

Registered no: 5042771

Circle Health Limited

Annual Report

For the year ended 31 December 2009



15-4-10-560

Circle Health Limited

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Circle Health Limited

Company information

Directors

A Parsadoust
M Keyvan-Fouladi
S Melton

Secretary

H Ridley

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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London WC2N 6RH

Bankers

Barclays Bank Plc
Level 27
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London E14 5HP

Solicitors

Capsticks
77-83 Upper Richmond Road
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Registered Office

32 Welbeck Street
London W1G 8EU

Circle Health Limited

Directors' report for the year ended 31 December 2009

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2009

The Group financial statements consolidate the financial statements of Circle Health Limited and all of its subsidiary undertakings ("subsidiaries"), together "the Group" drawn up to 31 December 2009

Comparative information

This is the first year in which the company has prepared consolidated financial statements, the unaudited comparative consolidated figures are based on the individual audited 2008 financial statements of the company and its subsidiaries

Principal activity and review of the business

The Group's principal activities during the year continued to be that of providing medical services. The Group is an emerging provider of healthcare services in the UK that treats privately-insured and self-pay private patients as well as government-sponsored NHS patients. The Group's business strategy is founded on the creation of the Circle partnership, comprised of a comprehensive group of consultants, GPs and allied healthcare professionals outside the NHS. The Group is commissioning a network of modern, dedicated and high-quality hospitals and clinics, the first of which in Bath reached completion on 5 October 2009 and opened on 25 February 2010. These hospitals will be built by Health Properties Limited, the Group's exclusive hospital property provider, which will lease them to Circle Health Limited's hospital operating companies under 25-year leases.

The new Circle Hospital in Bath is a ground breaking design by Foster + Partners, and will deliver a great improvement to patient experience and the quality of care in the Bath region. Revenues expected from the consultant partners and under negotiation with the local Primary Care Trust (PCT) are approaching £15m during 2010, and the local partnership has been involved at all levels from supporting the opening, to theatre and bedroom design and selecting the medical equipment.

The Group operates 3 Independent Sector Treatment Centres (ISTC) under the Nations Healthcare brand in Nottingham, Burton and North Bradford as well as 2 specialty clinics in Stratford and Windsor. During the year, the Group was in the commissioning phase of a new private hospital in Bath which opened in February 2010 and is now being operated by Circle Hospital (Bath) Limited.

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

	2009 £'000	2008 £'000	Change %
Group turnover	63,142	35,027	80%
Earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items (note 4)	(6,354)	(12,058)	47%
Total operating loss before exceptional items – (note 4)	(13,425)	(17,185)	22%
Loss after tax	(23,581)	(25,289)	7%
Shareholders' deficit	(71,982)	(50,485)	(43)%
	2009 Number	2008 Number	Change
Day case procedures	39,006	22,735	72%
Outpatient procedures	75,216	38,404	96%
Average number of employees	376	268	40%

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

Principal activity and review of the business (continued)

The companies in the Group experienced significant growth in 2009 with revenues growing by 80% to £63,142,000. Other key developments in 2009 include the following events

- Significant improvement in the profit after tax of £2,769,000 (2008 loss of £1,659,000) of the Burton Treatment Centre. Patient volumes increased by 8% and 18% in Burton for day case and outpatient surgery respectively
- Commencement of contract renewal process for the Eccleshill Treatment Centre in North Bradford, including a 5-month extension of the original ISTC contract to 30 June 2010. Trading results and activity are comparable to 2008
- First complete year of trading at the Nottingham NHS Treatment Centre which resulted in revenue increasing by 335% to £34,896,000 (2008 £8,021,000). Activity on an annualised basis increased by 39% and 101% for day case and outpatient surgery respectively
- Acquisition of the remaining 11.2% minority interest in Nations Healthcare Limited from Nations Healthcare Inc
- Practical completion on the new Circle Bath Hospital and successful subsequent commissioning by the Group which allowed the hospital to open for trading on 25 February 2010

The increase in employees during the year are as a result of the Nottingham Treatment centre having its first full operational year during 2009 and the commencement of commissioning work at Circle Bath. Employee numbers are expected to grow in 2010 as a result of Circle Bath becoming fully operational in February 2010.

The Company improved on its loss after tax of £13,585,000 compared to £18,696,000 in 2008. Included in the current year loss is exceptional items of £3,787,000 (2008 £6,363,000) showing an overall improvement of £2,535,000 before exceptional items. Expenses incurred during the year relate to staff and IT costs, in addition to costs incurred for contract bids costs which are now incurred centrally.

A share based payment charge of £2,084,000 (2008 restated £2,198,000) has been made to the profit and loss account in relation to warrants issued to an employee of the Company by the ultimate parent company. This is a non cash charge.

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

- Circle Hospital (Bath) Limited

Commissioning work commenced during the year to enable the new Circle Bath Hospital to open in February 2010. The result for the year was a loss of £1,036,000, after capitalising certain commissioning related costs totalling £7,642,000 during the year. An equipment lease with GE Capital Finance Limited was signed by Circle International plc for the Bath hospital. This equipment is then sub-leased at cost to Circle Hospital (Bath) Limited.

- Circle Clinics Limited

Turnover for the period was £246,000 (2008 £202,000), representing income from patients for diagnostics and procedures undertaken. The principal operating expenditures of the company are staff salaries and overheads. The loss after tax of £322,000 improved on the prior year (2008 loss £747,000) as a result of no further impairments being required (2008 £368,000). The clinic has continued to increase its presence in the Stratford area and support the local partnership. This company is still in the start up phase and is expected to generate profits in the next few years.

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

Principal activity and review of the business (continued)

- Windsor Hand Surgery Limited

Turnover for the period was £881,000 (6 month period from acquisition ended 31 December 2008 £468,000), representing income from patients for diagnostics and procedures undertaken. Profit after tax for the year was £48,000 (6-month period from acquisition ended 31 December 2008 profit of £51,000). The principal operating expenditures of the company are staff salaries and overheads.

Nations Healthcare Limited group (Nations Group)

Revenues of the Nations Group of £61,992,000 represent an increase of 80% compared to the £34,357,000 earned during 2008. This is driven by the successful first full operational year of the Nottingham Treatment Centre which opened on 28 July 2008, located at the Queens Medical Centre in Nottingham.

Overall the loss for the year of £10,053,000 is an improvement of £200,000 (2%) compared with the loss of £10,253,000 in 2008. Exceptional losses for the Nations Group in the year of £1,129,000 (2008 £117,000) relate to provision for onerous leases on equipment and property held by the group, mainly in respect of vacant office premises.

