Circle Holdings

THE HEALTHCARE PARTNERSHIP

Interim Report and financial information
For the six months ended 30 June 2016

HIGHLIGHTS

Core business highlights

- Group revenue increased by 6% to £66.5 million from H1 2015.
- Group gross profit margin improved by 3% to 30%.
- Excluding Head Office recharges, net EBITDA from Circle operations increased 60% to £4.2 million.
- Patient satisfaction consistently high at 99% across Circle hospitals.
- Patient choice driving NHS growth with over 87% of NHS work coming through the e-Referral system.
- CircleBedfordshire MSK won HealthInvestor's Public/Private Partnership of the Year award.

Growth highlights

- Announced 20-year management agreement with a Chinese investor group to develop and operate a state-of-the-art medical facility in Shanghai.
- Selected as preferred bidder by Greenwich Clinical Commissioning Group ('CCG') to manage a five-year MSK integrated services contract, Circle's second.
- Pilot rehabilitation offering, planned to open in Q1 2017.

CHAIRMAN'S STATEMENT

This half year has seen Circle deliver on one of our major new business opportunities, as we announced the signing of a contract with Chinese partners to run a premium integrated health clinic in Shanghai.

MICHAEL KIRKWOOD CHAIRMAN

In the midst of a volatile UK health economy, I am happy that Circle has made a number of significant steps forward, but acknowledge that we still have more work to do.

Existing sites continue to further embed themselves in their local areas. CircleBath and CircleReading have maintained high clinical standards throughout the start of this year, but further EBITDA enhancement is clearly necessary. Both hospitals have seen an increase in patient volumes, and it is particularly gratifying to note that the NHS patients we see are actively choosing to be treated by us through the e-Referral system, as opposed to being directed by local commissioners or local NHS Trusts.

CircleNottingham has had another positive period, securing several local contracts and increasing patient volumes, particularly of inpatients, which has led the hospital to explore adding more inpatient beds to cope with the increased demand.

The MSK service in Bedfordshire again proved itself to be a model of collaboration as it enters its third year of operation. At this year's HealthInvestor Awards, it was awarded the prize for 'Best Public/Private Partnership'. In contrast to uncoordinated and inefficient MSK services in many parts of the country, we have demonstrated in Bedfordshire that integration of care can, and does, deliver improved finances while improving patient outcomes simultaneously.

The last six months have been tumultuous in national politics, which has exacerbated uncertainty around the public funding of healthcare. This does not alter increasing demand for healthcare services: Circle's model is based more on long-term demographics than short-term policy, and we are pleased that we have maintained a healthy balance between NHS and private patients across the Group.

Looking forward, we are delighted to have been confirmed as the preferred bidder to manage MSK services for the adult population in Greenwich, and look forward to finalising contractual terms with commissioners before the end of the year.

Circle's experience in MSK and orthopaedic procedures has enabled us to identify a gap in the market for rehabilitation services in the UK. In many European countries, rehabilitation services are provided on an inpatient basis and typically in a lower cost setting than in the UK. In light of growing demand for rehabilitation services (orthopaedic, neurology and cardiology) and the emergence of a national 'bed blocking' problem within the NHS, Circle believes there is a significant addressable market for inpatient rehabilitation services and we anticipate rolling out an offering at our Reading facility in Q1 2017.

Finally, we are also broadening our horizons beyond the UK market. This half year has seen Circle deliver on one of our major new business opportunities, as we announced the signing of a contract with Chinese partners to run a premium integrated health clinic in Shanghai. It has long been our intention to export our recognised standards of patient care to other markets, and the signing of this contract moves us one step closer to that goal.

The Board and management continue to support the business as it evolves and grows. Even as UK healthcare funding remains in a state of flux, we are confident that as Circle continues to pursue its essential ideas of patient focus, clinical leadership and staff engagement, it is well-placed to thrive.

Michael Kirkwood CMG
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

This half saw Circle increase revenues by 6%, patient volumes by 1%, and reduced EBITDA loss to £1.9 million.

