

Registered number: 5042771

Circle Health Limited

Annual Report and Financial Statements For the year ended 31 December 2010

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Circle Health Limited

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Circle Health Limited

Company information

Directors

M Keyvan-Fouladi
S Melton

Company secretary

S Cobb

Independent auditors

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Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

The Directors present their annual report and audited consolidated financial statements for the year ended 31 December 2010 for Circle Health Limited (the 'Company')

The group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings ('subsidiaries'), together the 'Circle Health Limited group' (or the 'Group') drawn up to 31 December 2010

The Company also forms part of a group whose ultimate parent company is Circle Holdings plc (the 'Circle Holdings group') Circle Holdings plc was formerly known as Health Investment Holdings Limited

Principal activities and review of the business

The Group is an emerging provider of healthcare services in the UK, treating privately insured, self-pay and National Health Service ('NHS') patients The Group's business strategy is founded on the creation of the 'Circle partnership', comprising a group of consultants, General Practitioners ('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

The Group currently operates five facilities, comprising a new private hospital in Bath which opened in March 2010, two Independent Sector Treatment Centres ('ISTCs') in Nottingham and Burton, and specialty clinics in Stratford and Windsor

The new hospital in Bath is a ground breaking design by Foster + Partners and has won several awards, including the British Construction Industry 'Best Building Project' in the £3 - £50 million category in 2010 The hospital delivers a great improvement to the patient experience and the quality of care in the Bath region The Group is continuing to build and commission a network of modern, high-quality hospitals and clinics and in December 2010 secured funding for a new £50,000,000 hospital in Reading

The Group has a strong track record of operating NHS facilities, which have been awarded 'Pathfinder' status by the Cabinet Office, and been designated as 'Trailblazers' for the rest of the public sector, helping the Government to learn from the front-line how innovation and entrepreneurship can be released through employee ownership Building on this, the Group has been chosen as the preferred bidder to run Hinchingsbrooke Healthcare NHS Trust ('Hinchingsbrooke Hospital') in Huntingdonshire This is a ground breaking move and the Group is seeking to explore further opportunities within the NHS

Key highlights

The companies in the Group experienced significant growth in 2010 with revenues growing by 20.6% to £76,164,000 (2009 £63,142,000) Other key developments in 2010 include the following events

- Circle Hospital (Bath) Limited opened in March 2010 and at 31 December 2010 had treated 7,232 patients, earning £4,918,000 of revenue Customer feedback has shown 99.5% of patients rate the services as good or excellent
- Nations Healthcare (Nottingham) Limited is in its second full year of trading and has shown significant growth, with the number of patients treated increasing by 25.9% to 77,666
- Nations Healthcare (Burton) Limited patient volumes continued to grow during the year, increasing by 20.4% to 37,484 (2009 31,132)

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Principal activities and review of the business (continued)

Key highlights (continued)

- The five year contract to perform NHS medical procedures at the Independent Sector Treatment Centre (ISTC) based at Eccleshill came to an end in January 2010. This was then extended by five months until the end of June 2010 when the existing contractual arrangements were wound down.
- In November 2010 the Group was chosen as the preferred bidder for the contract to run Hinchingsbrooke Hospital in Huntingdonshire for 7-10 years, with the contract due to be signed in June 2011.

The Group's key financial and other performance indicators during the year were as follows

	2010 £'000	2009 £'000	Change %
Group turnover	76,164	63,142	20.6%
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items (note 5)	(13,068)	(6,354)	(105.7)%
Total operating loss before exceptional items (note 5)	(19,401)	(13,425)	(44.5)%
Loss for the financial year	(34,015)	(23,581)	(44.3)%
Shareholders' deficit	(104,325)	(71,987)	(57.7)%
Net liabilities	(122,180)	(79,743)	(53.2)%

	2010 Number	2009 Number	Change %
Day case procedures	45,227	39,006	15.9%
Outpatient procedures	94,103	75,216	25.1%
Average number of employees	623	376	65.7%

A summary of the operating subsidiaries within the Group is as follows

Circle Hospital (Bath) Limited (Circle Bath Hospital)

The Bath hospital was successfully opened in March 2010. Volumes grew rapidly month on month throughout the year and in total 7,232 daycase, inpatients and outpatients have been treated by 31 December 2010, resulting in revenues of £4,918,000. Growth is expected to continue, and to be driven by the introduction of new partners and increasing the number of specialties offered to both private and NHS patients.

Commissioning costs of £9,576,000 were written off during the year (2009: £nil) and treated as an exceptional item, and the loss for the financial year was £20,400,000 (2009: £1,036,000).

Circle Clinics Limited

Patient numbers have grown by 67.4% to 785 during the year. Revenue for the year was £301,000 (2009: £246,000), representing income from patients for outpatient consultations and procedures undertaken. The loss for the financial year was £317,000 (2009: £322,000).

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Principal activities and review of the business (continued)

Windsor Hand Surgery Limited

Patient numbers have dropped by 1.0% to 882 during the year. Revenue for the year was £749,000 (2009 £881,000), representing income from patients for outpatient consultations and procedures undertaken. The loss for the financial year was £10,000 (2009 profit for the financial year of £48,000).

Nations Healthcare group

Overall revenue grew by 13.2% to £70,196,000 (2009 £61,992,000) due to strong growth in volumes in the Nottingham Treatment Centre, partially offset by the loss of the contract to operate the Bradford Treatment Centre.

Operating profits for the Nations Healthcare group grew by 189.4% to £3,708,000 (2009 operating loss of £4,146,000) driven by the resolution of the DoV and increased revenues within Nations Healthcare (Nottingham) Limited. Overall Nations Healthcare group loss for the financial year decreased by 76.3% to £2,379,000 (2009 £10,053,000).

The shareholders' deficit has increased by 5.4% (2009 29%) due to the loss for the financial year. The total average number of employees increased by 23.9% (2009 49%) during the year.

- **Nations Healthcare (Nottingham) Limited (Nations Healthcare Nottingham)**

2010 was the second full year of operations for the Nottingham Treatment Centre which opened on 28 July 2008. Patient volumes continue to grow significantly with daycase patients up 16.8% to 25,397 (2009 21,752) and outpatient procedures increasing by 30.8% to 52,249 (2009 39,952).

The increase in volume has resulted in revenue increasing by 37.6% to £48,000,000 (2009 £34,896,000). The Nottingham Treatment Centre is one of the biggest independent treatment centres in Europe, providing services including Orthopaedic Surgery, General Surgery, Endoscopy, Digestive Diseases, Gynaecology and Dermatology. A Deed of Variation ('DoV') was signed during the year to compensate for delays in the original start date of the contract and changes to the charges received under the contract.

The increased volumes and resolution of the DoV resulted in the Nottingham Treatment Centre returning a profit for the financial year of £1,719,000 (2009 operating loss for the financial year of £3,307,000).

- **Nations Healthcare (Burton) Limited (Nations Healthcare Burton)**

Since opening for business, the Burton Treatment Centre has increased the number of daycase patients year on year, with 2010 showing an increase of 10.7% to 11,027 (2009 9,958). The number of outpatients seen during 2010 increased by 25.0% to 26,457 (2009 21,174).

Revenues for Nations Healthcare Burton have decreased by 7.1% to £16,781,000 (2009 £18,061,000). Revenues have declined despite the increase in volume, as a result of changes in the revenue mix by speciality, utilisation of the Monthly Minimum Take ('MMT') contracts and reduced training income in 2010. The increase in volumes did not automatically translate into more revenue due to contract under-utilisation.

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Principal activities and review of the business (continued)

- **Nations Healthcare (Burton) Limited (Nations Healthcare Burton) (continued)**

There were no exceptional items (2009 £61,000) during the year (note 5) and profit for the financial year decreased by 51.9% to £1,331,000 (2009 £2,769,000)

- **Nations Healthcare (North Bradford) Limited (Nations Healthcare Bradford)**

The five year contract came to an end in January 2010 and was extended by 5 months until the end of June 2010 when the existing contractual arrangements were wound down

Due to the cessation of the contract, the number of daycase patients reduced during the year by 61.2% to 2,209 (2009 5,689) and the number of diagnostic patients reduced during the year by 50.2% to 13,071 (2009 26,273)

Revenues for the year declined by 40% to £5,424,000 (2009 £9,034,000) as a result of the cessation of the contract half way through the year however profit for the financial year increased by 203.6% to £715,000 (2009 loss for the financial year £690,000)

The activities of the business have now terminated and there will be no activities going forward

Principal risks and uncertainties

Medical service risk

As with all medical providers, clinical risk is a major consideration due to the consequences to the individuals concerned where processes break down or procedures are found to be negligent. The Circle Health Limited group has an Integrated Corporate Governance structure which is chaired by the Medical Director, Massoud Keyvan-Fouladi, who also sits on the board of Circle Holdings plc. This Integrated Corporate Governance 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 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 Circle Health Limited group's Integrated Governance Committee. This committee in turn reports to the boards of the relevant ultimate parent group companies, as appropriate.

Additionally, the Circle Health Limited 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

Political risks and risks associated with the NHS (e.g. a change in government policy) are mitigated by the contracts in place for the Nations Healthcare treatment centres.

There are risks that political or policy changes 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.

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Principal risks and uncertainties (continued)

Government policy and regulatory risk (continued)

In addition, the Group relies on the ability and willingness of government-funded bodies such as Primary Care Trusts ('PCT') and NHS Trusts to pay for the Group's services

Risk to reputation

The Group provides high quality medical care that is backed up by clinical governance. Reputational risk is the risk that the Group provides medical care that is not of a sufficiently high quality, resulting in patient or customer dissatisfaction and negative publicity

Financial risk management

The Company's operations expose it to a variety of financial risks. The ultimate parent undertaking of the Company, Circle Holdings plc, has in place a group risk management programme that seeks to limit the adverse effects on the financial performance of the Circle Holdings group by monitoring levels of debt finance and the related finance costs. Details of the risk management policy are included on pages 12 - 13 of the Circle Holdings group financial statements

Future developments

The Group intends to develop the hospitals, clinics and treatment centres into world class facilities treating both private patients and NHS patients as capacity allows. Operationally, the intentions during the coming year are to increase the patient volumes treated by increasing the number of specialties offered and by the recruitment of new consultants, to raise the quality of care and to improve clinical outcomes

The original five year ISTC contract at Burton, due for renewal in July 2011, is not being renewed and the running of the treatment centre is returning to the local PCT. The Group has been awarded Any Willing Provider ('AWP') contracts in the Burton area and is pursuing other locations from which to operate

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company and Group will continue in operational existence for the foreseeable future. See note 1 to the financial statements

Results and dividends

The consolidated Group loss for the financial year amounted to £34,015,000 (2009 £23,581,000) and the Directors do not recommend the payment of any dividends (2009 £nil)

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Directors

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

A Parsadoust (resigned 19 April 2011)
M Keyvan-Fouladi
S Melton

The Company has granted an indemnity to its Directors in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provisions remain in force until resignation as Directors. There are no outstanding claims or provisions as at the balance sheet date.