- Nations Healthcare (North Bradford) Limited

2009 was the fourth full year of activity for the treatment centre at Eccleshill and there has been a continued increase in the levels of patients treated at this facility. Daycase surgery reduced slightly during the year by 4.4% to 5,689 surgical procedures (2008 5,954). Diagnostic services had growth with an increase of 5.7% to 26,273 diagnostic tests being completed during the year (2008 24,859).

Revenues for the year remained constant at £9,034,000 (2008 £8,963,000). This is as a result of the offsetting movements in daycase surgeries and diagnostics services as noted above. Loss after tax has increased from £157,000 in 2008 to £690,000.

- Nations Healthcare (Burton) Limited

Since opening for business on 10 July 2006 the centre has increased the number of surgical patients year on year with 2009 showing an increase of 8% to 10,205 for the year (2008 9,483). The number of outpatients seen during 2009 increased by 18% to 35,264 for the year (2008 29,854).

Revenues for the facility at Burton have increased slightly from the prior year at £18,061,000 (2008 £17,373,000). Revenues have remained relatively steady despite the increase in volume, as a result of a change in the revenue mix by speciality in 2009, which has resulted in more pain management and plastic surgeries and fewer oral surgeries.

There have been no exceptional losses during the year (2008 £4,520,000) and profit after tax for the year is £2,769,000 (2008 loss of £1,659,000).

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

Principal activity and review of the business (continued)

Nations Healthcare Limited group (Nations Group) (continued)

- Nations Healthcare (Nottingham) Limited

During the year to 31 December 2009, daycase patients are up 223% to 21,752 (2008 6,731) and outpatient procedures increased 367% to 39,952 (2008 8,550) On an annualised basis this represents a 39% and 101% increase in activity for daycase and outpatients respectively

The increase in patient volumes has resulted in revenue increasing by 335% to £34,896,000 (2008 £8,021,000) The Nottingham Treatment Centre is now one of the biggest independent treatment centres in Europe, providing services including Orthopaedic Surgery, General Surgery, Endoscopy, Digestive Diseases, Gynaecology and Dermatology A loss after tax of £3,307,000 was recorded for the year (2008 loss of £4,013,000)

The majority of the administrative teams located in the offices that were leased close to the Queens Medical Site in NG2 Business Park were transferred to the hospital during the year

Principal risks and uncertainties

As with all medical providers clinical risk is a major consideration The Group has an Integrated Corporate Governance structure, chaired by the Medical Director, Massoud Fouladi who also sits on the board of Health Investment Holdings Limited, and 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 Groups' Integrated Governance Committee This committee in turn reports to the boards' of the Group companies as appropriate

Additionally, the Circle Health 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

The key focus of the directors is to continue to grow the treatment centres and Circle Bath Hospital into world class care facilities which will include revenue streams from private patients and community care services This will also involve improving patient care quality and increasing efficiency The directors are also planning to ensure that management of the Independent Sector Treatment Centres (ISTCs) continues after the end of the initial 5 year contracts Bradford has already received an extension on the initial contract from the PCT whilst negotiations continue on a further 3 year contract

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 in the short term and the remainder of the Group focuses on private patients

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

Future developments

Operationally the intention is to increase the patient volumes treated at each of the operating facilities during the coming year, in addition to continuing to raise the standard of care provided and ensure that all facilities are of a world class standard. The main focus for this will be the new Circle Bath Hospital which opened for trading on 25 February 2010 and transferring some of the private revenues of the partner clinicians to the hospital. Given the nature of the partnership agreements with clinicians, which require that a set percentage of their private revenues are transferred to the hospital, the directors are confident that the forecasted activity and cash flows will be achieved in the next year.

The Department of Health has commenced the tender process for a new 3 year contract to operate the Treatment Centre in Eccleshill in Bradford. The Group is currently working to ensure that this contract is secured past the current extension that finishes on 30 June 2010 and the directors are confident of reaching preferred bidder status. During 2010 work will also commence towards the ISTC contract renewal for the Midlands Treatment Centre in Burton which is due for renewal in July 2011. The Group continues to monitor competitor ISTCs contracts around the country that are due to be renewed.

A Deed of Variation for the ISTC contract for the Nottingham Treatment centre is scheduled to be signed shortly which provides for additional revenue for follow up visits for patients and extends the original contract to reflect that the Treatment Centre opened on 28 July 2008, 7 months after the contracted start date.

Financial risk management

The Group's operations expose it to a variety of financial risks that include credit risk, liquidity risk and interest rate risk. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs. The risks are reviewed and monitored by the directors and senior management throughout the year, using informal policies and procedures that are in the process of being formalised.

Due to the nature of the three current monthly minimum take ISTC contracts with the Department of Health there is no material price or credit risk exposure for the companies operating in the Nations Healthcare Limited group.

- **Price risk**

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

- **Credit risk**

The Company and Group have no significant concentrations of credit risk with customers and have policies that require upfront payment, where appropriate. Credit control procedures are designed to ensure that project revenue is collected according to agreed terms.

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

Financial risk management (continued)

• Liquidity risk

Liquidity risk is the risk that a Group entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group aims to mitigate liquidity risk by robustly managing cash generation across its operations, and by applying cash collection targets throughout the Group. The Group also manages liquidity risk via short term loan facilities and long term debt.

• Cash flow risk and fair value interest rate risk

Cash flow risk is the risk of exposure to variability attributable to a particular risk associated with a recognised asset or liability, such as future interest payments on a variable rate debt. The Group manages this risk, where significant, by interest rate swaps and long term debts, where appropriate. Updated projections and forward plans on raising funds are prepared.

Operational cash flow risks are managed through detailed budgeting and tight cost control and should the need arise significant costs savings can be made in the short term to reduce head office costs.

Going concern

The directors consider it appropriate for these financial statements to be prepared on a going concern basis. Further details are provided in note 1 to the financial statements.

Results and dividends

The consolidated loss for the year after taxation amounted to £23,581,000 (2008 loss of £25,289,000).

The directors do not recommend the payment of any dividends (2008: £nil).

Directors

The directors who served during the year and subsequently were:

M Keyvan-Fouladi

A Parsadoust

T Collins

(appointed 9 July 2009, resigned 28 September 2009)

S Melton

(appointed 9 July 2009)

The company has in its articles 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 provision remains in force until resignation as directors. There are no outstanding claims or provisions as at the balance sheet date.

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (continued)

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. In addition management actively communicates to all group employees via E-Mail.