The strategy we outlined last year was, first to continue to grow our existing sites' revenue and margins; and second, to take the experience and intellectual property that we have developed and apply it to new settings and markets, both on our own and with other organisations who offer a compelling partnership.

The continued growth of existing sites has seen some positives and negatives in performance between sites, but in broad terms, the Group continues to move towards sustainability.

Being selected as preferred bidder to manage a second integrated MSK service contract and the management agreement in China is evidence that the second component of our strategy is also yielding results.

Combined with our innovative rehabilitation product, the expected start to our fourth hospital in Birmingham, I am confident that Circle's strategic direction is correct.

Steve Melton
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REPORT

We maintained a high level of patient satisfaction, with 100% of patients recommending the service, and over 93% of our NHS patients came to the hospital through their own choice.

STEVE MELTON CHIEF EXECUTIVE OFFICER

Operating environment

UK healthcare is seeing an ever increasing demand for healthcare services, a trend that is unlikely to subside in the near future due to the projected population growth, in particular in the over 65 age group.

These unprecedented pressures facing the NHS has seen an increase in 14% of its patients waiting longer than the prescribed 18 weeks for treatment and an increasing number of delayed transfers of care.

The impact of these pressures on the private sector has been an increase in referrals of NHS patients along with growth of the number of patients willing to pay for treatment. In contrast, private medical cover, traditionally the largest funding source for private hospitals, has seen only very marginal growth.

What has become apparent in recent years is that the opportunity for improved efficiency is greatest when considering the whole system, as opposed to individual silos of provision within the system. This is in line with the thinking set out in the NHS *Five Year Forward View* which advocates a move towards more joined-up healthcare where principles of early care and intervention are applied. Our Bedfordshire MSK service is an excellent example of how this works in practice; delivering cost savings across the system while simultaneously providing the patient with an enhanced experience.

A similar principle underpins the need for a more coherent rehabilitation offering in the UK. Too many patients, capable of independent or supported living, are either leaving hospital without the required onward care or are continuing treatment in a high-cost acute care setting. Rehabilitation can offer cost savings to the healthcare system and better meet the patient needs.

Hospital services

All Circle hospitals made steady progress in this financial period, with Nottingham, in particular, performing well.

The attraction of treatment at a premium facility continues to be demonstrated at CircleBath where we have seen continued growth in patient volumes and revenue growth of 4% and 7%, respectively. Furthermore, a majority of CircleBath's NHS patients (82%) were treated at the facility because they chose to be, rather than being transferred from an NHS hospital. We are delighted at the continued recognition CircleBath is receiving from patients, demonstrated by a recommendation rate of 99%.

Previous discussion on CircleBath has highlighted the expenditure on agency staff and, to date, in 2016, this challenge continues. Efforts to fill permanent nurse vacancies and build up a staff bank have been slower to materialise, with CircleBath seeing an increased expenditure on agency staff to £475,000 in this period (H1 2015: £326,000). We have been affected by the national nursing shortage more at CircleBath than our other facilities due to its location and a more competitive marketplace. Work continues to ensure CircleBath is an attractive working environment, and to ensure that we are innovative in our recruitment methodology to deal with the shortfall of nurses in the area. While we do expect our spending on agency staff to reduce, challenges are likely to continue into the second half of 2016, which will impact margins, with improvements targeted towards the end of the year.

In contrast, CircleReading has reduced its agency spend from £328,000 in H1 2015 to £209,000 in H1 2016. We maintained a high level of patient satisfaction, with 100% of patients

CHIEF EXECUTIVE OFFICER'S REPORT
Continued

recommending the service, and over 93% of our NHS patients came to the hospital through their own choice.

CircleReading saw slower-than-expected growth due to discontinuing some of our less profitable specialties which has allowed an increased focus on core specialties. We were pleased to continue our growth in orthopaedics with a 15% increase in the number of joint replacements completed, a trend we expect to see continue into the second half of 2016, contributing to an increased H2 revenue. With an expanding number of doctors with practicing privileges at the facility, the expected introduction of our pilot rehabilitation model in early 2017, and the launch of health screening, we expect improved results from prior year and positive full year EBITDA in 2017.