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 policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The Group operates a group-wide framework for employee information and consultation and actively encourages employees to come forward with their views and suggestions on how performance can be improved. An internal bulletin is regularly produced and distributed among all employees, updating them on developments within the Group, in addition to an annual conference which all staff are encouraged to attend. Management actively communicates to all Group employees via email and communications from the Human Resources department are made to all staff notifying of any changes to personnel during the year.

The Group encourages the involvement of employees in the performance of the Group through participation in the share scheme operated by Circle Partnership Limited, a related company incorporated in the British Virgin Islands, which holds 49.9% of the share capital of the Group's parent Company, Circle Health Limited. The remaining 50.1% of the share capital of Circle Health Limited is owned by Circle International plc, a wholly owned subsidiary of the Circle Holdings plc Group.

Policy and practice on payment of creditors

It is the Group and Company 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 2010, the Group and Company had the following equivalent days of purchases outstanding:

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Policy and practice on payment of creditors (continued)

	Group days	Company days
2010	54.2	39.2
2009	52.5	21.9

Donations

The Group made charitable donations totalling £14,600 (2009 £3,100) during the year to a number of charitable organisations within the UK. A donation of £11,000 was made to the Teenage Cancer Trust, to match a similar donation by a group of Nottingham orthopaedic surgeons.

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.

Events after balance sheet date

i. Flotation of ultimate parent company on Alternative Investment Market

On 17 June 2011, the ultimate parent company, Circle Holdings plc listed on the Alternative Investment Market. Further details can be found in the group financial statements for Circle Holdings plc.

ii. Costain Limited construction contract

Due to construction delays and building design changes on the Nottingham Treatment Centre during 2007, additional costs were incurred in the completion of the building. The primary building contractor, Costain Limited ('Costain'), brought a legal claim in 2010 for £1,200,000 of additional costs. An adjudication was held in January 2011 and an amount of £543,000 was awarded and paid to Costain as settlement of the claim. Subsequent to this, Costain brought a second claim against the Group for £1,200,000 for which costs of £700,000 are included in the financial statements. During March 2011, the Group agreed to pay Costain £700,000 on 1 June 2011 in full and final settlement of this claim.

iii. Waiver of GE equipment lease covenant breach

At 31 December 2010, the Circle Holdings group was in breach of certain financial covenants in the GE equipment lease for equipment used at Circle Bath Hospital. During March 2011, the Circle Holdings group received a waiver of all events of default and breaches from GE by means of a Deed of Amendment and Waiver.

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Events after balance sheet date (continued)

iv. Nations Healthcare Burton contract

In March 2011, Nations Healthcare Burton was notified that the original ISTC contract, due for renewal in July 2011, would not be renewed and that the treatment facility would be returned to Burton Hospitals NHS Foundation Trust (the 'Trust'). As part of the hand over of the Burton operations to the Trust, the Nations Healthcare Burton has entered into a 'Sale of business and mobilisation mitigation and business know-how services' agreement (the 'Agreement') in order to ensure the orderly transfer of operations upon the expiration of the ISTC contract on 11 July 2011. Under the agreement, Nations Healthcare Burton will transfer all operating assets and provide training and mobilisation services to ensure the Burton Treatment Centre is able to continue operating over the transition period. The Agreement stipulates that Nations Healthcare Burton will be paid £2,500,000 less any residual liability payable to the Trust under the Agreement. Nations Healthcare Burton has also served notice under the original master agreement with GE to purchase the leased assets, which will be transferred to the Trust on 11 July 2011.

Circle Health Limited

Directors' report for the year ended 31 December 2010 (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and 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 of 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

So far as each of the Directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that 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



M Keyvan-Fouladi

Director

7 July 2011

Circle Health Limited

Independent auditors' report to the members of Circle Health Limited

We have audited the Group and parent Company financial statements of Circle Health Limited for the year ended 31 December 2010 which comprise the consolidated Profit and Loss Account, the consolidated and parent Company Balance Sheets, the consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities set out on page 9 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 opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 and parent 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.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2010 and of the Group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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


Circle Health Limited

Independent auditors' report to the members of Circle Health Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Nigel Reynolds (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 July 2011

Circle Health Limited

Consolidated profit and loss account For the year ended 31 December 2010

		2010 £'000	2010 £'000	2010 £'000	2009 £'000	2009 £'000	2009 £'000
	Note	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Turnover	2	70,740	5,424	76,164	54,108	9,034	63,142
Cost of sales		<u>(46,840)</u>	<u>(2,930)</u>	<u>(49,770)</u>	<u>(35,473)</u>	<u>(6,379)</u>	<u>(41,852)</u>
Gross profit		23,900	2,494	26,394	18,635	2,655	21,290
Administrative expenses (before exceptional items)	5	(44,242)	(1,805)	(46,047)	(31,486)	(4,102)	(35,588)
Exceptional and non-cash items:							
- Net reversal of / (increase) in provision for onerous leases	5	367	-	367	(1,299)	-	(1,299)
- Lease surrender costs	5	-	-	-	(258)	-	(258)
- Share-based payments in respect of warrants issued	5	(1,677)	-	(1,677)	(2,084)	-	(2,084)
- Impairment of tangible fixed assets	5	(9,576)	-	(9,576)	-	-	-
- Aborted site finding costs	5	<u>(805)</u>	<u>-</u>	<u>(805)</u>	<u>(1,275)</u>	<u>-</u>	<u>(1,275)</u>
Total administrative expenses		(55,933)	(1,805)	(57,738)	(36,402)	(4,102)	(40,504)
Other operating income	4	<u>33</u>	<u>219</u>	<u>252</u>	<u>116</u>	<u>757</u>	<u>873</u>
Group operating (loss) / profit	5	(32,000)	908	(31,092)	(17,651)	(690)	(18,341)
Exceptional items:							
- Loss on disposal of tangible fixed assets	5	<u>-</u>	<u>(193)</u>	<u>(193)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss) / profit on ordinary activities before financing and taxation		(32,000)	715	(31,285)	(17,651)	(690)	(18,341)
Interest receivable and similar income	8			3,393			3,465
Interest payable and similar charges	9			<u>(16,395)</u>			<u>(13,460)</u>
Loss on ordinary activities before taxation				(44,287)			(28,336)
Tax on loss on ordinary activities	10			<u>173</u>			<u>915</u>
Loss on ordinary activities after taxation				(44,114)			(27,421)
Equity minority interest	26			909			3,840
Equity minority interests - restatement	26			<u>9,190</u>			<u>-</u>
Loss for the financial year	24			<u>(34,015)</u>			<u>(23,581)</u>

The Bradford activities ceased permanently during 2010 and therefore the operation has been classified as discontinued in the current year, with the results being classified under the heading 'discontinued'. The comparative figures for 2009 have been stated accordingly.

The Group has no recognised gains or losses other than those above and therefore no separate statement of total gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial years stated above and their historical cost equivalents.

Circle Health Limited

Consolidated balance sheet as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	12	3,632	5,846
Tangible fixed assets	13	<u>2,828</u>	<u>10,759</u>
		6,460	16,605
Current assets			
Stocks	15	6,448	7,378
Debtors - amounts falling due within one year	16	31,054	27,445
Debtors - amounts falling due after more than one year	16	<u>43,309</u>	<u>43,372</u>
Total debtors	16	74,363	70,817
Cash at bank and in hand	17	<u>9,945</u>	<u>12,193</u>
		90,756	90,388
Creditors - amounts falling due within one year	18	<u>(174,816)</u>	<u>(183,947)</u>
Net current liabilities		<u>(84,060)</u>	<u>(93,559)</u>
Total assets less current liabilities		<u>(77,600)</u>	<u>(76,954)</u>
Creditors - amounts falling due after more than one year	19	(42,725)	(414)
Provisions for liabilities	22	(1,855)	(2,375)
Net liabilities		<u>(122,180)</u>	<u>(79,743)</u>
Capital and reserves			
Called up share capital	23	10	10
Shares held as treasury shares	23	(5)	(5)
Capital contribution reserve	24	5,959	4,282
Profit and loss reserve	24	<u>(110,289)</u>	<u>(76,274)</u>
Total shareholders' deficit	25	(104,325)	(71,987)
Minority interests	26	(17,855)	(7,756)
Capital employed		<u>(122,180)</u>	<u>(79,743)</u>

The financial statements on pages 13 to 57 were approved by the board of Directors on 7 July 2011 and were signed on its behalf by



M Keyvan-Fouladi
Director

Circle Health Limited

Registered number 5042771

Circle Health Limited

Company balance sheet as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	13	382	173
Investments	14	-	-
		<u>382</u>	<u>173</u>
Current assets			
Debtors - amounts falling due within one year	16	43,547	27,043
Debtors - amounts falling due after more than one year	16	140	140
Total debtors	16	43,687	27,183
Cash at bank and in hand	17	3,089	3,337
		<u>46,776</u>	<u>30,520</u>
Creditors - amounts falling due within one year	18	<u>(107,423)</u>	<u>(73,910)</u>
Net current liabilities		<u>(60,647)</u>	<u>(43,390)</u>
Total assets less current liabilities		<u>(60,265)</u>	<u>(43,217)</u>
Provisions for liabilities	22	(256)	(170)
Net liabilities		<u>(60,521)</u>	<u>(43,387)</u>
Capital and reserves			
Called up share capital	23	10	10
Capital contribution reserve	24	5,959	4,282
Profit and loss reserve	24	(66,490)	(47,679)
Total shareholders' deficit	25	<u>(60,521)</u>	<u>(43,387)</u>

The financial statements on pages 15 to 57 were approved by the board of Directors on 7 July 2011 and were signed on its behalf by



M Keyvan-Fouladi
Director

Circle Health Limited

Registered number 5042771

Circle Health Limited

Consolidated cash flow statement for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Net cash outflow from operating activities	27	(17,268)	(11,436)
Returns on investments and servicing of finance			
Interest received	8	3,393	3,465
Interest paid	9	(2,242)	(2,359)
Net cash inflow from returns on investments and servicing of finance		1,151	1,106
Cash tax paid		-	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,490)	(8,094)
Payments in consideration for Windsor Hand Surgery Limited	19b	(13)	(46)
Disposal of fixed assets	13	296	-
Receipt in respect of PFI financial asset		-	1,012
Net cash outflow from capital expenditure and financial investment		(3,207)	(7,128)
Net cash outflow before financing and restricted cash movements		(19,324)	(17,458)
Management of liquid resources	17,28	4,613	2,800
Financing			
Net increase in related party loans		17,137	15,566
Repayment of bank loan	19	(307)	(920)
Finance lease borrowings		252	-
Repayment of finance lease	13,19	(6)	-
Net cash inflow from financing		17,076	14,646
Increase / (decrease) in unrestricted cash in the year	17	2,365	(12)
Reconciliation of net debt			
Increase / (decrease) in unrestricted cash in the year	28	2,365	(12)
Movement in liquid resources	28	(4,613)	(2,800)
Movement in borrowings	28	(16,263)	(15,007)
Change in net debt resulting from cash flows		(18,511)	(17,819)
Other non-cash movements	28	(70)	(37)
Movement in net debt in the year		(18,581)	(17,856)
Net debt at 1 January		(131,386)	(113,530)
Net debt at 31 December	28	(149,967)	(131,386)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the Company and Group will continue in operational existence for the foreseeable future. The Company and Group are members of a larger group of companies whose ultimate parent is Circle Holdings plc. The Directors have assessed whether the going concern basis of preparation is appropriate by reference to the position of the entire Circle Holdings group, as the Company and Group are reliant on financial support from Circle Holdings plc.

