Circle Holdings

The healthcare partnership

Interim Report and financial information
For the year ended 30 June 2015

Highlights

Financial highlights

- Group revenue increased 28% to £62.5 million (H1 2014: £48.9 million).
- EBITDA losses before exceptional items were down 37% to £3.7 million (H1 2014: Loss of £5.9 million).
- Patient volumes across the group are up 12% to 24,135 day cases (H1 2014: 21,396) and 158,407 outpatients (H1 2014: 141,667).
- Operating loss of £5.7 million; an improvement of 43% on the previous year's results (H1 2014: Loss of £10 million).

Operational highlights

- Nottingham's core service of surgery was awarded a rating of 'outstanding' by the Care Quality Commission ('CQC').
- Staff offered share options in February, following completion of Project Reset.
- Ten-year partnership signed with Tech Mahindra for IT, computing and informatics support.
- Excellent patient feedback and clinical outcomes across sites. Patient recommendation across the Group is 99%.
- Hinchingbrooke withdrawal completed in March.
- Planning progressing for new-build independent hospital in Edgbaston, Birmingham.

Chairman

Michael Kirkwood, CMG

The past six months have been significant in the NHS, in politics, and healthcare – and I am pleased with progress in an equally important period for Circle. The debate in the UK health economy has shifted steadily towards integration, and the need for more joined-up, cost-effective care.

Circle's activities this half reflect this trend. Isolated contracts based on single hospitals – such as Hinchingbrooke, which we left in March – have been superseded by discussion of new models of care that integrate services.

Our Bedfordshire musculoskeletal service ('Bedford MSK') is one such pioneering model, and we celebrated our first year with solid results in making the system more coherent, effective, and responsive. In Bath, Reading, and Nottingham we continue to provide excellent elective private and NHS services, and we are increasingly settled as essential parts of surrounding health systems. We are pleased at the clinical performance of all sites – but were particularly delighted by the CQC, awarding Nottingham's core service of surgery a rating of 'outstanding'.

While the general election brought confirmation of the overall funding settlement for the NHS, the tone of policy discussion remains one of exploring new ideas and testing thinking rather than detailed implementation.

At the same time, while the private insured market remains flat, we saw growth in self-pay and there is much debate around the coming wave of 'consumerisation' in healthcare. We are also increasingly excited about opportunities to offer our expertise in emerging markets.

The Board and management are focused on appropriate capital allocation and evolving the business to a sustainable financial position. We are continually evaluating options offered by the business and the market to ensure that suitable returns are realised for all our shareholders.

In an environment with significant pressure to balance innovation with cost-effective patient care, Circle's model and emphasis on clinical engagement has much to offer both public and private healthcare. Our task is to ensure this unique approach is valued in a fast-changing sector.

I have every confidence that we will do just that, and that this offers a good route to serving our patients, customers, staff and shareholders.

Chief Executive Officer

Steve Melton

The half year saw greater clarity for Circle, as we confirmed our withdrawal from Hinchingbrooke, focused on performance at our other sites, and made the first moves in international strategic partnerships.

Total revenues were up 28% on a year-on-year basis, patient volumes were up 12%, and our losses, including all exceptional items, were down 40%.

There was also political clarity, as an extended period of unhelpfully politicised debate came to an end in May. We now wait to see exactly how the NHS takes forward the *Five Year Forward View*. This is an exciting plan with the potential to set healthcare in the UK on a new footing: and as one of the few organisations already running integrated services in the UK, we are well-placed to contribute, and we support its direction. But there is now increasing pressure to move to detail.

The business has developed strong IP in public and private provision. This supports its ability to realise sustainable long term returns, though this requires the continued growth and opening of the NHS and private markets.

Overall, this has been a half-year of growth: and we have good options for continued growth, in public and private sectors across the world.

Chief Executive Officer's report

Operating overview

CircleBath

Revenue growth

+13.3%

Patient satisfaction

99.5%

CircleReading

Revenue growth

+13.4%

Patient volumes

+17.9%

CircleBath had a strong half-year. Revenue was up 13.3%, of which NHS revenues increased by 18%. Total patient volumes increased 5%. We previously indicated that as the hospital approaches maturity, the increase in patients would drop off, so it is encouraging to see continued growth. We now have approximately 50% of local orthopaedic market, and patient feedback remains one of the best in the country.