Last year, we were delighted to report on CircleNottingham's 'outstanding' Care Quality Commission rating for surgery and now we have more recognition of quality offered by the facility and its staff. The GMC have approved CircleNottingham to offer training to post-graduate NHS doctors, the first independent sector provider to hold this approval.

CircleNottingham continues to go from strength to strength as this period saw another substantial increase in total revenue of 7% over the same period in 2015; driven largely by increased activity in orthopaedics. Consequently, work is underway to expand the short stay unit from the current 11 beds to accommodate an additional 5 beds.

As part of CircleNottingham's continued integration into its local healthcare economy we were delighted that the facility secured two contracts from local CCGs to deliver an integrated clinical assessment and treatment service for orthopaedics. EBITDA for CircleNottingham will continue its positive trend but will be slightly offset by the updated management fee charge which better reflect the use of head office management resources across our Circle facilities.

Other Circle services

Like CircleNottingham, the Bedfordshire MSK service has also received recognition of its quality and was recently awarded 'Best Public/Private Partnership of the year' at the 2016 HealthInvestor Awards.

The contract in Bedfordshire is to manage the services for musculoskeletal conditions for the entire local adult population within a capitated budget. During the past six months, more patients have received the most appropriate treatment first time around as we increase the level of referrals directly to our triage hub. All patients receive a choice of where to receive treatment. Patient satisfaction and outcomes remain very high, demonstrating the ability of the service to deliver not only good financial results for the commissioner but also a superior outcome for patients.

Outlook statements

Each site has contributed to our improved Group financials, where we have seen a further reduction in EBITDA losses of 11%.

On a full-year basis, we expect to achieve solid progress in our core business and anticipate overall Group results to deliver strong improvement versus last year. As mentioned, there are some specific operational challenges at CircleBath and CircleReading that may result in a slightly weaker than expected financial performance at those sites; however, with a focused recovery plan now in place, we believe many of these challenges will be resolved by the end of 2016.

CircleBirmingham

We hope to confirm the commencement of the construction work for our fourth new-build facility, CircleBirmingham, in Q4 2016. There have been delays in commencement to allow for some planning changes in anticipation of a flagship rehabilitation facility to be incorporated into the building and also due to more complex ground conditions than originally anticipated. This facility has been designed to be built as a nucleus hospital, incorporating three theatres initially with potential for expansion at a later date as and when the market dictates. At present, we plan to complete construction and open mid-2018.

Circle Rehabilitation

We have spent time with our clinical partner to adapt our offering to the UK market. We are now looking to finalise the terms of our partnership in Q4 2016.

With a focus on the latest technology and evidence-based outcomes, our rehabilitation model is synergistic with our existing business model as it allows us to extend our service offering to rehabilitation across many of our core specialties. In addition, rehabilitation provides a solution to many current problems facing the wider healthcare system by providing a more appropriate level of treatment at a lower cost.

Current intentions are to introduce a pilot rehabilitation offering in early 2017, utilising space within CircleReading hospital. Designs for our new-build Birmingham hospital are being revised to incorporate a full-scale rehabilitation facility of 120 beds, with a view to open in mid-2018.

We are currently assessing other UK locations for rehabilitation facilities, as well as holding a number of discussions with individual Trusts. We envisage that the market for rehabilitative care will see considerable growth in the next 5–10 years, for both the public and private sector.

CHIEF EXECUTIVE OFFICER'S REPORT

Continued

Circle Harmony

We were pleased to have recently announced our plans for opening premium brand clinics in China through a joint venture, Circle Harmony, with our partner Deep Sea Capital. We believe we have identified a gap in the market to provide a premium service that offers the capacity to meet growing demand for high-quality private healthcare in Chinese cities, as well as utilising the best quality local doctors in China through partnerships with state hospitals. The service will offer a range of primary care, diagnostic and outpatient services, as well as providing reliable links for patients to leading hospitals, both in China and internationally for specialist treatments

Circle Harmony has entered a 20-year management agreement with a group of investors, who have committed RMB 200 million (c. £23 million) to support development of the first facility in Shanghai.