The Directors of Circle Holdings plc have prepared cash flow forecasts for a period of not less than 12 months from signing the financial statements for the year ending 31 December 2010. Committed funds and IPO proceeds (associated with Circle Holdings plc's listing on the Alternative Investment Market), together with existing cash balances and cash flows from the operating businesses, are sufficient to fund head office costs necessary to sustain the current operations, interest payments over the next 12 months and future growth plans, including taking on the management of NHS Hospitals and funding the commissioning and start up losses of the projected private hospital roll out programme.

On this basis, the Directors conclude that it is appropriate for these accounts to be prepared on a going concern basis and the ultimate parent, Circle Holdings plc has provided a letter of support accordingly.

Basis of consolidation

The Group financial statements consolidate the financial statements of Circle Health Limited and all of its subsidiaries, drawn up to 31 December each year. Accounting policies have been applied consistently throughout the Group. Intra-group transactions and balances have been eliminated on consolidation.

The results of subsidiaries acquired during the year are included in the consolidated financial statements using the acquisition method of accounting. Accordingly, the consolidated profit and loss account and statement of cash flows include the results and cash flows of acquired companies from the effective date of acquisition. Purchase consideration is allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Basis of consolidation (continued)

The results of Circle Partnership Limited have been consolidated in these financial statements under UITF 38 'Accounting for ESOP Trusts'. Circle Partnership Limited is considered part of the Group owing to the nature of the share scheme (note 33), whereby employees, consultants and GPs who contribute to the growth in value of the Group subscribe for shares in Circle Partnership Limited.

A separate Profit and Loss account dealing with the results of the Company only has not been presented as permitted by section 408 of the Companies Act 2006.

Investments

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

Discontinued Operations

In accordance with FRS 3 'Reporting Financial Performance', an operation is classified as discontinued when it meets all the following criteria:

- The sale or termination is completed in the period and, if a termination, the activities have ceased permanently,
- The sale or termination has a material effect on the nature of the Group's operations, and
- The assets, liabilities and results of operations are clearly distinguishable, both operationally and financially for financial reporting purposes.

When an operation is classified as discontinued, its results until the date of closure or sale are reported in the normal profit and loss account captions, but under a heading for 'discontinued operations'. Any profits or losses as a result of the closure or sale are reported as an exceptional item after operating profit.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Goodwill

Goodwill is the difference between the fair value of the consideration on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the profit and loss account over the term of the contract or its estimated useful economic life as follows:

Nations Healthcare group	- 5 years based on the terms of the initial ISTC contracts
Windsor Hand Surgery Limited	- 10 years based on the Directors' estimate of useful economic life

The Directors evaluate the carrying value of goodwill in each financial year to determine if there has been an impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation and impairment losses. Historic costs include costs directly attributable to making assets capable of operating as intended, including development costs and borrowing costs where relevant.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, on a straight line basis over the expected useful life of the asset as follows:

Clinical equipment	- 3 years
Furniture, fittings and office equipment	- 3 - 10 years
Leasehold improvements	- shorter of lease life or expected useful life (5-10 years)

Assets under construction are commissioning costs which comprise staff, property, consultancy and operational costs directly related to the commissioning projects. 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 'Furniture, fittings and office equipment' and depreciated on a straight line basis in accordance with the estimated useful lives as outlined above.

Residual values, if material, and useful lives are reviewed at the end of each reporting period. The carrying values of tangible fixed assets are reviewed for impairment when events or changes of circumstances indicate the carrying value may not be recoverable.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Leases

Where substantially all the risks and rewards of ownership of the leased item are transferred to the Company, 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 profit and loss account.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Where the Company 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 profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

Stock

Consumable stocks 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 (net of trade discounts), less all costs incurred in marketing, selling and distribution. Obsolete stock is provided for through the profit and loss account.

Consignment stock is carried as a stock balance with a corresponding balance in trade creditors.

Trade debtors

Trade debtors are amounts due from customers for services performed in the ordinary course of business. Trade debtors are measured at fair value, less provision for impairment.

Cash at bank and in hand

In the consolidated cash flow statement, cash at bank and in hand includes cash at hand, deposits held at call with banks and bank overdrafts. In the consolidated balance sheet, bank overdrafts are included within borrowings in current liabilities and restricted cash balances are shown as cash on the balance sheet.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are recognised at fair value.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exceptions

- Provision is made for deferred tax that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable, and
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which the timing differences reverse, based on the tax rates or laws enacted or substantively enacted at the balance sheet date

Pension costs

The Nations Healthcare group, Circle Bath Hospital and Windsor Hand Surgery Limited operate a personal "defined contribution" pension scheme. Contributions are charged in the Group profit and loss account as they become payable in accordance with the rules of the scheme

Long-term contracts and pre-contract costs

Profit on the long term contracts to provide NHS medical procedures is taken as the procedures are performed, in line with the terms of the contract. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses

Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Profit relating to under-utilisation by the NHS is deferred until the end of the quarter, when this is agreed with the local PCT. Turnover is calculated based on the minimum monthly take (MMT) plus any over performance by the Company that has not been offset against under-utilisation. Full provision is made for losses on all contracts in the year in which they are first foreseen

Pre-contract costs are accounted for under UITF Abstract 34 'Pre-contract costs'. All costs incurred in advance of a contract being awarded are written off to the profit and loss account, until the date that, in the opinion of the Directors, it is virtually certain that the contract has been secured. Where the Directors consider virtual certainty has been achieved and the contract is expected to result in future net cash inflows, costs incurred up to the time the contract becomes operational are carried as prepayments. Once the contract is operational the balance is accounted for as part of the accounting for the contract as a whole in accordance with SSAP 9 'Stock and Long Term Contracts' and amortised over the contract term, and is disclosed in stocks or creditors

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Private Finance Initiative (PFI) assets

Within the Group, the Nottingham treatment centre is an operator of a Private Finance Initiative (PFI) asset. The underlying asset is not deemed to be an asset of the Group under FRS 5 Application Note F because the risk and rewards of ownership as set out in that standard are deemed to lie principally with the Department of Health. At the point that the Directors are certain that the contract has been secured, costs incurred associated with the set-up and construction are recognised as a financial asset.

During the operational phase income is allocated between interest receivable and the financial asset using the contracted rate of return. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G. The Group only recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Financial instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if

- I there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- II the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

When shares are issued, any component that creates a financial liability of the Company or Group is presented as a liability in the balance sheet, measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expenses in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Transaction costs are apportioned between 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.

The Group's 20% cumulative preferred shares have been accounted for as a liability as they are debt instruments.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

Provisions

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised or impaired as well as through the amortisation process

Revenue recognition

Revenue is recognised to the extent that the Group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, for activity performed. Revenue from the provision of medical services is recognised once the patient has been discharged, subject to certain claw-back clauses included within the PCT contracts which require an element of the revenue to be deferred until certain contractual obligations have been met

Minority Interests

Minority shareholder interests in the results and the capital and reserves of the Group's subsidiary undertakings are recorded in the profit and loss account and balance sheet based upon the effective interest of the minority shareholders

Provision is made for any minority share of losses of net liabilities where the Group is expecting to either legally or commercially fund such losses or deficits. No provision has been made for the minority interest associated with Circle International plc's share of the Nations Healthcare group

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

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 material items of income or expense that have been shown separately due to the significance of their nature or amount. Also included within exceptional items are material non-cash items which are singled out to provide the user with a clearer understanding of the financial statements.

Share based payments

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 as an expense over the vesting period, which ends on the date on which relevant employees become fully entitled to the award. Fair value is determined by the appropriate market price of the shares in issue and application of the Black-Scholes option pricing methodology.

The grant by the ultimate parent undertaking of warrants to employees of the Company is treated as a capital contribution with a corresponding charge to the profit and loss account.

2. Turnover

Turnover represents the total amount earned by the Group in the ordinary course of business for services rendered for the provision of healthcare services excluding value added tax. All turnover arises from the same continuing principal activity in the United Kingdom.

3. Discontinued operations

The five year contract to run the Bradford Independent Sector Treatment Centre ('ISTC') at Eccleshill came to an end in January 2010 and following a five month extension, the contractual arrangements were wound down in June 2010.

Since the activities of Nations Healthcare Bradford have ceased permanently, the operation has been classified as discontinued in the current year, with the results being classified under the heading 'discontinued operations' and the loss on sale of assets to the Bradford PCT being reported as an exceptional item after operating profit.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

4. Other operating income

	2010 £'000	2009 £'000
Income from third party use of centre facilities	219	798
Other miscellaneous income	<u>33</u>	<u>75</u>
	<u>252</u>	<u>873</u>

Income from third party use of centre facilities is derived from Alliance Medical Limited, the diagnostic services provider which operates out of the Eccleshill treatment centre in Bradford. Other miscellaneous income is derived from rental of unused facilities to third parties.

5. Group operating loss

Operating loss is stated after charging	2010 £'000	2009 £'000
Amortisation of pre-contract costs	2,853	3,278
Amortisation of goodwill (note 12)	2,179	2,460
Depreciation of tangible fixed assets		
- owned assets (note 13)	1,295	1,333
- leased assets (note 13)	6	
Services provided by the Company's auditors (see below)	135	168
Operating lease charges		
- plant and machinery	5,236	3,505
- buildings and other	6,511	5,428
Exceptional items – see below	<u>11,884</u>	<u>4,916</u>

Services provided by the Company's auditors

The fees payable to the Company's auditors are payable to PricewaterhouseCoopers LLP for both the years ended 31 December 2010 and 31 December 2009 respectively.