Clinical outcomes were excellent. Patient recommendation rates were at 99.5% across the half, and in May the Health and Social Care Information Centre, the UK's national health data body, made the hospital a case study for its use of patient-reported outcome measures.

We were pleased to support surrounding NHS trusts, and the hospital has a recognised reputation as a trusted provider to assist when surrounding trusts are challenged on capacity.

CircleReading opened exactly three years ago. Revenue increased by 13.4%, of which NHS revenues increased by 40%. Patient volumes increased by 17.9%, while margins improved significantly from the challenging second year of operation, to an average of 36%.

Clinical outcomes remained good, with a patient recommendation rate above NHS and private averages, at 99.5%. The hospital's catchment area expanded into Oxfordshire and Wiltshire, and with continued distress in nearby trusts, has won itself a place in the local health economy.

At both Bath and Reading, we believe that the growth of NHS patients over the past six months represents an excellent example of the independent sector providing value to the NHS – where patients were treated at no additional cost to the taxpayer in a high-quality hospital, when nearby trusts were under significant pressure.

The CircleNottingham NHS Treatment Centre had a good half-year. Revenues increased by almost one-fifth (18.9%) year-on-year, of which NHS revenues increased by 19%. Even in a contract without guaranteed volumes, patient numbers increased by 12%.

In May, the CQC gave the treatment centre an overall rating of 'good', and made it one of a handful of facilities in the country to gain an 'outstanding' for surgery. This cemented our reputation as a centre of excellence in elective surgery. We were also proud to be the only private provider to offer the Care Certificate for healthcare assistants, and our first cohort graduated in June. We began the transformation of a number of service lines, crucially including dermatology, aiming to focus hospital admissions on those that need it and treat others closer to home – recognising that the local healthcare system requires innovation to move beyond a national shortage of dermatologists.

The Bedford MSK service ended its first full year in April. The contract aims to replace a previously disjointed set of MSK services with a single, more coherent system. Our first year saw considerable progress in creating the new pathway. Over 20 providers are now sub-contracted with us, and over 80% of patients are referred through the Circle triage system. We gave specialist triage to 100% of patients within 24 hours, talked 98% of those who required surgery through their choices, and introduced a host of outcome measures to improve quality throughout the system. We were able to offer the NHS excellent value: even though overall MSK activity was up, by reducing the proportion of patients converting to surgery, the costs are lower than our commissioners were expected to otherwise spend. Our revenue was as-expected for the six months.

Chief Executive Officer's report
Continued

CircleNottingham

Revenue growth

+18.9%

Patient volumes

+12%

Bedford MSK

Patients coming through the Circle triage system

80%

Specialist triage to patients within 24 hours

100%

The Group has historically seen strong revenue growth, but has always recognised the need to take margins closer to industry standard. Progress on this was slower in the first half of the year, primarily due to national staffing shortages, particularly in nurses, and in dermatology. Our response has been to address specific challenges – for example with renewed recruitment and retention policies for nurses – along with adapting our operating model to better reflect our current mix of patients and treatments. We have seen an improving trend towards the end of the half, and we are confident that we will achieve our plans to bring margins on-target by mid-2016, but current performance will likely have an impact on expected outturn in 2015. With these plans, we expect all sites to reach EBITDA break-even next year.

The Group also saw some significant milestones, such as the issuing of staff share options under the Group's new incentivisation plans in March – the final element of Project Reset – and signing a 10-year deal with Tech Mahindra in June, to access the latest health technology and informatics.

Looking forward, we expect modest organic growth at each site, particularly in NHS and self-paying patients while PMI patient levels are expected to be flat. We are currently seeing softer demand by NHS patients through the summer with NHS hospitals under less pressure and the removal of penalties for breaking referral to treatment standards; but expect increased growth as winter approaches.

Plans for a new hospital in Birmingham are proceeding. We are moving through the planning process, with local stakeholders and government authorities expressing satisfaction with our plans and planning approval expected mid-September. We are in active discussion with a finance partner and expect to provide further detail on the financing and range of services it will offer before the end of 2015.