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 Circle Health Limited (see note 33). The Circle Partnership is comprised entirely of the clinicians and other employees within the Group. The remaining 50.1% of the share capital of Circle Health Limited is owned by Circle International plc, a wholly owned subsidiary of the Health Investment Holdings Limited Group.

Policy and practice on payment of creditors

It is the Group and Company's policy to abide by the payment terms agreed with suppliers wherever it is satisfied that the supplier has provided goods and services in accordance with agreed terms and conditions. A number of significant purchases and commitments under operating leases are paid by direct debit. At 31 December 2009, the Group and Company had the following the equivalent days of purchases outstanding:

	Group Days	Company Days
2009	52.5	21.9
2008	40.9	9.3

The increase in the Group's 2009 creditor days compared to 2008 is primarily due to the set up of the Bath hospital, whereas the Company's increase is due to timing differences.

Donations

The Company made charitable donations totalling £3,100 (2008: £894) during the year to a number of charitable organisations within the UK. Subsidiaries of the Company made charitable donations totalling £1,130 (2008: £nil) during the year.

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.

Circle Health Limited

Directors' report

for the year ended 31 December 2009 (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 those 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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

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

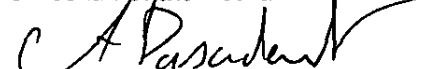
So far as each of the directors in office at the date of approval of these financial statements is aware,

- 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

Auditors

Ernst & Young LLP resigned as auditors during the year, PricewaterhouseCoopers LLP were subsequently appointed as auditors to the company and 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



A Parsadoust
Director

Circle Health Limited

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

We have audited the group and parent company financial statements (the "financial statements") of Circle Health Limited for the year ended 31 December 2009 which comprise the Consolidated profit and loss account, the Consolidated statement of recognised gains and losses, 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 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 2009 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

Other matters

The financial statements for the year ended 31 December 2008 forming the corresponding consolidated figures of the financial statements for the year ended 31 December 2009, are unaudited



Nigel Reynolds (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2010

Circle Health Limited

Consolidated profit and loss account for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000 (unaudited)
Turnover	2	63,142	35,027
Cost of sales		<u>(41,852)</u>	<u>(21,371)</u>
Gross profit		21,290	13,656
Administrative expenses (before exceptional items)	4	(35,588)	(31,333)
Exceptional items:			
- Provision for onerous leases	4	(1,299)	-
- Lease surrender costs	4	(258)	-
- Share based payments	4	(2,084)	(2,198)
- Impairment of intangible fixed assets	4	-	(485)
- Impairment of tangible fixed assets	4	-	(547)
- Impairment of loan owed by related party	4	-	(1,118)
- Release of Nations Healthcare (Nottingham) indemnity	4	-	650
- Aborted site finding costs	4	(1,275)	-
- Exceptional VAT reclaim	4	-	1,164
Total administrative expenses		(40,504)	(33,867)
Other operating income	3	<u>873</u>	<u>492</u>
Operating loss	4	(18,341)	(19,719)
Interest receivable and similar income	7	3,465	1,728
Interest payable and similar charges	8	<u>(13,460)</u>	<u>(12,001)</u>
Loss on ordinary activities before taxation		(28,336)	(29,992)
Tax on loss on ordinary activities	9	<u>915</u>	<u>787</u>
Loss on ordinary activities after taxation		(27,421)	(29,205)
Minority interests	31	3,840	5,116
Minority interests provision	31	-	(1,200)
Equity minority interests	31	<u>3,840</u>	<u>3,916</u>
Loss for the financial year attributable to members of the parent undertaking	23	<u>(23,581)</u>	<u>(25,289)</u>

The activities of the group relate to continuing operations

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

Circle Health Limited

Consolidated statement of recognised gains and losses for the year ended 31 December 2009

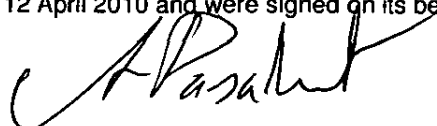
	2009 £'000	2008 £'000 (unaudited)
Total recognised gains and losses relating to the year	(23,581)	<u>(25,289)</u>
Prior year adjustment (note 1)	(2,198)	
	<u></u>	
Total recognised gains since the last annual report	<u>(25,779)</u>	

Circle Health Limited

Consolidated balance sheet as at 31 December 2009

	Notes	2009 £'000	2008 £'000 (unaudited)
Fixed assets			
Intangible fixed assets	11	5,846	8,213
Tangible fixed assets	12	<u>10,759</u>	<u>4,049</u>
Total fixed assets		16,605	12,262
Current assets			
Stocks	14	7,378	8,947
Debtors - Amounts falling due after more than one year	15	43,372	44,385
Debtors - Amounts falling due within one year	15	<u>27,445</u>	<u>21,868</u>
Total Debtors		70,817	66,253
Cash at bank and in hand	16	<u>12,193</u>	<u>15,005</u>
		90,388	90,205
Creditors - Amounts falling due within one year	17	<u>(183,942)</u>	<u>(154,765)</u>
Net current liabilities		<u>(93,554)</u>	<u>(64,560)</u>
Total assets less current liabilities		<u>(76,949)</u>	<u>(52,298)</u>
Creditors - Amounts falling due after more than one year	19	(414)	(301)
Provisions for liabilities and charges	21	(2,375)	(1,802)
Net liabilities		<u>(79,738)</u>	<u>(54,401)</u>
Capital and reserves			
Called up share capital	22	10	10
Capital contribution	23	4,282	2,198
Profit and loss reserve	23	<u>(76,274)</u>	<u>(52,693)</u>
Total shareholders' deficit	24	(71,982)	(50,485)
Minority interests	31	(7,756)	(3,916)
Capital employed		<u>(79,738)</u>	<u>(54,401)</u>

The financial statements on pages 12 to 52 were approved by the board of directors on 12 April 2010 and were signed on its behalf by



Ali Parsadoust
Director

Circle Health Limited

Registered no. 5042771

Circle Health Limited

Company balance sheet as at 31 December 2009

	Notes	2009 £'000	As restated 2008 £'000
Fixed assets			
Tangible fixed assets	12	173	422
Investments in subsidiaries	13	-	-
Total fixed assets		<u>173</u>	<u>422</u>
Current assets			
Debtors - Amounts falling due after more than one year	15	140	140
Debtors - Amounts falling due within one year	15	<u>27,043</u>	<u>15,667</u>
		27,183	15,807
Cash at bank and in hand	16	<u>3,337</u>	<u>5,726</u>
		30,520	21,533
Creditors - Amounts falling due within one year	17	<u>(73,910)</u>	<u>(53,841)</u>
Net current liabilities		<u>(43,390)</u>	<u>(32,308)</u>
Total assets less current liabilities		(43,217)	(31,886)
Provisions for liabilities and charges	21	(170)	-
Net liabilities		<u>(43,387)</u>	<u>(31,886)</u>
Capital and reserves			
Called up share capital	22	10	10
Capital contribution	23	4,282	2,198
Profit and loss reserve	23	<u>(47,679)</u>	<u>(34,094)</u>
Total shareholders' deficit	24	<u>(43,387)</u>	<u>(31,886)</u>