	2010 £'000	2009 £'000
Fees payable for the audit of parent Company and consolidated financial statements	18	10
Fees payable for the audit of subsidiary financial statements	117	80
Other fees payable		
- taxation	-	20
- other services	<u>-</u>	<u>58</u>
	<u>135</u>	<u>168</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

5. Group operating loss (continued)

Exceptional items:	2010	2009
	£'000	£'000
Charged before arriving at operating loss:		
- Net (reversal of) / increase in provision for onerous leases (note 22)	(367)	1,299
- Lease surrender costs	-	258
- Share based payments in respect of warrants issued (note 33)	1,677	2,084
- Impairment of tangible fixed assets (note 13)	9,576	-
- Aborted site finding costs (note 32)	805	1,275
	<u>11,691</u>	<u>4,916</u>
Charged after arriving at operating loss		
- Loss on sale of tangible fixed assets (note 13)	193	-
	<u>11,884</u>	<u>4,916</u>

Group operating loss and EBITDA before exceptional items:	2010	2009
	£'000	£'000
Group operating loss	(31,092)	(18,341)
Exceptional items – continuing operations	<u>11,691</u>	<u>4,916</u>
Total operating loss before exceptional items	(19,401)	(13,425)
Depreciation (note 13)	1,301	1,333
Amortisation of goodwill (note 12)	2,179	2,460
Amortisation of pre-contract costs	<u>2,853</u>	<u>3,278</u>
EBITDA before exceptional items	<u>(13,068)</u>	<u>(6,354)</u>

Deferred costs

During the year the following costs were capitalised under FRS 15 'Fixed assets' in relation to the commissioning of the hospital in Circle Bath Hospital

	2010	2009
	£'000	£'000
Staff costs (note 6)	460	1,612
Property costs	250	456
Consultancy costs	278	2,433
Operating costs	168	1,378
Tenants improvements	<u>45</u>	<u>1,763</u>
Total deferred costs (note 13)	<u>1,201</u>	<u>7,642</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

5. Group operating loss (continued)

Deferred costs (continued)

Staff costs relate to salaries and expenses for people working full time on the Bath hospital commissioning project, completing a variety of roles, primarily prior to the hospital's opening in March 2010. The appropriate installation of equipment, staff training and systems configuration is needed to operate the hospital effectively at its potential capacity. These costs have subsequently been impaired.

6. Employee information

Staff costs were as follows

	2010 £'000	2009 £'000
Wages and salaries	15,091	10,475
Share based payments (note 33)	1,677	2,084
Social security costs	1,547	1,070
Other pension costs (note 30)	<u>234</u>	<u>166</u>
	18,549	13,795
Less amounts deferred in accordance with FRS 15 (note 5)	<u>(460)</u>	<u>(1,612)</u>
	<u>18,089</u>	<u>12,183</u>

Staff costs deferred in the current year relates to capitalised costs incurred during the commissioning of the Circle Bath Hospital (note 5)

The average monthly number of employees, including the Directors, during the year was as follows

	2010 Number	2009 Number
By activity		
Administrative	281	180
Clinical	<u>341</u>	<u>196</u>
	<u>622</u>	<u>376</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

7. Directors' emoluments

	2010 £'000	2009 £'000
Aggregate emoluments	<u>786</u>	<u>760</u>
Highest paid Director	<u>399</u>	<u>308</u>

The Directors of the Company are also Directors or officers of a number of other companies within the ultimate parent group (Circle Holdings group), and are remunerated in respect of services provided to the Circle Holdings group. The Directors do not consider the time spent on dealing with the Company's matters to be material and therefore have not sought to separate out their costs in respect of services to each individual company in the Circle Holdings group. The amounts disclosed above are the Directors' total emoluments as per their employment contracts.

Directors' emoluments in 2010 and 2009 were paid and expensed in Circle Health Limited, Nations Healthcare Limited and Health Properties Management Limited.

The Directors do not have any retirement benefits accruing under money purchase schemes (2009 none).

8. Interest receivable and similar income

	2010 £'000	2009 £'000
Bank interest receivable	16	9
Interest on PFI financial asset	<u>3,377</u>	<u>3,456</u>
	<u>3,393</u>	<u>3,465</u>

9. Interest payable and similar charges

	2010 £'000	2009 £'000
Interest unwind of discount on acquisition of Windsor Hand Surgery Limited (note 19b)	33	66
Interest paid on Barclays loan	2,242	2,340
Amortisation of Barclays loan issue costs (note 19a)	67	37
Preferred share dividends accrued to Circle Holdings plc (note 32)	900	900
Preferred share dividends accrued to Circle International plc (note 32)	3,500	3,500
Interest payable on loans from Circle Holdings plc (note 32)	6,712	3,394
Interest payable on loans from Circle International plc (note 32)	<u>2,941</u>	<u>3,223</u>
	<u>16,395</u>	<u>13,460</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Tax on loss on ordinary activities

(a) Tax on loss on ordinary activities

	2010 £'000	2009 £'000
The tax credit is made up as follows		
Current tax		
UK corporation tax on loss of the year	(818)	(898)
Deferred tax		
Origination and reversal of timing differences (note 10 (d) below)	645	(17)
Tax on loss on ordinary activities	(173)	(915)

(b) Factors affecting the current tax credit for the year

The tax assessed for the year differs (2009 differs) from the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	2010 £'000	2009 £'000
Loss on ordinary activities before taxation	(44,287)	(28,336)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(12,400)	(7,934)
Effects of		
Expenses not deductible for tax purposes	4,212	2,701
Capital allowances for year in excess of depreciation	(303)	(379)
Short term timing differences	901	-
Unrelieved tax losses	6,772	4,713
Group relief surrendered for nil payment	-	1
Current tax credit for the period (note 10 (a) above)	(818)	(898)

The company has recorded a receivable from Circle International plc during the year for consortium relief of £818,000 (2009 £898,000) relating to the tax credit above

(c) Factors that may affect future tax charges

Legislation in the UK has been enacted to cut the main rate of corporation tax to 27.0% for the financial year starting 1 April 2011. There will be further cuts in the main rate in future years (26.0% in 2012 to 2013, 25.0% in 2013 to 2014 and 24.0% in 2014 to 2015) which may affect future tax charges and reduce the deferred tax liabilities

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Tax on loss on ordinary activities (continued)

(c) Factors that may affect future tax charges (continued)

In addition to the changes in rates of corporation tax disclosed above, a number of changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26.0% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26.0% to 25.0% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1.0% per annum to 23.0% by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes enacted by Parliament on 29 March 2011 is to reduce the deferred tax liability provided at the balance sheet date and increase profit by £24,000. This decrease in the deferred tax liability is due to the additional reduction in the corporation tax rate to 26.0% with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year.

In addition, the utilisation of any tax losses for which no deferred tax asset has been recognised may affect future tax charges.

(d) Deferred taxation

The Group deferred tax (asset) / liability is as follows

Group	Unrecognised		Recognised	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Included in provisions for liabilities (note 22)	(26,041)	(18,967)	645	-
The deferred tax consists of				
Accelerated capital allowances	(2,589)	(4,437)	(1,431)	-
Unrelieved tax losses	(21,635)	(23,729)	(7,777)	-
Short term timing differences	(1,811)	9,241	9,853	-
Pension provision	(6)	(6)	-	-
	(26,041)	(18,967)	645	-

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Tax on loss on ordinary activities (continued)

(d) Deferred taxation (continued)

The Company deferred tax is as follows.

Company	Unrecognised		Recognised	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Included in provisions for liabilities	-	-	-	-
The deferred tax consists of				
Accelerated capital allowances	(189)	(153)	-	-
Unrelieved tax losses	(10,501)	(8,279)	-	-
Short term timing differences	(1,291)	-	-	-
Pension provision	-	-	-	-
	<u>(11,981)</u>	<u>(8,432)</u>	<u>-</u>	<u>-</u>

The unrecognised deferred tax asset stated in the prior year was £32,564. This should have been £18,967k as more information has come to light during the year.

The 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.

11. Result attributable to members of the parent undertaking

The result dealt with in the financial statements of the parent undertaking is a loss of £18,811,000 (2009: £13,585,000). A separate profit and loss account dealing with the results of the Company only has not been presented as permitted by section 408 of the Companies Act 2006. Included in the loss are exceptional items of:

	2010	2009
	£'000	£'000
Provision for onerous leases (note 22)	167	170
Lease surrender costs	-	258
Share based payment (note 33)	1,677	2,084
Aborted site finding costs (note 32)	<u>805</u>	<u>1,275</u>
	<u>2,649</u>	<u>3,787</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

12. Intangible assets

Group	Goodwill £000
Cost	
At 1 January 2010	14,807
Post acquisition goodwill adjustment (note 19b)	(35)
At 31 December 2010	14,772
Accumulated amortisation and impairment	
At 1 January 2010	8,961
Amortisation charge for the year (note 5)	2,179
At 31 December 2010	11,140
Net book value	
At 31 December 2010	3,632
At 31 December 2009	5,846

On 1 April 2009, the Company purchased the remaining 11.7% share capital in its subsidiary undertaking, Nations Healthcare Limited, for £5 plus £35,000 of costs. No addition has been made to goodwill and the costs were expensed in 2009.

During 2010, the Group reassessed the acquisition cost and corresponding goodwill of Windsor Hand Surgery Limited. This resulted in a reduction to goodwill of £35,000 (2009 increase of £93,000) as a result of decreased deferred consideration and loan notes of £8,000 and £27,000 (note 19b) respectively (2009 increase in deferred consideration and loan notes of £12,000 and £51,000 respectively, together with an additional completion payment of £30,000 due to more assets being acquired than originally provided for in the sale and purchase agreement).

Amortisation during the year is split between £2,128,000 for the Nations Healthcare group and £51,000 for Windsor Hand Surgery Limited.

Company

The Company does not have intangible fixed assets (2009: £nil).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Tangible assets

Group	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and Office equipment £'000	Total £'000
Cost					
At 1 January 2010	8,922	835	1,537	3,360	14,654
Additions	1,201	206	545	1,483	3,435
Reclassifications	(10,123)	-	-	10,123	-
Disposal -discontinued operation (note 5)	-	-	(318)	(190)	(508)
Disposal – sale and leaseback (note 19c)	-	-	-	(296)	(296)
At 31 December 2010	-	1,041	1,764	14,480	17,285
Accumulated depreciation and impairment					
At 1 January 2010	547	390	808	2,150	3,895
Depreciation charge for the year (note 5)	-	149	335	817	1,301
Impairment charge for the year (note 5)	-	-	-	9,576	9,576
Disposal -discontinued operation (note 5)	-	-	(209)	(106)	(315)
Reclassifications	(547)	-	-	547	-
At 31 December 2010	-	539	934	12,984	14,457
Net book value					
At 31 December 2010	-	502	830	1,496	2,828
At 31 December 2009	8,375	445	729	1,210	10,759

At 31 December 2010, £9,576,000 of costs capitalised in relation to the commissioning of the Circle Bath Hospital were impaired, based on a value in use calculation using cash flow projections based on five year financial forecasts. The key assumptions for these forecasts were the revenue growths based on past experience and expectations of future demand. Cash flows were discounted back to present value using a risk adjusted discount rate of 15.0%, which represents the weighted average cost of capital for the hospital, adjusted to reflect the fact that the hospital is in the early stage of operations.