In the NHS, we expect the shift away from contracts based on single, isolated hospitals to continue, but there is an increasingly active market in prime contractor and integrated health systems. Several MSK contracts have come to market, and as a first mover in the field we expect to submit and be well-placed to win bids in the future. The new models of care are harder to predict, but again, our expertise positions us well to offer our support.

We also expect to see continued interest from emerging markets, particularly from the Middle East and Asia, seeing rapid growth in state-provided services, public-private partnerships and conglomerates creating new hospitals and services. We are exploring how to capitalise on these trends, without compromising our existing operations, through strategic partnerships or advisory services that exploit our experience and intellectual property.

In short, with a new proposed independent hospital, further NHS contracts, and growing demand for healthcare expertise across the world, we have a number of notable opportunities and a broad range of options for future growth. We intend to evaluate and pursue these across the rest of the year, balancing capital requirements, returns and strategic benefit for our business and its shareholders, as well as quality patient care.

Steve Melton
Chief Executive Officer

Total Group revenue growth

+27.9%

For the six months ended 30 June 2015

Group EBITDA before exceptional items and Project Reset charge

+40%

Chief Financial Officer's report

Financial review

The Group continues to make progress with growth in its core operations, while improving the efficiency of the business. Total Group revenue for the six month ended 30 June 2015 has increased by 27.9% to £62.5 million compared with the same period in 2014. This growth is driven by patient volumes at existing hospital sites and the inclusion of a full six months of Bedford MSK revenue. Gross profit has improved by 15.6% on last year.

Group EBITDA before exceptional items and Project Reset charge has improved 37% from the previous year's results to a loss of £3.7 million. CircleBath and CircleReading have achieved positive growth, while Nottingham's EBITDA is consistent with the same period in 2014. The cost savings at Head Office have also contributed towards the EBITDA growth.

The Group generated an operating loss before exceptional and Reset items of £5.2 million, an improvement of 28% on the previous year's result, while the loss per share now stands at 2.7 pence, improved from a loss per share in 2014 of 3.8 pence.

Following the completion of Project Reset in December 2014, share option awards were granted to employees during 2015. These share scheme options have been valued under IFRS 2 basis using fair market value calculations and a corresponding charge has been recognised in the six months to 30 June 2015. Further information on the impact of Reset is detailed below.

Highlights

	Six months to 30 June 2015 £'000	Six months to 30 June 2014 £'000	Variance %
Group revenue	**62,509**	48,866	28
Operating loss	**(5,673)**	(10,012)	(43)
Earnings before interest, tax, depreciation and amortisation ('EBITDA') before exceptional items and Project Reset charge	**(3,668)**	(5,851)	(37)
Total operating loss before exceptional items and Project Reset charge	**(5,199)**	(7,230)	(28)
Loss for the period attributable to equity holders of the parent	**(6,085)**	(7,050)	(14)
Net assets	**28,850**	43,517	(34)

Chief Financial Officer's report
Continued

Bedford MSK revenue for the six months to June 2015

£13.5m

Closing cash balance as at 30 June 2015

£26.7m

Patient numbers

	Six months to 30 June 2015 Number	Six months to 30 June 2014 Number	Variance %
Day case and inpatients	**24,135**	21,396	13
Outpatients	**158,407**	141,667	12
Total patients	**182,542**	163,063	12

Review of performance

Total volumes have risen by 11.9% compared with 2014, with growth across all three hospital sites. CircleReading has achieved year-on-year growth of 13.4% revenues and total volumes increasing by 17.9%, particularly as a result of increased NHS activity. CircleBath revenues have increased by 13.3% to £12 million and patient volumes by 4.9% to 29,142, with the majority of increased revenues coming from NHS work, which has been a continuing focus. CircleBath recorded an EBITDA profit of £0.2 million for the six months to 30 June 2015 after an EBITDA loss of £0.8 million for the same period in 2014.

The Nottingham NHS Treatment Centre is now in its second full year of the new contract. Patient volumes continue to increase, and revenues grew by 18.9% compared to the same period in 2014. NHS patient volumes grew by 12.1% on prior year and patient satisfaction is consistently high.