The investment comes from an equal split of state-owned and private investment organisations including China Taiping, one of China's largest insurance companies, and also XinXing, a global Fortune 500 conglomerate. We anticipate opening the initial facility in Shanghai in late 2017/early 2018 with a view to opening an additional nine clinics within six years.

Circle will provide development and clinical management services to the joint venture and will be able to recover costs associated with these services, roughly £700,000 per clinic. Once the facility is operational, Circle will receive a share of profits projected to be circa £0.5 million per year, per facility. In addition, Circle Harmony has received warrants equal to 20% of the investor-owned entity (of which, Circle's share will be 10%).

By entering this fast growing international market, Circle is able to leverage its considerable experience in providing a premium private healthcare experience for patients, while minimising the risks of operating in an emerging healthcare market by working alongside reputable Chinese organisations that fully understand the financial and clinical environment in which the facilities will operate.

GreenwichMSK service

Finally, we were pleased to announce recently that Greenwich CCG has confirmed Circle as the preferred bidder to provide integrated musculoskeletal services in Greenwich.

Under the proposed five-year arrangement, which is subject to contract, Circle will be responsible for managing MSK services for 276,000 Greenwich residents. The contract is valued at approximately £73.7 million and is expected to deliver estimated savings of £12 million for the CCG over the initial five-year term, which is renewable for up to two additional years.

Our approach in Greenwich will see Circle introduce the same kind of innovation and reform that have enabled us to ensure more appropriate and timely clinical care for Bedfordshire patients. Finalisation of the contractual terms will take place over the coming weeks with service commencement expected in Q4 2016.

Steve Melton
Chief Executive Officer

CHIEF FINANCIAL OFFICER'S REPORT

Introduction

The first half of 2016 saw Group revenue grow by 6%, gross profit improved by 16% and operating losses[1] reduced by 32% compared to the same period in 2015.

The core operations of the Group continue to experience steady growth, while maintaining the delivery of high-quality healthcare. Revenue growth at the hospital sites has been driven by a combination of: a larger proportion of the orthopaedic market share being captured; an increase in the number of NHS e-referral slots published to meet heightening patient demand; and the recruitment of new specialist consultants into our Circle partnership. We have seen increases in inpatient and day case activity, as well as improvements in revenue per inpatient/day case across the Group. We continue to see an increase in activity that is driven by patients choosing to come to our Circle hospitals: this is indicative of the high-quality care that we offer to all our patients. Specialised orthopaedic procedures, specifically joint replacements, have increased by 27% on prior year across all our hospital sites. Our growth in the orthopaedic market is reflective of our strong and innovative musculoskeletal expertise.

Group gross profit increased by 16% to £19.8 million, and gross profit margin by 3% to 30% on the same period in 2015. Our efforts to improve the operational efficiency of the business have produced some positive results, reducing EBITDA loss by 47% on prior year to EBITDA[2] loss of £1.9 million. EBITDA results have improved on prior year across all Circle facilities, and significant cost savings were also achieved at Head Office of approximately £0.9 million year-on-year. At our operational sites, the net EBITDA profit excluding Head Office management fee was £4.2 million, 60% higher than the profit achieved in the first half of 2015.

The Group generated an operating loss before exceptional items and Project Reset charge of £3.5 million, an improvement of 32%, while the 'loss per share' now stands at 2.2 pence, improved from a 'loss per share' of 2.5 pence.

We have achieved some promising results for the first half of 2016 and looking ahead at year end, we anticipate the core business to grow in line with overall expectations while the cost challenges experienced in the first half are expected to wane.

Highlights

	Six months to 30 June 2016 £'000	Six months to 30 June 2015 £'000	Variance %
Group revenue	**66,452**	62,509	6
Earnings before interest, tax, depreciation and amortisation ('EBITDA') before exceptional items and Project Reset charge[3]	**(1,931)**	(3,668)	(47%)
Operating loss before exceptional items and Project Reset charge	**(3,544)**	(5,199)	(32%)
Loss for the period attributable to equity holders of the parent	**(5,514)**	(6,085)	(9%)
Net assets	**21,320**	28,849	(26%)

1 Operating loss before exceptional items and Project Reset charge.

2 EBITDA loss before exceptional items and Project Reset charge.

3 Project Reset charge relates to the IFRS 2 share-based payment charge for share options granted to Circle employees and clinical partners.