The financial statements on pages 12 to 52 were approved by the board of directors on 12 April 2010 and were signed on its behalf by



Ali Parsadoust
Director

Circle Health Limited

Registered no. 5042771

Circle Health Limited

Consolidated cash flow statement for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000 (unaudited)
Net cash outflow from operating activities	25	(11,436)	(12,545)
Returns on investments and servicing of finance			
Interest received		3,465	1,728
Interest paid		(2,359)	(3,259)
Net cash outflow from returns on investments and servicing of finance		1,106	(1,531)
Taxation		-	305
Capital expenditure and financial investment			
Loan to related parties		-	(4,637)
Disposal proceeds		-	293
Payments to acquire tangible fixed assets		(8,094)	(3,712)
Payments in consideration for Windsor Hand Surgery		(46)	(663)
Receipt / (payment) in respect of PFI financial asset		1,012	(3,818)
Net cash outflow from capital expenditure and financial investment		(7,128)	(12,537)
Net cash outflow before financing and restricted cash movements		(17,458)	(26,308)
Net restricted cash movements	16	2,800	(5,700)
Financing			
Proceeds from issue of preferred shares		-	7,000
Increase in bank loan		-	2,090
Net increase in parent loan		15,566	40,215
Repayment of bank loan		(920)	(15,386)
Net cash inflow from financing		14,646	33,919
Increase in unrestricted cash in the year		(12)	1,911
Reconciliation of net debt			
Increase in unrestricted cash in the year		(12)	1,911
Decrease in restricted cash in the year	26	(2,800)	5,700
Cash flow from increase in bank loans	26	(14,646)	(33,919)
Change in net debt resulting from cash flows		(17,458)	(26,308)
Other non-cash movements	26	(37)	(513)
Movement in net debt in the year		(17,495)	(26,821)
Net debt at 1 January		(113,530)	(86,709)
Net debt at 31 December	26	(131,025)	(113,530)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009

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 except as detailed below, are set out below.

Restatement of 2008 financial statements

In 2008, the company's ultimate parent undertaking, Health Investment Holdings Limited, booked a share based payment charge in relation to warrants granted to an employee of the Group. In accordance with UITF 44 – Group and Treasury share transactions, this charge should have been recognised in Circle Health Limited to reflect where the employee was employed. As a result a prior period adjustment has been made to include a charge of £2,198,000 in staff costs in 2008, with a equal and opposite credit going to capital contribution.

Going concern

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

The company is a holding and management company for the Group. The Group is in turn a part of a group of companies whose ultimate parent is Health Investment Holdings Limited. Health Investment Holdings Limited has undertaken to provide the funds necessary for the company to meet its liabilities as and when they fall due, but only to the extent that the money is not otherwise available to the company to meet such liabilities, for a minimum of twelve months from the date of approval of the financial statements.

The directors of Health Investment Holdings Limited have prepared cash flow forecasts with a downside scenario which show that the Health Investment Holding Group has sufficient cash headroom for a period of not less than 12 months from signing these financial statements. Over the next 12 months, cash flows from the operating businesses are sufficient to cover the Head Office costs necessary to sustain the current operations and interest payments, but cash inflows from financing are required to cover additional Head Office costs for growth and commissioning of new hospitals. These costs will not be incurred unless financing is received. Cash flow forecasts do not include any potential upsides from the sale of further hospitals (above the one budgeted) or other assets, or the additional financing of equipment, even though offers have been received. These would further mitigate any risks.

In making our assessment we have considered the issues relating to operational cash flows from the Nations Treatment Centres, the technical default on Barclays Bank loan and the new Circle Bath Hospital, as well as debt maturity.

The Barclays PFI loan has been in technical default due to the delayed opening of the Nottingham Treatment Centre in July 2008 and this is due to be rectified shortly by signing a Deed of Variation (DoV). The loan is guaranteed by the DoH and in the unlikely event of the loan being terminated, the DoH will make a residual payment to Nations Healthcare (Nottingham) Limited, based on a sliding scale, that will substantially cover its repayment of the loan to Barclays at any given point.

Based on the above facts, the directors therefore conclude that it is appropriate for these accounts to be prepared on a going concern basis.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of Circle Health Limited and all of its subsidiary undertakings ("subsidiaries"), drawn up to 31 December each year. Accounting policies have been applied consistently throughout the Circle Health 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.

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 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.

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 Limited 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 cost less accumulated depreciation. Such costs include costs directly attributable to making assets capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	- over the shorter of the life of the lease or expected usefulness
Clinical equipment	- 5 years straight line
Fixtures, fittings and office equipment	- 3 to 5 years straight line
Commissioning assets	- 10 years straight line

The expected useful lives of the assets to the business are reassessed periodically in the light of experience. 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 2009 (continued)

1. Accounting policies (continued)

Tangible fixed assets

Assets under construction are commissioning costs including staff, property, consultancy and operations costs directly relate to the Bath commissioning project. They are capitalised until the point that the commissioning is complete and the hospital is open for business. Any expenditure subsequent to the opening will be recorded in the profit and loss account. Amortisation will be calculated on a straight line basis over the anticipated useful life of the asset. Given that the commissioning costs will provide benefit to the hospital over the first 10 years of the hospital the useful life has been set at of 10 years. Amortisation begins from the hospital opening date. As the commissioning process had not completed at 31 December 2009, these costs are currently held in Assets under construction and are not depreciated.

Operating leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Stocks

The Group holds consumable stocks that are stated at the lower of cost and net realisable value, with cost being determined on a first-in, first-out basis. Obsolete stock is written off.

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 statement of cash flows, 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.

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 exception:

- 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 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.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting policies (continued)

Pension costs

The Nations Healthcare Group 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 stock or creditors.

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 finance asset.

During the operational phase income is allocated between interest receivable and the finance 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.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting policies (continued)

Financial instruments (continued)

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 it is similar to a debt instrument.

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 an outflow of resources embodying 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 net profit or loss when the liabilities are derecognised or impaired as well as through the amortisation process.

Revenue recognition

Revenue is recognised to the extent that the company 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 from the hospital after delivery of those services, subject to a quarterly adjustment for under-utilisation on the contract.

