2011 warrants

In March 2011, the Company raised £7,500,000 from a number of existing shareholders. The total fair value of the accompanying anti-dilutive warrants was calculated to be £2,959,000 and the balance was classified as current as the liability was required to be settled at the earlier of a further equity raise or 30 May 2011. At the point of listing on AIM, 4,310,581* warrants were issued and exercised immediately for total consideration of £86,000.

May 2011 warrants

In May 2011, the Company raised £20,000,000. A condition of the raise was that warrants were issued, exercisable at nominal value, equal to 30.0% and 10.0% respectively of the warrants issued pursuant to the November 2010 and March 2011 warrant instruments. The warrants were valued by using the subscription price of £11.15* and calculating the impact of the November 2010 and March 2011 warrants at this price. This resulted in the fair value of the warrants being determined at £6,373,000. In June 2011 the Company completed a further equity raise with the listing on AIM. At the point of listing, 4,215,861* warrants were issued and exercised immediately for total consideration of £84,000. As a result of all warrants being issued and subsequently exercised the financial liability was extinguished.

* Reflects the five-for-one share split

12 Capital contributions

Shares and share warrants are issued to employees, consultants, GPs and external investors who contribute to the success and growth in value of the Company. The issuance of these warrants and shares, including the issue of shares to scheme participants and employees, qualifies as equity-settled share-based payment transactions and falls within the scope of FRS 20 '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	2011 £'000	2010 £'000
Issued by Circle Partnership	a	Shares	**–**	–
Awarded to Health Trust (Jersey)	b	Warrants	**1,597**	1,767
Awarded to Health Trust (Jersey) – option pool	c	Warrants	**–**	1,587
			1,597	3,354

a Circle Partnership

Circle Partnership was established in 2008 as an employee share ownership plan and currently owns 49.9% of the shares in Circle Health. It enables the participants (employees, consultants and GPs) 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. 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)

Health Trust (Jersey), of which Ali Parsa is a beneficiary, received 1,100,950* share warrants on 29 May 2008 as additional consideration for the sale of 100.0% of the shares in Health Properties to the Group and received a further 237,450* warrants on 4 June 2008. The original exercise price was £11.93* per share and the fair value of the warrants at the date of issue was determined to be £7.86* per warrant and £10,514,000 in total, according to Black-Scholes.

The share warrants, which were conditional on Ali Parsa remaining with the Group for a specified period of up to 48 months, entitled the holder to acquire an equivalent number of ordinary shares in the Group and have no expiry date.

c Health Trust (Jersey) -option pool

Health Trust (Jersey) -option pool received 1,002,365* warrants on 27 November 2009. The original exercise price was £10.31* and the fair value of the warrants at the date of issue was determined to be £2.74* per warrant and £2,750,000 in total, according to Black-Scholes. The warrants had the same conditions as (a) above except that they vested in 20.0% increments based upon the next five hospitals opening during the hospital plan period and were conditional on Ali Parsa remaining with the Group at the time of each hospital opening.

In May 2011, all of the above share warrants were cancelled, in exchange for which new warrants with a different exercise price and vesting conditions were granted exclusively to Health Trust (Jersey). Under the terms of the new warrants, the exercise price was set to the IPO price of £1.52* per new ordinary share issued and the 2,340,765* share warrants vest over a 24 month period from June 2011 and are exercisable from the date they vest (1/24 every month from May 2011) and do not have any expiry date. A fair value assessment was completed based on the value of the existing warrants prior to cancellation and the fair value of new warrants determined using Black-Scholes on a diluted pricing basis using the parameters outlined below.

* Reflects the five-for-one share split

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 cancellation of share warrants in Health Trust (Jersey) and Health Trust (Jersey) -option pool and re-issue of share warrants to Health Trust (Jersey) has been accounted for as a modification as it was intended to be a replacement for the original awards. 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 2011 is £1,597,000 (2010: £3,354,000) with the credit being recognised in the warrant reserve over the warrant vesting period. Aside from the cancellation and re-issue outlined above, there were no new warrant issues qualifying as share-based charges during 2011. None of the warrants were exercised in 2011 (2010: nil). All the outstanding warrants have an exercise price of £1.52* (2010: £11.93* and £10.31*).