CHIEF FINANCIAL OFFICER'S REPORT
Continued

Group gross profit increased by

+16% to £19.8M

Net EBITDA profit was

£4.2M

Excluding Head Office management fee

Patient volumes increased by

+1%

Patient numbers

	Six months to 30 June 2016 Number	Six months to 30 June 2015 Number	Variance %
Day case and inpatients	**25,500**	24,135	6%
Outpatients	**159,597**	158,407	1%
Total patients	**185,097**	182,542	1%

Review of performance

Patient volumes continue to increase at our Circle hospital facilities, particularly in day case and inpatient activity. Outpatient activity has increased by a smaller percentage, primarily due to outpatient activity at CircleNottingham, where the number of follow-up appointments has significantly reduced. In addition, our teledermatology service has created an innovative and more efficient method of diagnosing dermatology conditions, enabling the patients to receive care remotely.

CircleNottingham's Short Stay Unit continues to garner recognition in the local market, with increasing number of patients actively selecting CircleNottingham as their favoured provider for treatment. Inpatient volumes increased by 62% from 2015. The increase is primarily in orthopaedic and gynaecology procedures, resulting in inpatient revenues contributing towards 8% of total revenues (H1 2015: 5%). As the Group's most mature asset, we are yet again encouraged by CircleNottingham's continuing strong growth performance. We anticipate that local commissioners will commence in early 2017 the process to reprocure the existing contract to operate the Nottingham NHS Treatment Centre, which ends in July 2018.

Total patient volumes at CircleBath have grown 4% on prior year and total revenues increased by 8% on prior year to £13 million for the first six months of 2016. We envisage a similar level of growth to continue into the second half of 2016. As mentioned in the *Chief Executive Officer's report*, we are currently behind our margin targets, a key area of focus that we are working hard to address. Nevertheless, we have seen some positive growth trends in the first half, with average day case and inpatient revenue per case growing by 4%. The number of joint replacements conducted in H1 2016 is 14% higher than prior year.

CircleReading has also increased patient volumes by 4%, driving revenue growth of 3% on prior year. The increase in activity is attributable to a rise in orthopaedic procedures undertaken while we have also grown our day case offerings by appointing two new consultants, one specialising in shoulder procedures and the other in gynaecology. We expect this positive growth to further improve in H2 2016 following the roll-out of various plans to extend market reach.

CHIEF FINANCIAL OFFICER'S REPORT

Continued

The first half of the year demonstrated good growth in our core business, and we are now set to further enhance our strategic model with complementary growth options, both in the UK and abroad.

PAOLO PIERI CHIEF FINANCIAL OFFICER

Overall, however, we are seeing a positive trend in increasing the Group's overall gross profit margin, and our two largest facilities, CircleNottingham and CircleReading, each improved gross profit margins by 2% on prior year.

In the first half of 2016, CircleBedfordshire MSK have made further advances in engaging Bedfordshire GPs to utilise the referral process managed by Circle: 95% of system-wide referrals now come through the Circle Hub (H1 2015: 86%). Although we have seen an increase in patient referrals, the combination of greater control of the patient pathway with patients receiving more appropriate treatment leading to an improvement in financial results. CircleBedfordshire has grown in line with management expectations and we plan to continue our focus to reduce circumvention of the Circle triage facility by working closely with Bedfordshire CCG and local providers.

At a Group level, we are pleased with our continual progress to reduce operating overheads. From January 2016, the Group management fee allocation method was revised prospectively to better reflect the use of head office management resources across our Circle facilities. The impact of this is an increase of management fees recharged to Circle hospitals of £0.5 million.

Closing cash balance as at 30 June 2016 was £12.7 million. Net cash generated from operating activities was £0.7 million (H1 2015: £3.7 million), with variance on prior year attributable to the timing of working capital.