The Group has now completed the first year of the innovative five-year integrated Bedford MSK contract. Revenue for the six months to June 2015 totalled £13.5 million. As reported in our 2014 annual financial statements, we faced some challenges in convincing all local partners to use our triage hub, leading to discussions with the clinical commissioning group ('CCG') regarding this disruption of patient care. We have reached a full agreement on the position in 2014 and resolved a large number of operational points. We believe the remaining points will be addressed in the coming months. We continue to work with the CCG to engage Bedford GPs to follow the referral process managed by Circle, and the CCG have implemented changes to their guidance in the healthcare system.

As mentioned in the Chief Executive's operational report, improvements in gross margins were slower to materialise than initially expected. On a like-for-like[1] basis, total gross margins dropped by around 1%. This is due partly to benefits received in 2014 in relation to the old Nottingham contract offset by higher than anticipated staffing costs in H1 2015. The exclusion of the one-off benefit results in a 2% increase on like-for-like margins from H1 2014 to H1 2015.

Closing cash balance as at 30 June 2015 is £26.7 million. This is approximately £8 million higher than expected and is due to short-term timing differences in the flow of cash to and from our contracted customers and suppliers. This timing difference reversed in July 2015, and all transactions were in the ordinary course of our business and within contract terms.

1 Like-for-like analysis includes all assets that were operating for the same period in 2014 (CircleNottingham, CircleBath and CircleReading).

Chief Financial Officer's report
Continued

"**Paolo Pieri**
Chief Financial Officer
The first half of 2015 has been a half of growth, and balancing capital requirements and potential returns, we have good options to ensure a strong end to the year and beyond.

We noted in our 2014 Annual Report that we do not believe the development of the Manchester land to be a viable project, and we are now assessing potential exit options to the asset.

Following the successful completion of Project Reset, the Company issued initial allocations of options under its Management Incentive Plan (MIP) and Partnership Incentive Plan (PIP) share schemes earlier this year. Together with 11.5 million 2016 convertible shares that will automatically convert into ordinary shares of the Company in June 2016, up to 20 million options may vest and become eligible to exercise in 2016 (approximately 13m of which are subject to performance conditions that may not be satisfied). Both the 2016 convertible shares and the ordinary shares into which these options will be exercised are currently issued and held by the Circle Partnership Benefit Trust Limited, on behalf of scheme beneficiaries, and are non-dilutive.

The 2015 full-year share-based payment charge in relation to employee and management share schemes issued is expected to be circa £1.7 million, excluding National Insurance contributions costs.

As the Chief Executive's report notes, we have a number of opportunities we could pursue in both private and public markets, in the UK and internationally. The first half of 2015 has been a half of growth, and balancing capital requirements and potential returns, we have good options to ensure a strong end to the year and beyond.

Paolo Pieri
Chief Financial Officer

Consolidated income statement

For the six months ended 30 June 2015

	Note	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Revenue		**62,509**	48,866	110,983
Cost of sales		**(45,390)**	(34,063)	(80,373)
Gross profit		**17,119**	14,803	30,610
Administrative expenses before exceptional items		**(22,654)**	(22,033)	(43,939)
Operating loss before exceptional items	4	**(5,535)**	(7,230)	(13,329)
Exceptional operating items	4	**(138)**	(2,782)	(5,341)
Operating loss		**(5,673)**	(10,012)	(18,670)
Finance income	5	**1**	24	181
Finance costs	6	**(413)**	(465)	(911)
Exceptional finance items	4	**–**	–	(625)
Provision for joint venture deficit		**–**	(132)	(130)
Loss before taxation		**(6,085)**	(10,585)	(20,155)
Tax		**–**	–	–
Loss and total comprehensive loss for the financial period/year		**(6,085)**	(10,585)	(20,155)
Loss and total comprehensive loss for the financial period/year attributable to:				
– Equity holders of the parent		**(6,085)**	(7,050)	(8,055)
– Non-controlling interests		**–**	(3,535)	(12,100)
		(6,085)	(10,585)	(20,155)
Basic and diluted loss per ordinary share (pence)	7	**(2.7)**	(3.8)	(4.3)