Minority Interests

Minority shareholder interests in the results and the capital and reserves of the Circle Health 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, the immediate parent undertaking, share of the Nations Healthcare Limited group of companies.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (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.

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. The fair value is recognised over the vesting period as an increase to the investment in subsidiary undertakings with a corresponding credit to equity. This is a change in accounting policy which results in a prior year adjustment of £2,198,000 to the Company's profit and loss account.

2. Turnover

Turnover represents the total amount earned by the Circle Health 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.

All turnover arose within the United Kingdom.

3. Other operating income

	2009 £'000	2008 £'000 (unaudited)
Income from third party use of centre facilities	798	492
Other miscellaneous income	75	-
	<u>873</u>	<u>492</u>

Other operating income is derived from the use of facilities by Alliance Medical Limited, the diagnostic services provider who operate out of the Eccelshill treatment centre and rental from unused premises to third parties. Other miscellaneous income is derived from rental of unused facilities to third parties.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4. Operating loss

Operating loss is stated after charging

	2009 £'000	2008 £'000 (unaudited)
Amortisation of pre contract costs	3,278	2,065
Amortisation of goodwill (note 11)	2,460	2,137
Depreciation of tangible fixed assets		
- owned assets (note 12)	1,333	925
Services provided by the company's auditor (see below)	168	291
Operating lease charges		
- plant and machinery	3,505	1,965
- other	5,428	4,173
Exceptional items – see below	<u>4,916</u>	<u>2,534</u>

Services provided by the company's auditor

The fees payable to the company's auditor are payable to PricewaterhouseCoopers LLP in the year ended 31 December 2009 (2008 Ernst & Young LLP)

	2009 £'000	2008 £'000 (unaudited)
PricewaterhouseCoopers LLP		
Fees payable for the audit of parent company and consolidated accounts	10	-
Fees payable for the audit of subsidiary accounts	80	-
Other fees payable		
- taxation	20	-
- other services	<u>58</u>	<u>-</u>

	2009 £'000	2008 £'000 (unaudited)
Ernst & Young LLP		
Fees payable for the audit of parent company accounts	-	88
Fees payable for the audit of subsidiary accounts	-	81
Other fees payable		
- taxation	-	113
- other services	<u>-</u>	<u>9</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4. Operating loss (continued)

Exceptional items

The following exceptional items have been recognised in arriving at operating loss

	2009 £'000	2008 £'000 (unaudited)
Provision for onerous leases	1,299	-
Lease surrender costs	258	-
Share based payments (note 33)	2,084	2,198
Impairment of intangible fixed assets	-	485
Impairment of tangible fixed assets	-	547
Impairment of loan owed by related party	-	1,118
Release of Nations Healthcare (Nottingham) indemnity	-	(650)
Aborted site finding costs	1,275	-
Exceptional VAT reclaim	-	(1,164)
	<u>4,916</u>	<u>2,534</u>

Provision for onerous leases in 2009 relate to unused property and equipment held under operating leases by group companies. Provision has been made in full for the remaining net costs to be incurred under these lease agreements (see note 21)

During the year the company paid one of lease surrender costs of £258,000, in order to cancel a lease on a property that is no longer in use

Aborted site finding costs were incurred during the year of £1,275,000 (2008: £nil). These have been recharged by Health Properties Limited and resulted in a reduction in the intercompany loan (note 30)

During the year a share based payment was awarded to an employee of the Group by the ultimate parent undertaking of £2,084,000 (2008: £2,198,000), see note 33

The directors have reviewed the recoverability of the loans owed by related parties and concluded that no further provisions are required. In 2008 provisions of £1,118,000 were recognised leaving a balance of £12,236,000 (2008: £14,802,000), which the directors consider to be the recoverable amount due to the current cash flow forecasts within the group

The VAT refund related to a refund for the previous three years following the VAT registration of the company in October 2008

The release by the company of the Nottingham indemnity in 2008 related to the indemnity issued by Nations Inc. on acquisition of Nations Healthcare group which was satisfied in 2008

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

4. Operating loss (continued)

Total operating loss and EBITDA before exceptional items

	2009 £'000	2008 £'000 (unaudited)
Total operating loss	(18,341)	(19,719)
Exceptional items	4,916	2,534
Total operating loss before exceptional items	(13,425)	(17,185)
Depreciation	1,333	925
Amortisation of goodwill	2,460	2,137
Amortisation of pre-contract costs	3,278	2,065
EBITDA before exceptional items	(6,354)	(12,058)

Deferred Costs

During the year the following costs were deferred under FRS 15 in relation to the commissioning of Circle Hospital Bath

	2009 £'000	2008 £'000 (unaudited)
Staff costs	1,612	-
Property costs	456	-
Consultancy costs	2,433	-
Operating costs	1,378	-
Tenants improvements	1,763	-
	7,642	-

These staff costs relate to salaries and expenses for people working full time on the Bath commissioning project, completing a variety of roles. After the hospital's practical completion on 5 October 2009, the appropriate installation of equipment, staff training and systems configuration the hospital is needed to operate effectively at its potential capacity. These costs are held in assets under construction (note 12).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

5. Employee information

Staff costs were as follows

	2009 £'000	2008 £'000 (unaudited)
Wages and salaries	10,475	8,182
Share based payments	2,084	2,198
Social security costs	1,070	911
Other pension costs	166	147
	<u>13,795</u>	<u>11,438</u>
Less amounts deferred in accordance with FRS 15 (note 4)	(1,612)	-
Less amounts deferred in accordance with UITF34	<u>-</u>	<u>(1,295)</u>
	<u>12,183</u>	<u>10,143</u>

Staff costs deferred in the current year relate to capitalised costs incurred during the commissioning of the Circle Bath Hospital (note 4) 2008 deferred staff costs relate to costs incurred and included in stock under UITF34 – Pre-contract costs for the Nottingham Treatment Centre

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

	2009 Number	2008 Number (unaudited)
Administrative	180	129
Clinical	<u>196</u>	<u>139</u>
	<u>376</u>	<u>268</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

6. Directors' emoluments

	2009 £'000	2008 £'000 (unaudited)
Aggregate emoluments	<u>454</u>	<u>150</u>
Highest paid director	<u>199</u>	<u>150</u>

The directors' emoluments above relate to remuneration for directors of Circle Health Limited

The directors of the Company are also directors or officers of a number of companies within the Health Investment Holdings Limited group of companies. The directors are remunerated from Circle Health Limited, Nations Healthcare Limited and Health Properties Management Limited in respect of services provided to the 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 the company. Details of the aggregate directors' emoluments are disclosed in the financial statements of Circle Health Limited, Nations Healthcare Limited and Health Properties Management Limited.