In the 2015 Annual Report, we noted that the Manchester land owned by Circle was being marketed for sale. Negotiations for sale are now in advanced stages and we expect to complete the sale by the end of 2016.

This month, the latest policy proposals for the 2017 to 2019 NHS national tariff were published by Monitor. One of the most significant changes proposed is a tariff decrease for orthopaedic procedures and outpatient consultation revenue. As in prior years, when similar tariffs have been proposed, we will engage with Monitor, professional bodies and other NHS and independent sector providers in respect of these proposals that we believe could have an adverse impact on waiting times for patients.

The first half of the year demonstrated good growth in our core business, and we are now set to further enhance our strategic model with complementary growth options, both in the UK and abroad.

Paolo Pieri
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016

	Note	Unaudited Six months to 30 June 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Revenue		**66,452**	62,509	127,790
Cost of sales		**(46,671)**	(45,390)	(90,335)
Gross profit		**19,781**	17,119	37,455
Administrative expenses before exceptional items		**(24,944)**	(22,654)	(47,934)
Operating loss before exceptional items	4	**(5,163)**	(5,535)	(10,479)
Exceptional operating items	4	**–**	(138)	(389)
Operating loss		**(5,163)**	(5,673)	(10,868)
Finance income	5	**2**	1	5
Finance costs	6	**(353)**	(413)	(793)
Loss before taxation		**(5,514)**	(6,085)	(11,656)
Tax		**–**	–	–
Loss and total comprehensive loss for the financial period/year		**(5,514)**	(6,085)	(11,656)
Basic and diluted loss per share (pence)	7	**(2.2)**	(2.5)	(4.7)

CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	Unaudited 30 June 2016 £'000	Unaudited 30 June 2015 £'000	Audited 31 December 2015 £'000
Non-current assets			
Intangible assets	**5,446**	5,414	5,340
Property, plant and equipment	**19,581**	16,717	17,550
Trade and other receivables	**2,500**	2,500	2,500
	27,527	24,631	25,390
Current assets			
Inventories	**1,647**	1,679	1,876
Trade and other receivables	**20,158**	22,924	14,692
Cash and cash equivalents	**12,683**	26,722	14,998
	34,488	51,325	31,566
Total assets	**62,015**	75,956	56,956
Current liabilities			
Trade and other payables	**(28,427)**	(35,024)	(19,902)
Loans and other borrowings	**(2,215)**	(2,022)	(2,332)
Provisions for other liabilities and charges	**–**	(134)	–
	(30,642)	(37,180)	(22,234)
Non-current liabilities			
Trade and other payables	**(3,773)**	(2,027)	(1,979)
Loans and other borrowings	**(6,230)**	(7,850)	(7,282)
Provisions for other liabilities and charges	**(50)**	(50)	(50)
	(10,053)	(9,927)	(9,311)
Total liabilities	**(40,695)**	(47,107)	(31,545)
Net assets	**21,320**	28,849	25,411
Shareholders' equity			
Share capital	**4,956**	4,956	4,956
Share premium	**236,795**	236,795	236,795
Other reserve	**22,182**	22,182	22,182
Warrant reserve	**22,703**	22,703	22,703
Share-based charges reserve	**5,958**	2,402	4,535
Treasury share reserve	**(9,587)**	(9,587)	(9,587)
Retained deficit	**(261,687)**	(250,602)	(256,173)
Total shareholders' equity	**21,320**	28,849	25,411

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited at 30 June 2016 and 2015
For the six months ended 30 June 2016