Consolidated balance sheet

As at 30 June 2015

	Unaudited 30 June 2015 £'000	Unaudited 30 June 2014 £'000	Audited 31 December 2014 £'000
Non-current assets			
Intangible assets	**5,414**	5,813	5,562
Property, plant and equipment	**16,717**	17,430	17,498
Trade and other receivables	**2,500**	4,839	2,500
	24,631	28,082	25,560
Current assets			
Inventories	**1,679**	1,625	1,806
Trade and other receivables	**22,924**	19,064	16,683
Cash and cash equivalents	**26,722**	31,551	24,496
	51,325	52,240	42,985
Total assets	**75,956**	80,322	68,545
Current liabilities			
Trade and other payables	**(35,024)**	(18,648)	(21,256)
Loans and other borrowings	**(2,022)**	(1,625)	(1,922)
Provisions for other liabilities and charges	**(134)**	(395)	–
	(37,180)	(20,668)	(23,178)
Non-current liabilities			
Trade and other payables	**(2,027)**	(2,122)	(2,074)
Loans and other borrowings	**(7,850)**	(9,148)	(8,869)
Provision for joint venture deficit	**–**	(4,817)	–
Provisions for other liabilities and charges	**(50)**	(50)	(50)
	(9,927)	(16,137)	(10,993)
Total liabilities	**(47,107)**	(36,805)	(34,171)
Net assets	**28,849**	43,517	34,374
Shareholders' equity			
Share capital	**4,956**	3,717	4,956
Share premium	**236,795**	218,265	236,795
Other reserve	**22,182**	22,182	22,182
Warrant reserve	**22,703**	22,703	22,703
Share-based charges reserve	**2,402**	165	1,842
Treasury share reserve	**(9,587)**	–	(9,587)
Retained deficit	**(250,602)**	(170,591)	(244,517)
Equity attributable to equity holders of the parent	**28,849**	96,441	34,374
Non-controlling interests	**–**	(52,924)	–
Total shareholders' equity	**28,849**	43,517	34,374

Consolidated statement of changes in equity

For the six months ended 30 June 2015

	Share capital £'000	Share premium £'000	Other reserve £'000	Warrant reserve £'000	Treasury share reserve £'000	Share-based charges reserve £'000	Retained deficit £'000	Total equity attributable to equity holders of the parent £'000	Non-controlling interests £'000	Total shareholders' equity £'000
At 1 January 2014	**2,616**	**193,145**	**22,182**	**22,703**	**–**	**151**	**(169,980)**	**70,817**	**(42,950)**	**27,867**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(7,050)	**(7,050)**	(3,535)	**(10,585)**
Transactions with owners										
Issue of shares	1,100	26,400	–	–	–	–	–	**27,500**	–	**27,500**
Capitalised costs in relation to fundraising		(1,280)						**(1,280)**	–	**(1,280)**
Issue of shares in respect of awards to non-executive directors	1	–	–	–	–	14	–	**15**	–	**15**
Effect of shares vesting in the period	–	–	–	–	–	–	6,439	**6,439**	(6,439)	**–**
At 30 June 2014	**3,717**	**218,265**	**22,182**	**22,703**	**–**	**165**	**(170,591)**	**96,441**	**(52,924)**	**43,517**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(1,005)	**(1,005)**	(8,565)	**(9,570)**
Transactions with owners										
Issue of shares in respect of Project Reset	1,239	19,780	–	–	(9,587)	–	(72,921)	**(61,489)**	61,489	**–**
Issue of shares to acquire unvested shares in Circle Partnership Limited in respect of Project Reset	–	–	–	–	–	1,105	–	**1,105**	–	**1,105**
Capitalised costs in relation to Project Reset	–	(1,250)	–	–	–	–	–	**(1,250)**	–	**(1,250)**
Other share-based charges	–	–	–	–	–	572	–	**572**	–	**572**
At 31 December 2014	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**1,842**	**(244,517)**	**34,374**	**–**	**34,374**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(6,085)	**(6,085)**	–	**(6,085)**
Transactions with owners:										
Share-based charges	–	–	–	–	–	560	–	**560**	–	**560**
At 30 June 2015	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**2,402**	**(250,602)**	**28,849**	**–**	**28,849**