* Reflects the five-for-one share split

Movements in the number of warrants outstanding and their related weighted average exercise

	2011	**2011**	2010	2010
	Warrants (number)	**Average exercise price (£ per share)**	Warrants (number)	Average exercise price (£ per share)
At 1 January	**468,153**	**£51.55**	468,153	£51.55
Five-for-one share split	**1,872,612**	**(£41.24)**	–	–
Modification	**–**	**(£8.79)**	–	–
At 31 December	**2,340,765**	**£1.52**	468,153	£51.55

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:

	Note	**2011**		2010	
		Amounts owed by related party £'000	**Amounts owed to related party £'000**	Amounts owed by related party £'000	Amounts owed to related party £'000
JCAM	a	**–**	**(13,614)**	–	(13,224)
Health Estates Managers Limited	b	**152**	**–**	90	–
Health Properties (Edinburgh) Limited	c	**619**	**–**	619	–
Circle Health Limited	d	**8,948**	**–**	42,871	(2,134)
Nations Healthcare Limited	e	**2,890**	**–**	6,340	–
Circle (Welbeck) Limited	f	**1,732**	**–**	–	–
Circle International plc	g	**–**	**–**	–	–
Capita	h	**–**	**–**	–	(72)
		14,341	**(13,614)**	49,920	(15,430)

a JCAM

JCAM has loaned the Company £14,131,000 (2010: £14,131,000), which includes £831,000 of rolled up interest. The loan is repayable within two years and carries a quarterly interest charge of 25.0%. At inception, 47,786,warrants were issued to JCAM at an exercise price of £59.67 and were presented separately in equity at an amount of £1,616,000, giving rise to a loan balance at inception of £11,684,000. At 31 December 2011 the loan was carried at £13,614,000 (2010: £13,224,000) and had an effective interest rate of 28.8% (2010: 30.0%), taking into account both interest and accretion towards the redemption amount.

b Health Estates Managers Limited

Health Estates Managers Limited is a wholly owned subsidiary of the Company and regulated by the Jersey Financial Services Commission to conduct fund services business. Health Estates Managers Limited acts as a manager to Health Estates Limited, based in Jersey. To date, the Company has advanced loans to Health Estates Managers Limited of £165,000 (2010: £115,000) with an interest rate of 12.0% to 30 June 2011, 7.0% thereafter (2010: 12.0%) and cumulative interest of £30,000 has been accrued to 31 December 2011 (2010: £18,000). In 2008, debtors of £72,000 from Health Estates Managers Limited were fully provided for, leaving a residual balance of £152,000 at 31 December 2011 (2010: £90,000). The Directors have reviewed this balance and consider that based on current cash flow forecasts, no change in the provision is required.

c Health Properties (Edinburgh) Limited

Health Properties (Edinburgh) Limited, a wholly owned subsidiary of the Company has been advanced loans of £938,000 (2010: £938,000) for the payment of interest on an external loan. These loans are unsecured, interest-free and payable on demand. These loans were partially provided for during 2008, and based on current cash flow forecasts the Directors do not believe that any further provision is appropriate for the remaining balance of £619,000 (2010: £619,000).

d Circle Health

Circle Health is a 50.1% owned subsidiary of Circle International plc, a wholly owned subsidiary undertaking. Prior to 2011, the Company had advanced unsecured loans to Circle Health of £50,854,000, bearing interest of 12.0%. As set out in note 5 the loans were assigned in full to Circle (Welbeck) Limited during the year. Subsequently a further £8,925,000 has been advanced, which remains outstanding at 31 December 2011, together with accrued interest of £23,000. The interest rate was reset to 7.0% from 30 June 2011.

During the year Circle Health incurred expenses on behalf of the Company and recharged these at cost to the value of £206,000 (2010: £2,134,000).

e 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% (2010: 20.0%) preference shares in Nations Healthcare Limited, which are included in fixed asset investments (note 5). The Company has accrued a total of £2,890,000 (2010: £2,284,000) of preference dividends on these shares.