No directors (2008: none) have retirement benefits accruing under money purchase schemes.

There was no compensation paid for loss of office during the year.

7. Interest receivable and similar income

	2009 £'000	2008 £'000 (unaudited)
Bank interest receivable	9	276
Interest on PFI financial assets	<u>3,456</u>	<u>1,452</u>
	<u>3,465</u>	<u>1,728</u>

8. Interest payable and similar charges

	2009 £'000	2008 £'000 (unaudited)
Interest unwind of discount on acquisition of Windsor Hand Surgery	66	-
Interest paid on Barclays loan	2,340	1,046
Amortisation of Barclays loan issue costs	37	30
Nomura loan interest and guarantee costs	-	2,409
Preferred share dividends accrued to group companies	4,400	3,955
Interest payable on loans from parent undertakings (note 30)	<u>6,617</u>	<u>4,561</u>
	<u>13,460</u>	<u>12,001</u>

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Tax on loss on ordinary activities

(a) Tax on loss on ordinary activities

	2009 £'000	2008 £'000 (unaudited)
The tax credit is made up as follows		
Current tax		
UK corporation tax	(898)	(782)
Deferred tax		
Origination and reversal of timing differences (note 9 (d))	(17)	(5)
Tax credit on loss on ordinary activities	(915)	(787)

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

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained below

	2009 £'000	2008 £'000 (unaudited)
Loss on ordinary activities before tax	(28,336)	(29,992)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	(7,934)	(8,548)
Effects of		
Expenses not deductible for tax purposes	2,701	3,495
Capital allowances in excess of depreciation	(379)	-
Unrelieved tax losses	4,713	4,195
Group relief surrendered for nil payment	1	76
Current tax credit for the period (note 9 (a))	(898)	(782)

The company has recorded a receivable from Circle International plc during the year for consortium relief of £898,000 (2008 £nil) relating to the tax credit above

(c) Factors that may affect future tax charges

There are no factors that affect future tax charges

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Tax on loss on ordinary activities (continued)

(d) Deferred taxation

Group

	2009	2008
	£'000	£'000 (unaudited)
The deferred tax included in the balance sheet is as follows		
Included in provisions for liabilities and charges (note 21)	-	17
		£'000
At 1 January 2009		17
Reversing during the year		(17)
At 31 December 2009		-

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

	Group		Company	
	2009	2008	2009	As restated 2008
	£'000	£'000 (unaudited)	£'000	£'000
Unrelieved tax losses	24,612	14,263	736	742
Depreciation in advance of capital allowances	4,408	288	8,279	5,622
Short term timing differences	3,538	-	-	-
Pension provision	6	5	-	-
	32,564	14,556	9,015	6,364

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. Included in the movement from the 2008 deferred tax assets is an adjustment £13,545,000 in relation to the underprovided deferred tax credits accrued by Nations Healthcare (Nottingham) Limited

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

10. Result attributable to members of the parent undertaking

The result dealt with in the financial statements of the parent undertaking is a loss of £13,585,000 (2008 loss of £18,696,000). 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

	2009	As restated 2008
	£'000	£'000
Provision for onerous leases	170	-
Lease surrender costs	258	-
Share based payment	2,084	2,198
Impairment of investments	-	1,329
Impairment of loan owed by related parties	-	4,650
Release of Nations Healthcare (Nottingham) indemnity	-	(650)
Aborted site finding costs	1,275	-
Exceptional VAT reclaim	-	(1,164)
	3,787	6,363

11. Intangible fixed assets

Group	Goodwill £000
Cost	
At 1 January 2009 (unaudited)	14,714
Post acquisition goodwill adjustment	93
At 31 December 2009	14,807
Amortisation and impairment	
At 1 January 2009 (unaudited)	6,501
Amortisation charge for the year	2,460
At 31 December 2009	8,961
Net book value	
At 31 December 2009	5,846
At 31 December 2008	8,213

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

During the year a subsidiary, Circle Clinics Limited, reassessed the acquisition cost of its purchase of Windsor Hand Surgery Limited and this resulted in an increase in goodwill of £93,000. This increase is as a result of increased deferred consideration of £63,000 and an additional completion payment of £30,000 as a result of more assets being acquired than originally included in the sale and purchase agreement (note 19).

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Intangible fixed assets (continued)

Amortisation during the year is split between £2,408,000 for the Nations Healthcare Group and £52,000 for Windsor Hand Surgery Limited

Company

The company does not have intangible fixed assets

12. Tangible fixed assets

Group

	Assets under construction £'000	Leasehold improvements £'000	Clinical equipment £'000	Furniture, fittings and equipment £'000	Total £'000
Cost					
At 1 January 2009 (unaudited)	1,280	805	1,271	3,255	6,611
Additions	7,642	30	291	131	8,094
Disposals	-	-	(25)	(26)	(51)
At 31 December 2009	8,922	835	1,537	3,360	14,654
Depreciation and impairment					
At 1 January 2009 (unaudited)	547	258	511	1,246	2,562
Charge for the year	-	132	297	904	1,333
At 31 December 2009	547	390	808	2,150	3,895
Net book value					
At 31 December 2009	8,375	445	729	1,210	10,759
At 31 December 2008 (unaudited)	733	547	760	2,009	4,049

Assets under construction relate to commissioning costs incurred for the Circle Bath hospital. In 2008 Depreciation of £67,000 was deferred and was included in long term contract balances in accordance with UITF 34 – Pre Contract Costs in stock (note 14)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

12. Tangible fixed assets (continued)

Company	Furniture, fittings and equipment £'000	Total £'000
Cost		
At 1 January 2009	667	667
Additions	5	5
At 31 December 2009	672	672
Depreciation		
At 1 January 2009	245	245
Charge for the year	254	254
At 31 December 2009	499	499
Net book value		
At 31 December 2009	173	173
At 31 December 2008	422	422

13. Fixed asset investments

Company	
Shares in group undertakings	
	£'000
Cost	
At 1 January 2009 and 31 December 2009	1,329
Provision for impairment	
At 1 January 2009 and 31 December 2009	1,329
Net book value	
At 31 December 2009 and 31 December 2009	-

On 1 April 2009, the Company purchased the remaining 11.7% share capital in its subsidiary undertaking, Nations Healthcare Limited, for £5 plus costs. No goodwill has been added as a result of this acquisition and the costs have been expensed in the current year.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Fixed asset investments (continued)