Consolidated statement of cash flows

For the six months ended 30 June 2015

	Note	**Unaudited Six months to 30 June 2015 £'000**	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Cash flows from operating activities				
Cash flows from/(used in) operating activities	8	**4,159**	(5,122)	(8,361)
Interest paid		**(413)**	(465)	(1,536)
Interest received		**–**	24	–
Net cash flows from/(used in) operating activities		**3,746**	(5,563)	(9,897)
Cash flows from investing activities				
Purchase of computer software		**(28)**	(44)	(112)
Purchase of property, plant and equipment		**(574)**	(703)	(1,383)
Net cash used in investing activities		**(602)**	(747)	(1,495)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**–**	27,500	27,500
Capitalised costs in relation to fundraising		**–**	(1,280)	(1,280)
Capitalised costs in relation to group restructuring		**–**	–	(1,250)
Repayment of finance lease		**(919)**	(756)	(1,660)
Interest received		**1**	–	181
Restricted cash:		**–**	–	1,800
– Release of minimum balance – GE Capital Equipment Finance Limited ('GE')		**–**	–	2,000
Net cash inflow/(outflow) from financing activities		**(918)**	25,464	27,291
Net increase/(decrease) in unrestricted cash and cash equivalents		**2,226**	19,154	15,899
Unrestricted cash and cash equivalents at the beginning of the period/year		**24,496**	8,597	8,597
Unrestricted cash and cash equivalents at the end of the period/year		**26,722**	27,751	24,496
Cash and cash equivalents consist of				
Cash at bank and in hand		**26,722**	31,551	24,496
Restricted cash:				
– CircleBath GE letter of credit		**–**	(1,800)	–
– Hinchingbrooke deposit		**–**	(2,000)	–
Unrestricted cash at bank and in hand		**26,722**	27,751	24,496

Notes to the consolidated interim financial information

For the six months ended 30 June 2015

1 General information

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

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

2 Basis of preparation and accounting policies

Basis of preparation

The *Interim Report and financial information* for the six months ended 30 June 2014 has been prepared on a going concern basis in line with projections of the Group's anticipated results, which show that the Group has adequate resources to continue in existence for the foreseeable future. The Interim report and financial information should be read in conjunction with the Annual Report and financial statements for the year ended 31 December 2014, which were prepared in accordance with IFRS and IFRIC interpretations as endorsed by the EU, 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. As the Group is listed on AIM, it is not required to adopt IAS 34 'Interim Financial Reporting' in preparing the consolidated interim financial information.

The *Interim Report and financial information* is unaudited and has not been reviewed by external auditors. The condensed set of financial information in the Interim report does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group's *Annual Report and financial statements* for the year ended 31 December 2014 were approved by the Board of Directors on 18 March 2015. The report of the auditors on those accounts was unqualified and did not contain an emphasis of matter paragraph or a statement under Section 498 of the Companies Act 2006. The *Interim Report and financial information* was approved by the Board of Directors on 26 August 2015.

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 18 months from the date of the signing of the financial statements for the six months ended 30 June 2015. These forecasts have been prepared based on the expected cash flows from the Group's existing operating businesses, as well as the commitments associated with new projects as discussed on pages 3 to 8. Management believes that if any significant variances from the underlying assumptions of the forecasts were to materialise, the negative impact to cash flows could be mitigated by undertaking a number of actions including the sale of some property assets, reducing Head Office costs, or reducing the scale or timing of investment in new projects. Accordingly, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and conclude that it is appropriate for these accounts to be prepared on a going concern basis.

Significant accounting policies

The accounting policies adopted in the preparation of the Interim report and financial information are consistent with those of the Group's Annual Report and financial statements for the year ended 31 December 2014. In addition, at interim periods, taxes on income are accrued using the tax rate that is expected to be applicable for the full financial year and the impact of other relevant taxes.

Significant accounting judgements and estimates

The judgements and estimates which have the most significant effect on the amounts recognised in the Interim report and financial information are consistent with those reported in the *Annual Report and financial statements* for the year ended 31 December 2014.