	Share capital £'000	Share premium £'000	Other reserves £'000	Warrant reserve £'000	Treasury share reserve £'000	Share-based charges reserve £'000	Retained deficit £'000	Total shareholders' equity £'000
At 1 January 2015	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**1,842**	**(244,517)**	**34,374**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(6,085)	**(6,085)**
Share-based charges	–	–	–	–	–	560	–	**560**
At 30 June 2015	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**2,402**	**(250,602)**	**28,849**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(5,571)	**(5,571)**
Share-based charges	–	–	–	–	–	2,133	–	**2,133**
At 31 December 2015	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**4,535**	**(256,173)**	**25,411**
Loss and total comprehensive loss for the period	–	–	–	–	–	–	(5,514)	**(5,514)**
Share-based charges	–	–	–	–	–	1,423	–	**1,423**
At 30 June 2016	**4,956**	**236,795**	**22,182**	**22,703**	**(9,587)**	**5,958**	**(261,687)**	**21,320**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Note	Unaudited Six months to 30 June 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Cash flows from operating activities				
Cash flows from/(used in) operating activities	8	**1,036**	4,159	(4,642)
Interest paid		**(353)**	(413)	(793)
Net cash flows from/(used in) operating activities		**683**	3,746	(5,435)
Cash flows from investing activities				
Purchase of computer software		**(205)**	(28)	(51)
Purchase of property, plant and equipment		**(1,625)**	(574)	(1,998)
Net cash used in investing activities		**(1,830)**	(602)	(2,049)
Cash flows from financing activities				
Repayment of finance lease		**(1,169)**	(919)	(2,019)
Interest received		**1**	1	5
Net cash inflow/(outflow) from financing activities		**(1,168)**	(918)	(2,014)
Net increase/(decrease) in unrestricted cash and cash equivalents		**(2,315)**	2,226	(9,498)
Unrestricted cash and cash equivalents at the beginning of the period/year		**14,998**	24,496	24,496
Unrestricted cash and cash equivalents at the end of the period/year		**12,683**	26,722	14,998

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2016

1 GENERAL INFORMATION

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

The Company is a public limited company and is incorporated in Jersey; however, but 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 2016 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 2015, 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 2015 were approved by the Board of Directors on 29 March 2016. 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 24 August 2016.

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 2016. 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 in the *Chief Executive Officer's report*. 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 reducing Head Office costs, reducing the scale or timing of investment in new projects, or seeking further funding opportunities. The directors are also seeking to generate further capital through the sale of land in Manchester. 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 2015. 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 2015.

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.

From January 2016, the Group management fee allocation method was revised prospectively to better reflect the use of head office management resources across the Circle operations. The impact of this is that a higher proportion of Head Office resources is recharged to Circle operations.

2015	Circle hospital services £'000	Other Circle services £'000	All other segments and unallocated items £'000	Total Group £'000
Six months ended 30 June 2016 (unaudited)				
Revenue	52,158	14,294	–	66,452
Gross profit	18,025	1,756	–	19,781
EBITDA before exceptional items	937	114	(4,601)	(3,550)
Operating profit/(loss)	**(570)**	**96**	**(4,689)**	**(5,163)**
Finance income				2
Finance costs				(353)
Loss before taxation				**(5,514)**
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)**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

Continued

3 SEGMENTAL REPORTING continued

2015	Circle hospital services £'000	Other Circle services £'000	All other segments and unallocated items £'000	Total Group £'000
Year ended 31 December 2015 (unaudited)				
Revenue	98,952	28,771	67	127,790
Gross profit	33,441	3,947	67	37,455
EBITDA before exceptional items	537	1,306	(9,270)	(7,427)
Operating profit/(loss)	**(2,245)**	**1,290**	**(9,913)**	**(10,868)**
Finance income				5
Finance costs				(793)
Loss before taxation				**(11,656)**

4 EBITDA AND EXCEPTIONAL ITEMS

Exceptional operating items

	Unaudited Six months to 30 June 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Exceptional share-based charges	–	301	552
Other exceptional expense	–	(163)	(163)
	–	138	389

There are no exceptional operating items for the period to 30 June 2016. Share-based charges for share options granted to Circle partners and employees continue to be recognised as an ongoing cost within administrative expenses.