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 Clinics Limited	Ordinary shares	100%	Medical practice services
Circle Hospital (Bath) Limited	Ordinary shares	100%	Medical practice services
Nations Healthcare Limited	Ordinary shares	61.8%	Medical practice services
Windsor Hand Surgery Limited*	Ordinary shares	100%	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
BECGB 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 from James Caird Asset Management (JCAM) issued to Health Investment Holdings Limited, the ultimate parent undertaking, has been secured over the company's shareholdings in Nations Healthcare (Burton) Limited and Nations Healthcare (North Bradford) Limited

14. Stocks

	Group	
	2009	2008
	£'000	£'000
	(unaudited)	
Consumables	780	712
Long-term contracts balances (note 18)	6,598	8,235
	<u>7,378</u>	<u>8,947</u>

The company does not have consumables or long-term contracts balances

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

15. Debtors

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
	(unaudited)			
Trade debtors	2,645	1,206	48	29
PFI financial asset	44,244	45,256	-	-
Amounts owed by immediate parent undertaking (note 30)	2,790	1,892	2,310	1,412
Amounts owed by ultimate parent undertaking (note 30)	2,110	-	2,110	-
Amounts owed by related party undertakings (note 30)	14,297	14,802	12,547	13,050
Amounts owed by subsidiary undertakings	-	-	9,633	901
Other debtors	979	376	87	97
Other taxes and social security costs	288	128	229	127
Prepayments and accrued income	3,464	2,593	219	191
	70,817	66,253	27,183	15,807

Within the company there are loans and receivables to Circle Hospital (Bath) Limited of £8,985,000 (2008 £nil), Circle Clinics Limited of £197,000 (2008 £nil), Nations Healthcare Limited Group £451,000 (2008 £901,000). 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 one year included above are as follows

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
	(unaudited)			
PFI financial asset	43,232	44,245	-	-
Prepayments and accrued income	140	140	140	140
	43,372	44,385	140	140

The PFI financial asset represents the costs incurred to date for the construction of the Nottingham Independent Sector Treatment Centre through which the company 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 company as provider of those services.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

16. Cash at bank and in hand

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
		(unaudited)		
Cash at bank and in hand	<u>12,193</u>	<u>15,005</u>	<u>3,337</u>	<u>5,726</u>
Including restricted balances of:				
Department of Health Performance Bond	a (4,400)	(7,200)	(2,900)	(5,700)
Minimum balance – GE & DoH	b (2,400)	(2,400)	-	-
Rental Bond – North Bradford	c (213)	(213)	-	-
	<u>(7,013)</u>	<u>(9,813)</u>	<u>(2,900)</u>	<u>(5,700)</u>
Unrestricted cash at bank and in hand	<u>5,180</u>	<u>5,192</u>	<u>437</u>	<u>26</u>

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

- a £4,400,000 (2008 £7,200,000) provided as Performance Guarantee Bonds to the Department of Health Of this amount
- Circle Health Limited has provided a counter indemnity to Barclays Bank by way of a fixed charge over a deposit of £2,900,000 (2008 £5,700,000) credited to a deposit account with the bank for Nations Healthcare (Burton) Limited and Nations Healthcare (Nottingham) Limited
 - Nations Healthcare Limited has provided a counter indemnity to Barclays Bank by way of a fixed charge over a deposit of £1,500,000 (2008 £1,500,000) credited to a deposit account with the bank for Nations Healthcare (North Bradford) Limited
- b GE Capital Equipment Finance Limited has various operating leases for medical equipment used by the Group's hospitals that have Department of Health ISTC contracts to perform NHS medical procedures A condition of both 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) Limited is required to maintain a minimum balance of £1,300,000 (2008 £1,300,000)
 - Nations Healthcare (Burton) Limited is required to maintain a minimum balance of £600,000 (2008 £600,000)
 - Nations Healthcare (North Bradford) Limited is required to maintain a minimum balance of £500,000 (2008 £500,000)
- c The Royal Bank of Scotland has provided a guarantee to the treatment centre building lessor, Orderbide Limited, for payment of rent by a group company, Nations Healthcare (North Bradford) Limited Nations Healthcare Limited has provided a counter indemnity to the Royal Bank of Scotland by way of a fixed charge over a deposit of £213,000 (2008 £213,000) credited to a deposit account with the bank

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

16. Cash at bank and in hand (continued)

The Group cash balance is also subject to the following charges

- Nations Healthcare (North Bradford) Limited and Nations Healthcare (Burton) Limited have pledged any credit balance in their Primary Collections account and any credit balances in their 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 were £nil (2008 £nil) and the credit balances of the Secondary Collections account were £nil (2008 £nil)

17. Creditors - Amounts falling due within one year

	Group		Company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
	(unaudited)			
Barclays bank loan	43,717	44,600	-	-
Trade creditors	10,476	6,025	504	359
Loans from ultimate parent undertaking (notes 20 and 31)	46,960	29,605	30,905	13,550
Loans from immediate parent undertaking (notes 20 and 30)	30,541	32,330	30,541	32,330
Preferred shares held by group undertakings (notes 20 and 30)	22,000	22,000	-	-
Other amounts owed to ultimate parent undertaking (note 30)	6,325	2,032	1,302	520
Other amounts owed to immediate parent undertaking (note 30)	16,958	10,233	8,384	5,160
Payments received on account (note 18)	1,903	1,934	-	-
Other amounts owed to related parties (note 30)	1,591	74	1,581	1,450
Social security and other taxes	260	189	260	177
Accruals and deferred income	3,211	5,743	433	295
	183,942	154,765	73,910	53,841

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 30. Within the company are recharges of expenses from the Nations Healthcare Limited Group of £1,581,000 (2008 £1,450,000)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

18. 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 2009 £'000	Due after more than one year 2009 £'000	Total 2009 £'000	Total 2008 £'000
Costs incurred	2,988	5,326	8,314	11,489
Payments on account	(3,543)	(76)	(3,619)	(5,188)
	<u>(555)</u>	<u>5,250</u>	<u>4,695</u>	<u>6,301</u>

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

	Due within one year 2009 £'000	Due after more than one year 2009 £'000	Total 2009 £'000	Total 2008 £'000
Stock (note 14)	1,348	5,250	6,598	8,235
Creditors (note 17)	(1,903)	-	(1,903)	(1,934)
	<u>(555)</u>	<u>5,250</u>	<u>4,695</u>	<u>6,301</u>

The company has no long term contracts.