Notes to the consolidated interim financial information
Continued

3 Segmental reporting

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources, and to date has divided the Group into three reportable business segments based on the Group's management and internal reporting structure. The Board assesses the performance of the segments based on revenue, gross profit, EBITDA before exceptional items and operating (loss)/profit. These are all measured on a basis consistent with that of the consolidated income statement. Revenue charged between segments has been charged at arm's length and eliminated from the Group financial statements.

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

	Circle hospital services £'000	Other Circle services £'000	All other segments and unallocated items £'000	Total Group £'000
Six months ended 30 June 2015 (unaudited)				
Revenue	49,024	13,481	4	62,509
Gross profit	16,339	775	4	17,119
EBITDA before exceptional items	307	(15)	(4,296)	(4,004)
Operating profit/(loss)	**(1,062)**	**(20)**	**(4,592)**	**(5,673)**
Finance income				1
Finance costs				(413)
Loss before taxation				**(6,085)**
Six months ended 30 June 2014 (unaudited)				
Revenue	42,221	–	6,645	48,866
Gross profit	14,556	–	248	14,803
EBITDA before exceptional items	(1,300)	–	(4,553)	(5,853)
Operating profit/(loss)	**(2,445)**	**–**	**(7,567)**	**(10,012)**
Finance income				24
Finance costs				(465)
Provision for joint venture deficit				(132)
Loss before taxation				**(10,585)**
Year ended 31 December 2014 (unaudited)				
Revenue	89,407	21,557	19	110,983
Gross profit	29,195	1,396	19	30,610
EBITDA before exceptional items	(2,880)	(1,151)	(6,396)	(10,427)
Operating profit/(loss)	**(5,328)**	**(1,153)**	**(12,189)**	**(18,670)**
Finance income				181
Finance costs				(911)
Exceptional finance income				(625)
Provision for joint venture deficit				(130)
Loss before taxation				**(20,155)**

Notes to the consolidated interim financial information
Continued

4 EBITDA and exceptional items
Exceptional operating items

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Share-based charges	**301**	–	651
Impairment of Hinchingbrooke working capital contributions	**–**	–	5,000
Provision for under-declared VAT in prior periods	**–**	–	(226)
Impairment of property, plant and equipment	**–**	2,782	2,907
Restructuring costs	**–**	–	1,105
Gain on the wind-up of joint venture activities (net of professional fees)	**–**	–	(4,750)
Other exceptional expense	**(163)**	–	654
	138	2,782	5,341

A share-based charge for the share options awarded to the Group's chief financial officer amounted to £301,000 including National Insurance Contributions costs. Termination cost for the exit of the franchise agreement with Hinchingbrooke Health Care NHS Trust amounted to £130,000. Other exceptional expense relates to the release of an accrual for advisory fees to assist the Group's consideration of potential acquisitions.

Exceptional finance items

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Financing costs paid in respect of the final recourse guarantee in relation to the wind-up of activities in HP Bath	**–**	–	625
	–	–	625

Notes to the consolidated interim financial information
Continued

4 EBITDA and exceptional items continued

Operating loss, EBITDA and EBITDAR before exceptional items

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Operating loss before exceptional items	**(5,535)**	(7,230)	(13,329)
Depreciation	**1,355**	1,166	2,451
Amortisation of intangibles	**176**	213	451
EBITDA before exceptional items	**(4,004)**	(5,851)	(10,427)
Operating lease rental	**443**	809	1,580
Building rental	**4,774**	5,423	10,000
EBITDAR before exceptional items	**1,213**	381	1,153

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

5 Finance income

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Bank interest receivable	**1**	24	118
Other interest income	**–**	–	63
	1	24	181

6 Finance costs

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Finance lease interest	**413**	465	895
Other bank charges	**–**	–	16
	413	465	911

Notes to the consolidated interim financial information
Continued

7 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 six months ended 30 June 2015 and 2014, and the year ending 31 December 2014:

	Unaudited Six months to 30 June 2015	Unaudited Six months to 30 June 2014	Audited Year to 31 December 2014
Loss attributable to equity holders of parent (£'000)	**(6,085)**	(7,050)	(8,055)
Weighted average number of ordinary shares in issue	**224,703,258**	185,789,480	186,911,084
Basic and diluted loss per ordinary share (pence)	**(2.7)**	(3.8)	(4.3)

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.