Upon termination of the Bradford ISTC contract, all of the assets of the business were disposed of to the Bradford PCT for £1, resulting in a loss on disposal of £193,000 which has been reported as exceptional.

In addition, assets which cost the Group £296,000 inclusive of VAT (which was not reclaimable) were sold to Singers Healthcare Finance Limited for the same amount as part of a sale and leaseback transaction. No profit or loss was recognised on the transaction.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Tangible assets (continued)

Assets held under finance lease with Singers Healthcare Finance Limited, capitalised and included above, have the following net book values

	2010 £'000	2009 £'000
Furniture, fittings and office equipment (note 19c)	<u>246</u>	<u>-</u>

Company	Furniture, fittings and office equipment £'000	Total £'000
Cost		
At 1 January 2010	672	672
Additions	<u>360</u>	<u>360</u>
At 31 December 2010	<u>1,032</u>	<u>1,032</u>
Accumulated depreciation		
At 1 January 2010	499	499
Charge for the year	<u>151</u>	<u>151</u>
At 31 December 2010	<u>650</u>	<u>650</u>
Net book value		
At 31 December 2010	<u>382</u>	<u>382</u>
At 31 December 2009	<u>173</u>	<u>173</u>

14. Fixed asset investments

Company	
Shares in Group undertakings	£'000
Cost	
At 1 January 2010 and 31 December 2010	<u>1,329</u>
Provision for impairment	
At 1 January 2010 and 31 December 2010	<u>1,329</u>
Net book value	
At 31 December 2009 and 31 December 2010	<u>-</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

14. Fixed asset investments (continued)

On 1 April 2009, the Company purchased the remaining 11.7% share capital in its subsidiary undertaking, Nations Healthcare Limited, for £5 plus £35,000 of costs. No addition has been made to goodwill and the costs were expensed in 2009.

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	Holding	Proportion of voting rights held	Nature of business
Circle Hospital (Bath) Limited	Ordinary shares	100%	Medical practice services
Windsor Hand Surgery Limited*	Ordinary shares	100%	Medical practice services
Circle Clinics Limited	Ordinary shares	100%	Medical practice services
Nations Healthcare Limited	Ordinary shares	61.8%	Medical practice services
Nations Healthcare (North Bradford) Limited*	Ordinary shares	61.8%	Medical practice services
Nations Healthcare (Burton) Limited*	Ordinary shares	61.8%	Medical practice services
Nations Healthcare (Nottingham) Limited*	Ordinary shares	61.8%	Medical practice services
Nations Healthcare (West London) LLP*	Ordinary shares	61.8%	Dormant
Nations Healthcare (West London) 2006 Limited*	Ordinary shares	61.8%	Dormant
Circle Hospital (Nottingham) Limited	Ordinary shares	100%	Dormant
Circle Hospital (Reading) Limited	Ordinary shares	100%	Dormant

* subsidiary held indirectly

All subsidiaries of the Company are incorporated in the United Kingdom.

A loan facility of £13,300,000 (2009: £13,300,000) from James Caird Asset Management issued to Circle Holdings plc, the ultimate parent undertaking, has been secured over the Group's shareholdings in Nations Healthcare Burton and Nations Healthcare Bradford.

15. Stock

	Group	
	2010	2009
	£'000	£'000
Consumables	1,309	780
Long-term contracts balances (note 21)	5,139	6,598
	<u>6,448</u>	<u>7,378</u>

The Company does not have consumables or long-term contracts balances (2009: £nil).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

16. Debtors

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Trade debtors	1,800	2,645	28	48
PFI financial asset	44,015	44,244	-	-
Amounts owed by Circle International plc (note 32)	496	2,790	16	2,310
Amounts owed by Circle Holdings plc (note 32)	2,134	2,110	2,134	2,110
Amounts owed by related party undertakings (note 32)	18,837	14,297	17,251	12,547
Amounts owed by subsidiary undertakings	-	-	23,414	9,633
Other debtors	254	979	12	87
Other taxes and social security costs	636	288	471	229
Prepayments and accrued income	6,191	3,464	361	219
	74,363	70,817	43,687	27,183

Within the Company, amounts owed to related parties include loans and receivables from Circle Bath Hospital of £21,625,000 (2009 £8,985,000), Circle Clinics Limited of £372,000 (2009 £197,000), Nations Healthcare group £1,383,000 (2009 £451,000) and Circle Partnership Limited of £34,000 (2009 £nil). The Directors have made no provisions against these balances as current cash flow forecasts indicate that these balances are fully recoverable. Amounts owed by Group undertakings are unsecured, interest free and payable on demand.

Amounts falling due after more than one year included above are as follows

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
PFI financial asset	43,003	43,232	-	-
Prepayments and accrued income	306	140	140	140
	43,309	43,372	140	140

The PFI financial asset represents the costs incurred to date for the construction of the Nottingham ISTC through which the Group will provide healthcare services. In accordance with the principles of FRS 5 'Reporting the substance of transactions', Application note F - *Private Finance Initiative and similar contracts*, beneficial ownership of the associated property asset lies with the purchaser of services and not with the Group as provider of those services.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

17. Cash at bank and in hand

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Cash at bank and in hand	<u>9,945</u>	<u>12,193</u>	<u>3,089</u>	<u>3,337</u>
Including restricted balances of				
Department of Health Performance Bond	a (500)	(4,400)	-	(2,900)
Minimum balance – GE & Department of Health ('DoH')	b (1,900)	(2,400)	-	-
Rental Bond – Nations Healthcare Bradford	c -	(213)	-	-
Restricted cash at bank and in hand	<u>(2,400)</u>	<u>(7,013)</u>	<u>-</u>	<u>(2,900)</u>
Unrestricted cash at bank and in hand	<u>7,545</u>	<u>5,180</u>	<u>3,089</u>	<u>437</u>

The Group cash balance is subject to the following charges

- a Performance Guarantee Bonds to the DoH which are not freely available to the Group
- Circle Health Limited provided a counter indemnity to Barclays Bank by way of a fixed charge over a deposit of £nil (2009 £2,900,000). This was credited to a deposit account with the bank for Nations Healthcare Burton, the terms of which expired during the year and the deposit was released, and Nations Healthcare Nottingham, in which the deposit was released in exchange for a guarantee from Circle Holdings plc as part of the DoV negotiation.
 - Nations Healthcare Limited has provided a counter indemnity to Barclays Bank by way of a fixed charge over a deposit of £500,000 (2009 £1,500,000) credited to a deposit account with the bank for Nations Healthcare Bradford.
- b GE Capital Equipment Finance Limited has various operating leases for medical equipment used by the Group's hospitals that have DoH ISTC contracts to perform NHS medical procedures. A condition of both the GE contracts and the overall DoH project agreements is that the following minimum balances are maintained at each month end across all bank accounts
- Nations Healthcare Nottingham is required to maintain a minimum balance of £1,300,000 (2009 £1,300,000).
 - Nations Healthcare Burton is required to maintain a minimum balance of £600,000 (2009 £600,000).
 - Until the expiry of the ISTC contract in June 2010, Nations Healthcare Bradford was required to maintain a minimum balance of cash at bank and in hand of £500,000 (2009 £500,000) at the end of each month under the terms of its lease agreement with the Department of Health and its project agreement with the DoH. This was released in June 2010.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

17. Cash at bank and in hand (continued)

- c Until February 2010, the Royal Bank of Scotland provided a guarantee to the Bradford Treatment Centre building/lessor, Orderbide Limited, for payment of rent. Up to the same date, Nations Healthcare Limited, the immediate parent provided a counter indemnity to the Royal Bank of Scotland by way of a fixed charge over a deposit credited to a deposit account with the bank for £213,000 (2009 £213,000). This account was released in February 2010.

The Group cash balance is also subject to the following charges

Nations Healthcare Burton and Nations Healthcare Bradford (up until expiry of its ISTC contract in June 2010) pledged any credit balances in their Primary Collections account and Secondary Collections account to the treatment centre building lessor, Orderbide Limited, by way of a fixed charge as security for the payment of rent. At the balance sheet date the credit balances of the Primary Collections account and Secondary Collections account were £nil (2009 £nil).

18. Creditors - amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Barclays bank loan	922	43,717	-	-
Trade creditors	10,228	10,476	664	504
Loans from Circle Holdings plc (notes 20 and 32)	66,910	46,960	50,855	30,905
Loans from Circle International plc (notes 20 and 32)	26,915	30,541	26,915	30,541
Preferred shares held by Circle Holdings plc (notes 20 and 32)	4,500	4,500	-	-
Preferred shares held by Circle International plc (notes 20 and 32)	17,500	17,500	-	-
Other amounts owed to Circle Holdings plc (note 32)	13,938	6,325	6,085	1,302
Other amounts owed to Circle International plc (note 32)	23,399	16,963	11,325	8,384
Other amounts owed to related parties (note 32)	1,127	1,591	10,314	1,581
Payments received on account (note 21)	753	1,903	-	-
Secured finance lease creditor (note 13 and 19c)	76	-	-	-
Social security and other taxes	288	260	154	260
Accruals and deferred income	7,861	3,211	1,111	433
Loan note (note 19b)	364	-	-	-
Deferred consideration (note 19b)	35	-	-	-
	174,816	183,947	107,423	73,910

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, and have been classified as a current liability in 2010 (refer to note 19 for detail).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

18. Creditors - amounts falling due within one year (continued)

Loans and amounts due to related parties are unsecured and payable on demand. Interest is payable on loans from the immediate and ultimate parent undertakings as disclosed in note 32. Within the Company are recharges of expenses from the Nations Healthcare group of £9,100,000 (2009 £1,581,000).

The preferred shares are classified as a long term loan instead of share capital as their terms are substantially the same as a loan under FRS 25 'Financial instruments: disclosure and presentation' (notes 23 and 32).