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 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Operating loss before exceptional items	**(5,163)**	(5,535)	(10,479)
Depreciation	**1,514**	1,355	2,779
Amortisation of intangibles	**99**	176	273
EBITDA before exceptional items	**(3,550)**	(4,004)	(7,427)
Operating lease rental	**272**	443	776
Building rental	**5,149**	4,774	9,669
EBITDAR before exceptional items	**1,871**	1,213	3,018

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 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Bank interest receivable	**2**	1	5
	2	1	5

6 FINANCE COSTS

	Unaudited Six months to 30 June 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Finance lease interest	**353**	413	745
Other bank charges	**–**	–	48
	353	413	793

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 shares in issue during the year. Diluted loss per ordinary share is calculated by adjusting the weighted average number of 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 2016 and 2015 and the year ending 31 December 2015:

	Unaudited Six months to 30 June 2016	Unaudited Six months to 30 June 2015	Audited Year to 31 December 2015
Loss attributable to equity holders of parent (£000's)	**(5,514)**	(6,085)	(11,656)
Weighted average number of shares in issue	**247,797,188**	247,797,188	247,797,188
Basic and diluted loss per share (pence)	**(2.2)**	(2.5)	(4.7)

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

8 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Unaudited Six months to 30 June 2016 £'000	Unaudited Six months to 30 June 2015 £'000	Audited Year to 31 December 2015 £'000
Loss before tax	**(5,514)**	(6,085)	(11,656)
Finance costs	**353**	413	793
Finance income	**(2)**	(1)	(5)
Depreciation of property, plant and equipment	**1,514**	1,355	2,779
Amortisation of intangible assets	**99**	176	273
Loss on sale of tangible fixed assets	**–**	–	9
Share-based charges	**1,423**	560	2,693
Movements in working capital:			
– Decrease/(increase) in inventories	**229**	127	(70)
– (Increase)/decrease in trade and other receivables	**(5,408)**	(6,241)	1,990
– Increase/(decrease) in trade and other payables	**8,342**	13,721	(1,448)
– Increase/(decrease) in provisions	**–**	134	–
Cash flows from operating activities	**1,036**	4,159	(4,642)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION
Continued

9 RECONCILIATION OF NET DEBT

	Six months to 30 June 2016 £'000	Six months to 30 June 2015 £'000	Year to 31 December 2015 £'000
(Decrease)/Increase in unrestricted cash in the period/year	**(2,315)**	2,226	(9,498)
Repayment of finance lease	**1,169**	919	2,019
Movement in net debt from cash flow	**(1,146)**	3,145	(7,479)
Other non-cash movements	**–**	–	(842)
Movement in net debt	**(1,146)**	3,145	(8,321)
Net debt at 1 January	**5,384**	13,705	13,705
Net debt at 30 June/31 December	**4,238**	16,850	5,384

June 2016	At 1 January 2016 £'000	Cash flow £'000	Reclassifications £'000	**At 30 June 2016 £'000**
Liquid resources				
Unrestricted cash	14,998	(2,315)	–	**12,683**
Debt due within one year				
Finance leases	(2,332)	1,169	(1,052)	**(2,215)**
Debt due after one year				
Finance leases	(7,282)	–	1,052	**(6,230)**
Net debt	5,384	(1,146)	–	**4,238**

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION

Continued

9 RECONCILIATION OF NET DEBT continued

June 2015	At 1 January 2015 £'000	Cash flow £'000	Reclassifications £'000	Other non-cash changes £'000	**At 30 June 2015 £'000**
Liquid resources					
Unrestricted cash	24,496	2,226	–	–	**26,722**
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**

December 2015	At 1 January 2015 £'000	Cash flow £'000	Reclassifications £'000	Other non-cash changes £'000	**At 31 December 2015 £'000**
Liquid resources					
Unrestricted cash	24,496	(9,498)	–	–	**14,998**
Debt due within one year					
Finance leases	(1,922)	2,019	(2,152)	(277)	**(2,332)**
Debt due after one year					
Finance leases	(8,869)	–	2,152	(565)	**(7,282)**
Net debt	13,705	(7,479)	–	(842)	**5,384**

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 2015.

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 2016.

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 2015.

On behalf of the Board

Steve Melton
Chief Executive Officer
24 August 2016

Paolo Pieri
Chief Financial Officer
24 August 2016

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