8 Net cash outflow from operating activities

	Unaudited Six months to 30 June 2015 £'000	Unaudited Six months to 30 June 2014 £'000	Audited Year to 31 December 2014 £'000
Loss before tax	**(6,085)**	(10,585)	(20,155)
Provision for joint venture deficit	–	132	130
Exceptional finance items	–	–	625
Finance costs	**413**	465	911
Finance income	**(1)**	(24)	(181)
Depreciation of property, plant and equipment	**1,355**	1,166	2,451
Amortisation of intangible assets	**176**	213	451
Loss on sale of tangible fixed assets	–	–	16
Impairment of property, plant and equipment	–	2,782	2,907
Impairment of intangible assets	–	–	81
Restructuring costs	–	–	–
Gain on the wind up of joint venture activities	–	–	(4,750)
Share-based charges	**560**	14	1,691
Provision for VAT	–	–	(226)
Movements in working capital:			
– Decrease/(increase) in inventories	**127**	20	(161)
– Increase in trade and other receivables	**(6,241)**	(5,879)	(1,159)
– Increase in trade and other payables	**13,721**	6,784	9,387
– Increase/(decrease) in provisions	**134**	(210)	(379)
Cash flows from operating activities	**4,159**	(5,122)	(8,361)

Notes to the consolidated interim financial information
Continued

9 Reconciliation of net debt

	Six months to 30 June 2015 £'000	Six months to 30 June 2014 £'000	Year to 31 December 2014 £'000
Increase in unrestricted cash in the period/year	**2,226**	19,154	15,899
Decrease in restricted cash in the year	**–**	–	(3,800)
Repayment of finance lease	**919**	756	1,660
Movement in net debt from cash flow	**3,145**	19,910	13,759
Other non-cash movements	**–**	–	(922)
Movement in net debt	**3,145**	19,910	12,837
Net debt at 1 January	**13,705**	868	868
Net debt at 30 June/31 December	**16,850**	20,778	13,705

June 2015	At 1 January 2014 £'000	Cash flow £'000	Transfers £'000	**At 30 June 2014 £'000**
Liquid resources				
Unrestricted cash	24,496	2,226	–	**26,722**
Restricted cash	–	–	–	**–**
Debt due within one year				
Finance leases	(1,922)	919	(1,019)	**(2,022)**
Debt due after one year				
Finance leases	(8,869)	–	1,019	**(7,850)**
Net debt	13,705	3,145	–	**16,850**

Notes to the consolidated interim financial information
Continued

9 Reconciliation of net debt continued

June 2014	At 1 January 2014 £'000	Cash flow £'000	Reclassifications £'000	Other non-cash changes £'000	**At 30 June 2014 £'000**
Liquid resources					
Unrestricted cash	8,597	19,154	–	–	**27,751**
Restricted cash	3,800	–	–	–	**3,800**
Debt due within one year					
Finance leases	(1,547)	756	(834)	–	**(1,625)**
Debt due after one year					
Finance leases	(9,982)	–	834	–	**(9,148)**
Net debt	868	19,910	–	–	**20,778**

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

10 Related party transactions

There have been no material changes to the principal subsidiaries and joint ventures as listed in the *Annual Report and financial statements* for the year ended 31 December 2014.

All related party transactions between subsidiaries and joint ventures arose during the ordinary course of business and were on an arm's length basis.

11 Events after the balance sheet date

There are no events subsequent to balance sheet date which would have a material effect on the Company's financial statements at 30 June 2015.

Statement of directors' responsibilities

The directors confirm that the condensed set of consolidated financial information in the Interim report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the Interim Report includes a fair review of the information, including:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of consolidated financial information;
- a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last *Annual Report and financial statements*.

The directors and their positions held during the period were as published in the Annual Report and financial statements for the year ended 31 December 2014.

On behalf of the Board

Steve Melton
Chief Executive Officer

Paolo Pieri
Chief Financial Officer

Circle Holdings

32 Welbeck Street
London W1G 8EU

circleholdingsplc.com