19. Creditors - amounts falling due after more than one year

		Group	
	Note	2010 £'000	2009 £'000
Barclays PFI bank loan	a	42,555	-
Loan note	b	-	361
Deferred consideration	b	-	53
Secured finance lease creditors (note 13)	c	170	-
		42,725	414

- a The Barclays PFI bank loan carries an interest rate of LIBOR + 0.4% and is secured by a fixed and floating charge over the assets of Nations Healthcare Nottingham. Barclays also have a charge over the shares of Nations Healthcare Nottingham that can be exercised in the event that the company 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 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 is guaranteed by the DoH and in the unlikely event of the loan being called in, the DoH will make a residual payment to Nations Healthcare Nottingham that will substantially cover its repayment of the loan to Barclays.

The Barclays loan is not under any defaults or cross-defaults as at 31 December 2010. However, for the 2009 year end the loan was in technical default due to various contractual changes and a revised opening date of the Nottingham hospital not having been formally agreed as a DoV between Nations Healthcare group and the DoH. As a result, the loan was classified as repayable within one year in the 2009 comparative. The DoV was subsequently agreed and signed in April 2010.

Loan issue costs of £171,000 (2009 £238,000) have been set off from the loan amount and are being spread over the life of the loan in accordance with FRS 4 'Capital Instruments'.

The loan has been hedged using an interest rate swap fixing total interest at a rate of 5.0% per annum (2009 5.3%). As at 31 December 2010, the swap has a fair value of £3,494,000 liability (2009 £3,043,000 liability). This is not recognised on the balance sheet.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

19. Creditors - amounts falling due after more than one year (continued)

- b 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, and have been classified as a current liability in 2010

Movements in the balance of loan notes and deferred consideration during the year have been further analysed below

	Loan note £'000	Deferred consideration £'000	Total £'000
Present value at 1 January 2010	361	53	414
Post-acquisition goodwill adjustment (note 12)	(27)	(8)	(35)
Unwind of discount on acquisition of Windsor Hand Surgery Limited (note 9)	30	3	33
Payments made	-	(13)	(13)
Present value at 31 December 2010	<u>364</u>	<u>35</u>	<u>399</u>

On acquisition of the Windsor Hand Surgery Limited, the Company issued loan notes that accrue over 5 years to the former owners P. Morrish and D. Evans. The undiscounted value of these loan notes are £91,000 (2009: £91,000) and £359,000 (2009: £403,000) respectively after current year reassessment. These are payable on 4 July 2013 and do not attract interest.

Deferred consideration based on annual turnover over the next 5 years is payable in annual instalments to D. Evans. On acquisition these balances were discounted to present value using a rate of 10% with the discount unwinding over the 5 years post acquisition.

During the year, the cash flow liabilities were reassessed based on actual and budgeted turnover over the life of the agreement, less payments already made during the year.

- c Finance leases comprise Information Technology assets which were bought for £252,000 (exclusive of VAT) and then sold to Singers Healthcare Finance Limited in a sale and leaseback transaction. The finance lease is for a three year term and the first monthly payment was made in December 2010.

	2010 £'000	2009 £'000
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	99	-
Later than 1 year and no later than 5 years	<u>190</u>	-
Gross finance lease liabilities - minimum lease payments	289	-
Future finance charges on finance leases	<u>(43)</u>	-
Total	<u>246</u>	-

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

19. Creditors - amounts falling due after more than one year (continued)

The maturity profile of the carrying amount of the Company's secured finance lease is as follows

	2010 £'000	2009 £'000
Secured finance lease		
Less than one year	76	-
In more than one year but no more than two years	84	-
In more than two years but no more than five years	86	-
Total	246	-

20. Loans and other borrowings

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Due within one year or on demand:				
Barclays Bank loan (note 18)	922	43,717	-	-
Loans from ultimate parent undertaking (notes 18, 32)	66,910	46,960	-	30,906
Loans from immediate parent undertaking (notes 18, 32)	26,915	30,541	-	30,541
Preferred shares held by Group undertakings (notes 18, 32)	22,000	22,000	-	-
Loan note (note 19b)	364	-	-	-
Secured finance lease creditors (note 19c)	76	-	-	-
	117,187	143,218	-	61,447
Due after one year				
Barclays Bank loan (note 19a)	42,555	-	-	-
Secured finance lease creditors (note 19c)	170	-	-	-
Loan note (note 19b)	-	361	-	-
	42,725	361	-	-
Total borrowings	159,912	143,579	-	61,447

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

21. Long-term contracts

Set-up costs that occur in the pre-contract stage which are recognised on the balance sheet and amortised over the life of the contract, are offset against the related deferred income in accordance with SSAP 9. Any residual balance is disclosed separately as respective stock or creditors as shown below.

Group	Due within one year 2010 £'000	Due after more than one year 2010 £'000	Total 2010 £'000	Total 2009 £'000
Costs incurred	2,593	2,868	5,461	8,314
Payments on account	(1,075)	-	(1,075)	(3,619)
	<u>1,518</u>	<u>2,868</u>	<u>4,386</u>	<u>4,695</u>

Disclosure of these long-term contract balances is as follows:

	Due within one year 2010 £'000	Due after more than one year 2010 £'000	Total 2010 £'000	Total 2009 £'000
Stock (note 15)	2,271	2,868	5,139	6,598
Creditors (note 18)	(753)	-	(753)	(1,903)
	<u>1,518</u>	<u>2,868</u>	<u>4,386</u>	<u>4,695</u>

The Company has no long term contracts (2009: £nil)

22. Provisions for liabilities

Group	Deferred tax £'000	Onerous leases - equipment £'000	Onerous leases - property £'000	Total £'000
At 1 January 2010	-	48	2,327	2,375
Charged to the profit and loss account	645	-	167	812
Reversal through the profit and loss account	-	-	(534)	(534)
Utilised during the year	-	(32)	(766)	(798)
At 31 December 2010	<u>645</u>	<u>16</u>	<u>1,194</u>	<u>1,855</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

22. Provisions for liabilities (continued)

Provisions for onerous leases - equipment

This provision relates to the lease of an item of clinical equipment which is no longer in use and therefore has been fully provided for until the end of the lease term. The total expected costs to be incurred are £16,000 (2009 £48,000)

Provisions for onerous leases - property

Leases for new clinics were taken on in 2006 and 2008 for West London and Ashford respectively. The premises are no longer required by the Group and management intends to sub-let the vacant property. Management are currently negotiating with potential tenants in both sites and securing additional advertising revenue from the prime advertising space on top of the building in West London. The provisions have 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. The provision relating to the West London site is £938,000 (2009 £2,157,000) while that for the Ashford site is £256,000 (2009 £170,000). The net credit to the income statement of £367,000 has been classified as an exceptional item (note 5).

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

Company	Provisions for onerous lease - property £'000
At 1 January 2010	170
Utilised during the year	(81)
Charged to the profit and loss account	167
At 31 December 2010	256

A lease for new clinic in Ashford was taken out in 2008. These premises are no longer required by the Group and management intends to sub-let the vacant property. Management are currently negotiating with potential tenants. The provisions have 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.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

23. Called up share capital

Ordinary share capital

Group	2010 £'000	2009 £'000
Authorised		
100,000 (2009 100,000) Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted and fully paid		
10,000 (2009 10,000) Ordinary shares of £1 each	10	10
4,990 (2009 4,990) Ordinary shares of £1 each classified as treasury shares	<u>(5)</u>	<u>(5)</u>
	<u>5</u>	<u>5</u>

In accordance with UITF 38 'Accounting for ESOP Trusts', the Company's own shares held by Circle Partnership Limited, which is an employee share ownership scheme, are presented as a deduction from called up share capital

Company	2010 £'000	2009 £'000
Authorised		
100,000 (2009 100,000) Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted and fully paid		
10,000 (2009 10,000) Ordinary shares of £1 each	<u>10</u>	<u>10</u>

Preference share capital

Group	2010 £'000	2009 £'000
Authorised		
40,000,000 (2009 40,000,000) "C" preference shares of £1 each	<u>40,000</u>	<u>40,000</u>
Allotted and fully paid		
22,000,000 (2009 22,000,000) "C" preference shares of £1 each	<u>22,000</u>	<u>22,000</u>

The preference shares do not carry voting rights but have a fixed cumulative dividend of 20% per annum and a right to a return of capital on the winding up of Nations Healthcare Limited. The preference shares are redeemable upon a change of control and at the election of Nations Healthcare Limited after 30 June 2009.

Circle International plc, the Group's immediate parent undertaking, holds £17,500,000 (2009 17,500,000) of the preference shares. Circle Holdings plc, the Group's ultimate parent undertaking, holds £4,500,000 (2009 4,500,000) of the preference shares.

The preference shares are classified as a long term loan instead of share capital as their terms are substantially the same as a loan under FRS 25.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

24. Reserves

Group	Capital contribution reserve £'000	Profit and loss account £'000
At 1 January 2010	4,282	(76,274)
Loss for the financial year	-	(34,015)
Share based payment (note 33)	1,677	-
At 31 December 2010	5,959	(110,289)

Company	Capital contribution reserve £'000	Profit and loss reserve £'000
At 1 January 2010	4,282	(47,679)
Loss for the financial year	-	(18,811)
Share based payments (note 33)	1,677	-
At 31 December 2010	5,959	(66,490)

25. Reconciliation of movements in shareholders' deficit

Group	2010 £'000	2009 £'000
Loss for the financial year	(34,015)	(23,581)
Capital contribution (note 33)	1,677	2,084
Net addition to shareholders' deficit	(32,338)	(21,497)
Opening shareholders' deficit	(71,987)	(50,490)
Closing shareholders' deficit	(104,325)	(71,987)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

25. Reconciliation of movements in shareholders' deficit (continued)

Company	2010 £'000	2009 £'000
Loss for the financial year	(18,811)	(13,585)
Capital contribution (note 33)	1,677	2,084
Net addition to shareholders' deficit	(17,134)	(11,501)
Opening shareholders' deficit	(43,387)	(31,886)
Closing shareholders' deficit	(60,521)	(43,387)

26. Minority Interests

The Company owns 61.2% of the Nations Healthcare group which results in a minority interest of 38.2%, which is held by Circle International plc

The Nations Healthcare group recorded a loss for the financial year of £2,379,000 (2009 £10,053,000)

	Interest	2010 £'000	2009 £'000
Minority interest at 1 January		7,756	3,916
Minority interest's share of loss for the year – current year adjustment (see below)		9,190	-
Minority interest's share of loss for the year	38.2% (2009 38.2%)	909	3,840
Minority interest at 31 December		17,855	7,756

Minority interest was calculated incorrectly upon the initial acquisition of 50.1% of the Nations Healthcare group in June 2007 and the subsequent acquisition of 11.7% in March 2009. The opening balance for Minority Interest in 2009 was recalculated and corrected by transferring £9,190,000 from the 'profit and loss reserve' to 'minority interest'.