Prior to 2011, the Company had advanced unsecured loans of £16,055,000 to Nations Healthcare Limited, bearing interest of 12.0%. As set out in note 5, the loans were assigned to Circle (Welbeck) Limited during the year and there are no longer any loan balances between these two companies.

f Circle (Welbeck) Limited

The Company indirectly owns 50.1% of Circle (Welbeck) Limited, via its subsidiaries Circle Health and Circle International plc. During the year, the Company assigned unsecured loans and accrued interest of £74,917,000 and £22,874,000 previously owing from Circle Health and Nations Healthcare Limited respectively, to Circle (Welbeck) Limited, for consideration of £97,791,000 of 7.0% preference shares. The Company has accrued a total of £1,732,000 (2010: £nil) of preference dividends on these shares.

Of the unsecured loans assigned to Circle (Welbeck) Limited, £31,637,000 was provided against at 31 December 2010 and has subsequently been reclassified to investments. Following the assignment to Circle (Welbeck) Limited, the Company has impaired the investment in preference shares by £68,171,000 to reflect the market capital of the business following the recent fundraising.

g Circle International plc

Circle International plc is a wholly owned subsidiary of the Company. In 2008, a Company shareholder loaned Circle International plc £3,000,000 which was subsequently converted into ordinary shares in the Company. This resulted in Circle International plc owing the Company £3,000,000 which was fully provided for in 2008.

h Capita

A number of the current Directors who served during the year are employed by Capita. In total, the Company was charged £293,000 (2010: £110,000) by Capita for fiduciary services provided to the Company during the year. The amount outstanding at 31 December 2011 was £17,000 (2010: £72,000).

i Health Properties

Health Properties is now a 100.0% owned subsidiary of the Company (2010: 90.0%). Upon winding up the Health Properties employee share ownership plan in August 2011, the Company acquired the remaining 10.0% of the share capital in Health Properties for £1,000.

Health Properties was recharged legal and administrative costs during 2008 amounting to £929,000 which were fully provided for in 2008.

j Health Trust (Jersey)

Health Trust (Jersey) owns 3,136,180 shares (5.0%) in the Company (2010: 4,928,050*) through a wholly owned subsidiary, Health Partners Limited. Health Trust (Jersey) also holds 2,340,765 warrants in the Company.

k 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 and at the same time Circle Partnership allotted and issued its ordinary shares at par value to Health Partners. The effect of the Share Transfer Agreement on the Company was a profit on issuance of shares of £2,241,000.

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	10,613,677	16.9%	4,786
Lansdowne Partners	18,170,570	28.9%	1,262
BlackRock	8,051,993	12.8%	–
BlueCrest Capital Management	9,252,685	14.7%	296
Odey Asset Management	10,394,930	16.6%	–

Tim Bunting and Jamie Wood are Non-Executive Directors of Circle Holdings plc who are also employed by Balderton Capital and Odey Asset Management respectively. No fees are charged for their services to the Group.

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

14 Events after the balance sheet date

JCAM restructure

On 3 February 2012, the Company and JCAM agreed to restructure the Company's existing £14,131,000 loan. The loan was repaid and a new loan for £14,131,000 was entered into between JCAM and CH Subco Limited, a wholly-owned Jersey subsidiary of the Company, on materially the same terms as the previous loan. As part of the restructuring, JCAM waived any breaches under the previous loan. The Group provided enhanced security over its assets and the Company placed £1,536,000 in a pledged account in favour of JCAM to cover any future liabilities arising under the loan. The new loan is due to be repaid in February 2013.

2012 fund raise

On 28 May 2012, the Company entered into an underwriting agreement with Numis Securities and a subscription agreement with Balderton Capital III L.P. to raise an aggregate of £47,500,000 by way of equity funding, before fees, at a price per share of £0.70. The equity fund raise is subject to the terms of the underwriting agreement, the subscription agreement, and shareholder approval at an extraordinary general meeting to be held on or about 18 June 2012. Shareholders representing in excess of 75% of the current issued share capital have irrevocably undertaken to vote in favour of the shareholder resolutions to approve the issue of new shares in connection with the equity fund raise.

Resolution of cross default on GE lease

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 loans on 22 May 2012. Under the restructured terms, the Company has granted a guarantee to Lehman in respect of the repayment of the mezzanine debt, with the Company's liability under the guarantee being capped at £625,000.

Company Information

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Andrew Shilston
Peter Cornell
Tim Bunting
Jamie Wood

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