According to FRS 3 - 'Financial reporting performance' the correction of the prior year error is made in the current year as the error is not categorised as fundamental.

No provision is recognised on the minority interest as the Circle Health Limited group has no obligation to fund these losses.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

27. Reconciliation of operating loss to net cash flow from operating activities

	2010 £'000	2009 £'000
Operating loss	(31,092)	(18,341)
Impairment of tangible assets	9,576	-
Amortisation of goodwill	2,181	2,460
Amortisation of pre-contract costs	2,853	3,278
Share based payments	1,677	2,084
Depreciation of tangible fixed assets	1,301	1,333
Decrease in stocks including long-term contract balances	930	1,569
(Increase) in debtors	(3,546)	(4,678)
Increase in creditors	17	250
(Decrease) / increase in provisions	(1,165)	609
Net cash outflow from operations	(17,268)	(11,436)

28. Analysis of changes in net debt

Group	At 1 January 2010 £'000	Cash flow £'000	Reclassifications	Other non-cash movements £'000	At 31 December 2010 £'000
Unrestricted cash at bank and in hand (note 17)	5,180	2,365	-	-	7,545
Restricted cash at bank and in hand (note 17)	7,013	(4,613)	-	-	2,400
Debt due within one year (note 20)	(143,218)	(16,093)	42,194	(70)	(117,187)
Debt due after one year (note 20)	(361)	(170)	(42,194)	-	(42,725)
	(131,386)	(18,511)	-	(70)	(149,967)

Non cash movements in net debt relate to the amortisation of loan issue costs of £67,000 (2009 £37,000) for the Barclays loan held by Nations Healthcare Nottingham which are being amortised over the term of the loan and £3,000 being the movement in the value of the loan notes (note 19b)

Reclassifications comprise the reclassification of the Barclays loan of £42,555,000 from debt due within one year to debt due after one year, and loan notes of £361,000 from debt due after one year to debt due within one year (note 18 and 19b)

For the 2009 year end the Barclays PFI loan was in technical default due to various contractual changes and a revised opening date of the Nottingham hospital not having been formally agreed as a DoV between Nations Healthcare group and the DoH. As a result, the loan was classified as repayable within one year. The DoV was subsequently agreed and signed in April 2010 and the loan was reclassified as payable after one year.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

29. Capital commitments

There are no capital commitments at 31 December 2010 (2009 £nil)

30. Pension commitments

The Group participates in a Group 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 of the Group for the year were £234,000 (2009 £166,000). There was £1,000 outstanding in contributions as at 31 December 2010 (2009 £nil).

31. Operating lease commitments

At 31 December 2010 the Group had annual commitments under non cancellable operating leases as follows

Group	Land and buildings		Other	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Expiry date				
Within one year	1,229	68	499	-
Between two and five years	774	3,010	4,135	3,866
After more than five years	3,345	3,394	-	-
	<u>5,348</u>	<u>6,472</u>	<u>4,634</u>	<u>3,866</u>

During 2009 Circle International plc, a related party, entered into a lease agreement with General Electric Capital Equipment Finance Limited ('GE') for clinical equipment to be used in the Bath hospital. On 28 August 2009 the Group entered into a sub-lease agreement with Circle International plc for this clinical equipment, commencing 1 January 2010. The term of the lease is four or five years, depending on the schedule of assets.

In October 2009 the Group entered into an agreement to lease Bath Hospital from Health Properties Bath, a related party, for a term of 25 years.

Nations Healthcare Nottingham has an operating lease agreement with the Queens Medical Centre to lease the land on which the Nottingham Treatment Centre has been built, for a minimum period of five years from July 2008. In addition it has entered into an operating lease agreement for office space for a minimum period of five years from August 2006.

Nations Healthcare Burton has an operating lease agreement with Orderbide Limited to lease a building for the purpose of providing healthcare services contracted with the NHS. The leases are for five years, commencing July 2006 respectively.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

31. Operating lease commitments (continued)

At 31 December 2010, the Company had annual commitments under non cancellable operating leases as follows

Company	Land and buildings		Other	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Expiry date:				
During years two to five	140	-	-	-
After more than five years	-	222	-	-
	<u>140</u>	<u>222</u>	<u>-</u>	<u>-</u>

32. Related party transactions

During the year the following transactions were entered into, in the ordinary course of business, with other related parties

	Group		Company	
	Amounts owed by related party £'000	Amounts owed to related party £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Circle International plc				
2010	496	67,814	16	38,240
2009	2,790	64,999	2,310	38,925
Circle Holdings plc				
2010	2,134	85,348	2,134	56,940
2009	2,110	57,785	2,110	32,207

Related party undertakings

Health Properties Limited

2010	12,678	-	12,678	-
2009	10,445	-	10,445	-

Health Properties Management Limited

2010	4,283	1,089	4,283	1,089
2009	2,069	-	2,069	-

Health Properties (Bath) Limited

2010	1,586	33	-	-
2009	1,750	1,591	-	-

Health Estates Managers Limited

2010	6	-	6	-
2009	3	-	3	-

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

32. Related party transactions (continued)

	Group		Company	
	Amounts owed by related party £'000	Amounts owed to related party £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Health Capital Limited				
2010	284	-	284	-
2009	30	-	30	-
Total related party undertakings 2010	18,837	1,122	17,251	1,089
<u>Subsidiary undertakings:</u>				
Circle Partnership Limited				
2010	-	5	34	-
2009	-	-	-	-
Nations Healthcare Limited				
2010	-	-	1,383	9,100
2009	-	-	423	1,455
Nations Healthcare (Nottingham) Limited				
2010	-	-	-	-
2009	-	-	12	7
Nations Healthcare (Bradford) Limited				
2010	-	-	-	-
2009	-	-	16	101
Circle Clinics Limited				
2010	-	-	372	-
2009	-	-	197	-
Windsor Hand Surgery Limited				
2010	-	-	-	125
2009	-	-	-	18
Circle Hospital (Bath) Limited				
2010	-	-	21,625	-
2009	-	-	8,985	-
Total subsidiary undertakings 2010	-	5	23,414	9,225
Total related parties 2010	21,467	154,289	42,815	105,494

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

32. Related party transactions (continued)

Circle International plc

Circle International plc owns 50.1% of Circle Health Limited and is a wholly owned subsidiary of Circle Holdings plc

Circle International plc has invested £17,500,000 (2009 £17,500,000) in preference shares in Nations Healthcare Limited. During the year, Circle Health Limited group accrued interest of £3,500,000 (2009 £3,500,000) on its preference shares and had an accumulated balance of interest due to Circle International plc of £12,074,000 (2009 £8,574,000). Further details of the preference shares issued are set out in note 23.

Circle International plc has advanced a loan of £26,915,000 (2009 £30,541,000) to the Company and Group. The loan bears interest at 10% per annum and is repayable on demand. During the year, the Group accrued interest of £2,941,000 (2009 £3,223,000) in respect of this loan and had an accumulated balance of interest due to Circle International plc of £11,325,000 (2009 £8,384,000).

The Company has recorded a receivable from Circle International plc during the year for consortium relief of £818,000 (2009 £898,000) relating to the tax credit in the Company's current year result. This has been included in the loan above.

The Group recharged costs of £16,000 (2009 £1,892,000) to Circle International plc for expenses, at cost £16,000 (2009 £1,412,000) of these have been recharged from the Company. The reduction is due to the favourable balance being rolled up into the loan.

The Group has extended a loan of £480,000 (2009 £480,000) to Circle International plc which is unsecured, interest free and payable on demand.

Circle International plc has provided a guarantee to Health Properties (Bath) Limited, a joint venture of Circle Holdings plc, for the payment of rent in the event that Circle Hospital (Bath) Limited cannot cover its rental obligations (see below).

Circle Holdings plc

Circle Holdings plc is the ultimate parent undertaking. Circle Holdings plc has invested £4,500,000 (2009 £4,500,000) in preference shares in Nations Healthcare Limited. During the year, Circle Health Limited group accrued interest of £900,000 (2009 £900,000) on its preference shares and had an accumulated balance of interest due to Circle Holdings plc of £2,285,000 (2009 £1,385,000). Further details of the preference shares issued are set out in note 23.

Circle Holdings plc has advanced loans of £50,855,000 (2009 £30,905,000) to the Company, bearing interest of 12%. Loans have also been advanced to Group companies of £16,055,000 (2009 £16,055,000), bearing interest of 12%. These loans are unsecured and payable on demand.

During the year, the Circle Health Limited group paid interest of £6,712,000 (2009 £3,394,000) in respect of these loans and had an accumulated balance of interest due to Circle Holdings plc of £11,574,000 (2009 £4,862,000), of which £6,006,000 (2009 £1,223,000) related to the Company loans.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

32. Related party transactions (continued)

Health Properties Limited

Health Properties Limited is wholly owned subsidiary of Circle Holdings plc. During the year, the Company advanced loans of £12,678,000 (2009 £10,445,000) to Health Properties Limited under the Facilities Commissioning Agreement to develop hospitals for the Group. The loans have been advanced to fund the development and construction of new hospitals by Health Properties Limited, are unsecured, do not attract interest and are payable on demand.

Health Properties Management Limited

Health Properties Management Limited is a wholly owned subsidiary undertaking of Health Properties Limited. During the year, the Company incurred fees of £997,000 (2009 £75,000) on behalf of Health Properties Management Ltd in respect of property management services, and an amount of £1,275,000 (2009 £278,000) remained due at the year end.

The Company advanced loans of £3,008,000 (2009 £1,791,000) to Health Properties Management Limited and these loans are interest free, unsecured and payable on demand.

During the year £805,000 plus VAT of £141,000 (2009 £1,275,000) of costs were recharged to the Company by Health Properties Management Limited as development costs for the Reading site (2009 several sites) were not considered recoverable. Health Properties Management Limited also recharged salary costs of £143,000 during the year, and an amount of £1,089,000 was payable by the Company at year end (2009 £nil).

Health Properties (Bath) Limited

Health Properties (Bath) Limited is a joint venture of Health Properties Limited, a fellow subsidiary of the ultimate parent undertaking. During 2009 the Company was recharged for leasehold improvement costs that were incurred by Health Properties Bath and an amount of £33,000 remains unpaid at the year end (2009 £1,591,000).

On 5 October 2009 the Company entered into an agreement to lease Bath Hospital from Health Properties Bath. Under the lease agreement, the Company has an annual rental commitment of £3,232,000 (2009 £3,172,000) for a term of 25 years and a rental deposit of £1,586,000 (2009 £1,750,000) is held accordingly by Health Properties Bath.

During the year, the Company paid rent under this lease agreement of £3,212,000 (2009 £800,000). At 31 December 2010, the Company holds a prepayment of £765,000 (2009 £793,000) in relation to rent paid in advance. To secure its obligations under the lease, the Company has given Health Properties Bath a debenture containing fixed and floating charges over its assets. In addition Circle Health Limited has given share security over the Company in favour of Health Properties Bath to further secure the Company's obligations under the lease.

Health Estate Managers Limited

Health Estate Managers Limited is a wholly owned subsidiary of the ultimate parent undertaking, Circle Holdings plc. During the year the Company recharged expenses relating to the yearly audit for £6,000 (2009 £3,000).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

32. Related party transactions (continued)

Health Capital Limited

Health Capital Limited is a wholly owned subsidiary of the ultimate parent undertaking, Circle Holdings plc. The Company and Group incurred expenses of £234,000 during the year relating to Health Capital Limited which have been recharged at cost and at 31 December 2010 the balance receivable is £234,000 (2009: £nil).

During the year the Company and Group advanced loans of £50,000 (2009: £30,000) which are unsecured, do not attract interest and are payable on demand.

Nations Healthcare group

Circle Health Limited holds a 61.8% (2009: 61.8%) share in the Nations Healthcare group.

During the year administrative expenses were recharged, at cost, by the Company and remain unpaid at 31 December 2010. At 31 December 2010 the Company is owed £1,383,000 (2009: £451,000) by Nations Healthcare group. The Company owes Nations Healthcare group £nil for the year (2009: £188,000) in terms of intercompany balances.

Included in the balance payable to Nations Healthcare Limited is an unsecured, interest free loan of £9,100,000 (2009: £1,375,000) that is payable on demand.

The Company has also provided a guarantee for the GE equipment leases held by the Nations Healthcare group.

Circle Clinics Limited

Circle Clinics Limited is a wholly owned subsidiary of the Company that has been advanced loans and recharged expenses for set up costs and acquisition of Windsor Hand Surgery Limited of £994,000 (2009: £944,000) and £687,000 (2009: £562,000) respectively. The loans are interest free, unsecured and payable on demand.

An amount of £1,309,000 was fully provided for at the end of 2008. However, based on current cash flow forecasts the Directors believe the remaining balance of £372,000 (2009: £197,000) to be fully recoverable.

Windsor Hand Surgery Limited

Windsor Hand Surgery Limited is a wholly owned subsidiary of Circle Clinics Limited. During the year the Windsor Hand Surgery Limited recharged expenses, at cost, to the value of £39,000 (2009: £18,000). The Company also had a loan payable of £86,000 (2009: £nil) at year end which is interest free, unsecured and payable on demand.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

32. Related party transactions (continued)

Circle Hospital (Bath) Limited

Circle Hospital (Bath) Limited is a wholly owned subsidiary of the Company and during the year was advanced loans and recharged expenses of £18,930,000 (2009 £7,225,000) and £6,227,000 (2009 £5,292,000) for commissioning and other set up costs

Of these costs £3,532,000 was incurred in 2008 by the Company and fully provided for prior to being recharged to Circle Hospital (Bath) Limited in 2009. However, based on current cash flow forecasts the Directors believe the remaining balance of £21,625,000 (2009 £8,985,000) to be fully recoverable

The loans are interest free, unsecured and payable on demand, and based on current cash flow forecasts the Directors believe the remaining balance to be fully recoverable

The Company has provided a guarantee to Health Properties (Bath) Limited, a related party, for payment of rent under its lease with Circle Hospital (Bath) Limited

33. Share based payments

The Company's ultimate parent, Circle Holdings plc, has granted warrants to a Director of the Company. As a result of this a share based payment charge has been booked through the profit and loss account as detailed in the accounting policy note

The warrants were valued at the time of the warrant issue, or modification where appropriate, and are charged to the income statement as share based payments with the credit being recognised in capital contribution over the warrant vesting period. An expense of £1,677,000 has been recognised in the current year (2009 £2,084,000)

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share based payments during the year

	2010 Number	2010 WAEP	2009 Number	2009 WAEP
Outstanding as at 1 January	468,153	£51.55	267,680	£59.67
Modification on 26 November 2009	-	-	267,680	£51.55
Granted during the year	-	-	200,473	£51.55
Outstanding as at 31 December	468,153	£51.55	468,153	£51.55

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

33. Share based payments (continued)

On 26 November 2009, the exercise price of the 267,680 warrants issued to Health Trust (Jersey) in 2008 was modified to become £51.55 per share. There was no adjustment to the fair values of the warrants as the updated exercise price took into account the dilution factor of the November 2009 share issue, and therefore there is no effect on the Circle Health Limited group financial statements.

The warrants issued have been valued according to the Black-Scholes option pricing methodology on a diluted pricing basis, based on the relevant share price at the time of issue. The following table lists the significant inputs to the Black-Scholes valuation model for the year ended 31 December 2009. Note that there were no new share based payment warrants issued in 2010.

	2009
Stock price	£59.68
Strike price	£51.545
Expected volatility	50%
Risk free interest rate	5%
Option life	10 years
Fair value of warrants	£13.72

The life of the warrant is based on the expected term and is not necessarily indicative of exercise patterns that may occur. The historical volatility is assumed to be indicative of future trends, which may not necessarily be the actual outcome.

Details of the various share based payments are shown below.

Health Trust (Jersey)

Health Trust (Jersey), of which Mr A Parsadoust is a beneficiary, received 220,190 warrants on acquisition of Health Properties Group at an exercise price of £59.67 on 29 May 2008 and 47,490 warrants at an exercise price of £59.67 on 4 June 2008. The fair value of the warrants at the date of issue was determined to be £39.28 per warrant and £10,514,000 in total, according to the Black-Scholes methodology.

The warrants entitle the holder to acquire an equivalent number of ordinary shares in the Company with an exercise price of £59.67 per share, with no expiry date. These were issued as additional consideration for the sale of 100.0% of the shares in Health Properties Limited to the Company.

The warrants are conditional on Mr A Parsadoust remaining with the Group for a specified period up to 48 months and vest evenly over this period. The warrants lapse if the Company is sold and if there is a change of control, the outstanding warrants will immediately vest. However vesting is unaffected if the Company is listed.

The exercise price of these warrants was repriced to £51.545 during 2009.

Health Trust (Jersey) – Option Pool

An additional share-based payment was made to Health Trust (Jersey) on 27 November 2009. The trust received 200,473 warrants to subscribe for an equivalent number of ordinary shares in the Company at an exercise price of £51.545. The fair value of the warrants at the date of issue was determined to be £13.72 per warrant and £2,750,000 in total, according to the Black-Scholes methodology.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

33. Share based payments (continued)

Health Trust (Jersey) – Option Pool (continued)

The warrants vest in 20 0% increments based upon the next five hospitals opening during the hospital plan period. The warrants are also conditional on Mr A Parsadoust, a beneficiary of Health Trust (Jersey), remaining with the Group at the time of each hospital opening. Again, the warrants lapse if the Company is sold and if there is a change of control, the outstanding warrants will immediately vest. However vesting is unaffected if the Company is listed.

Circle Partnership Limited

Circle Health Limited is 49.9% owned by Circle Partnership Limited and 50.1% owned by Circle International plc. Circle Partnership Limited was set up in 2008 as an employee share ownership plan. Circle Partnership Limited owns 49.9% of the shares in Circle Health Limited in order to allow the employees, consultants and GPs (scheme participants) who are contracted to contribute to the success and growth in value of Circle Health Limited to be owners of the business.

Up to 31 December 2010, Circle Partnership Limited had issued subscription letters for a total 36,364,443 shares (2009: 31,398,206 shares) to employees, consultants and GPs. Those who subscribe to purchase the shares are obliged to pay the subscription price due on or before the occurrence of various events which includes any subsequent transfer or sale of the shares by the subscriber.

The subscription price for the shares is the Unrestricted Market Value, as determined by an independent valuation within three months of the issuance of the subscription letters. As the subscription price is the unrestricted market value, there is no share option charge. There are no obligations on Circle Health Limited or any member of the Group in relation to the Circle Partnership Limited shares, including buy back obligations.

34. Events after the balance sheet date

i. Flotation of ultimate parent company on Alternative Investment Market

On 17 June 2011, the ultimate parent company, Circle Holdings plc listed on the Alternative Investment Market. Further details can be found in the group financial statements for Circle Holdings plc.

ii. Costain Limited construction contract

Due to construction delays and building design changes on the Nottingham Treatment Centre during 2007, additional costs were incurred in the completion of the building. The primary building contractor, Costain Limited ('Costain'), brought a legal claim in 2010 for £1,200,000 of additional costs. An adjudication was held in January 2011 and an amount of £543,000 was awarded and paid to Costain as settlement of the claim. Subsequent to this, Costain brought a second claim against the Group for £1,200,000 for which costs of £700,000 are included in the financial statements. During March 2011, the Group agreed to pay Costain £700,000 on 1 June 2011 in full and final settlement of this claim.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2010 (continued)

34. Events after the balance sheet date (continued)

iii. Waiver of GE equipment lease covenant breach

At 31 December 2010, the Circle Holdings group was in breach of certain financial covenants in the GE equipment lease for equipment used at Circle Bath Hospital. During March 2011, the Circle Holdings group received a waiver of all events of default and breaches from GE by means of a Deed of Amendment and Waiver.

iv. Nations Healthcare Burton contract

In March 2011, Nations Healthcare Burton was notified that the original ISTC contract, due for renewal in July 2011, would not be renewed and that the treatment facility would be returned to Burton Hospitals NHS Foundation Trust (the 'Trust'). As part of the hand over of the Burton operations to the Trust, the Nations Healthcare Burton has entered into a 'Sale of business and mobilisation mitigation and business know-how services' agreement (the 'Agreement') in order to ensure the orderly transfer of operations upon the expiration of the ISTC contract on 11 July 2011. Under the agreement, Nations Healthcare Burton will transfer all operating assets and provide training and mobilisation services to ensure the Burton Treatment Centre is able to continue operating over the transition period. The Agreement stipulates that Nations Healthcare Burton will be paid £2,500,000 less any residual liability payable to the Trust under the Agreement. Nations Healthcare Burton has also served notice under the original master agreement with GE to purchase the leased assets, which will be transferred to the Trust on 11 July 2011.

35. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Circle International plc, a company registered in England and Wales.

Circle Holdings plc is the parent undertaking of the smallest and largest group for which consolidated financial statements are prepared that include the financial statements of the Company. Copies of the consolidated financial statements for Circle Holdings plc may be obtained from 12 Castle Street, St Helier, JE2 3RT, Jersey.

At 31 December 2010 the Directors regard Circle Holdings plc, a company registered in Jersey, as the Company's ultimate parent undertaking and controlling party.