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

	Group	
	2009 £'000	2008 £'000 (unaudited)
Loan note	361	255
Deferred consideration	53	46
	<u>41</u>	<u>301</u>

On acquisition of the Windsor Hand Surgery, the company issued loan notes that accrue over 5 years to the former owners P Moorish and D Evans. The expected value of these loan notes are £91,000 (2008: £102,000) and £403,000 (2008: £320,000) respectively after current year reassessment. These are payable on 4 July 2013 and do not attract interest.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

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

In addition to the loan notes, contingent 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.

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

	Loan note £'000	Deferred consideration £'000
Opening present value	255	46
Reassessment of future cash flows (note 11)	51	12
Unwind of discount on acquisition (note 8)	55	11
Payments made	-	(16)
	361	53

In addition to the payments made for deferred consideration during the year a completion payment of £30,000 was made due to the assets on acquisition being higher than the sale and purchase agreement provided for. This payment and reassessment of future cash flows above are included in the £93,000 post acquisition goodwill adjustment (note 11).

20. Loans and other borrowings

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
		(unaudited)		
Due within one year or on demand				
Barclays Bank loan	43,717	44,600	-	-
Loans from ultimate parent undertaking (notes 17, 30)	46,960	29,605	30,906	13,550
Loans from immediate parent undertaking (notes 17, 30)	30,541	32,330	30,541	32,330
Preferred shares held by group undertakings (notes 17, 30)	22,000	22,000	-	-
	143,218	128,535	61,447	45,880
Total borrowings	143,218	128,535	61,447	45,880

The Barclays Bank PFI loan carries an interest rate of LIBOR + 0.40% and is secured by a fixed and floating charge over the assets of Nations Healthcare (Nottingham) Limited. Barclays also have a charge over the shares of Nations Healthcare (Nottingham) Limited that can be exercised in the event Nations Healthcare (Nottingham) Limited does not meet its financial obligation to Barclays. The loan is being repaid in quarterly instalments of £227,000 to £232,000 which commenced on 1 December 2007.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

20. Loans and other borrowings (continued)

There is an existing technical default on the Barclays loan for the Nottingham hospital due to various contractual changes, including a revised opening date, not yet having been formally agreed in the form of a Deed of Variation between the Nations Group and the Department of Health. As a consequence, the loan has been classified as due within 1 year. Steps are being taken to rectify this under a Deed of Variation, to be agreed with Barclays and the Department of Health, which is due to be signed shortly.

Loan issue costs of £238,000 (2008: £275,000) have been set off against 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 interest at a rate of 5.26% per annum. As at 31 December 2009, the swap has a fair value of £3,043,000 loss (2008: £3,170,000 loss).

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 (notes 22 and 30).

21. Provisions for liabilities and charges

Group	Deferred tax £'000	Onerous leases - equipment £'000	Onerous leases - property £'000	Total £'000
At 1 January 2009 (unaudited)	17	18	1,767	1,802
Utilised during the year	(17)	(31)	(678)	(726)
Additions	-	61	1,238	1,299
At 31 December 2009	-	48	2,327	2,375

Provisions for onerous leases - equipment

The provision as at 31 December 2009 relates to the lease of an item of clinical equipment which is no longer used and so has been fully provided for until the end of the lease term.

Provisions for onerous leases - property

Leases for new clinics were taken on in 2006 and 2008 in West London and Ashford. The premises are no longer required by the group and management intends to sub-lease the vacant premises. Management is currently negotiating with potential tenants in Ashford 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 for the remainder of the lease terms.

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.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

21. Provisions for liabilities and charges (continued)

Company	Provisions for onerous lease - property £'000
At 1 January 2009	-
Utilised during the year	-
Additions	170
At 31 December 2009	170

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-lease the vacant premise. Management are currently negotiating with potential tenants. The provision has been calculated based on the total net costs expected to be incurred by the group for the remainder of the lease term.

22. Called up share capital

Ordinary share capital

Group and company	2009 £'000	2008 £'000
Authorised		
100,000 (2008 100,000) Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted and fully paid		
10,000 (2008 10,000) Ordinary shares of £1 each	<u>10</u>	<u>10</u>

Preferred share capital

Group	2009 £'000	2008 £'000
Authorised		
40,000,000 (2008 40,000,000) "C" preferred shares of £1 each	<u>40,000</u>	<u>40,000</u>
Allotted and fully paid		
22,000,000 (2008 22,000,000) "C" preferred shares of £1 each	<u>22,000</u>	<u>22,000</u>

The preferred 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 the company. They 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 (2008 17,500,000) of the preferred shares. Health Investment Holdings Limited, the Group's ultimate parent undertaking, holds 4,500,000 (2008 4,500,000) of the preferred shares.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

23. Reserves

Group	Capital contribution £'000	Profit and loss reserve £'000
At 1 January 2009 (unaudited)	2,198	(52,693)
Loss for the financial year	2,084	(23,581)
At 31 December 2009	4,282	(76,274)

Company	Capital contribution £'000	Profit and loss reserve £'000
At 1 January 2009 (as previously reported)	-	(31,896)
Prior year adjustments	2,198	(2,198)
At 1 January 2009 (as restated)	2,198	(34,094)
Loss for the year	-	(13,585)
Share based payments	2,084	-
At 31 December 2009	4,282	(47,679)

24. Reconciliation of movement in shareholders' deficit

Group	2009 £'000	2008 £'000 (unaudited)
Loss for the financial year	(23,581)	(25,289)
Capital contribution	2,084	2,198
Net addition to shareholders' deficit	(21,497)	(23,091)
Opening shareholders' deficit	(50,485)	(27,394)
Closing shareholders' deficit	(71,982)	(50,485)

Company	2009 £'000	Restated 2008 £'000
Loss for the financial year	(13,585)	(18,696)
Capital contribution	2,084	2,198
Net addition to shareholders' deficit	(11,501)	(16,498)
Opening shareholders' deficit	(31,886)	(15,388)
Closing shareholders' deficit	(43,387)	(31,886)

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

25. Reconciliation of operating profit to net cash flow from operating activities

	2009 £'000	2008 £'000 (unaudited)
Operating loss	(16,257)	(17,551)
Gain on disposal	-	(6)
Impairment of goodwill	-	485
Impairment of amounts owed to related parties	-	1,118
Impairment of tangible assets	-	547
Amortisation of goodwill	2,460	2,137
Amortisation of pre-contract costs	3,278	2,035
Depreciation charge	1,333	925
Decrease / (Increase) in stocks including long-term contract balances	1,569	(5,570)
(Increase) in debtors	(4,678)	(397)
Increase in creditors	250	3,452
Increase in provisions	609	250
Net cash outflow from operations	<u>(11,436)</u>	<u>(12,545)</u>

26. Analysis of changes in net debt

	At 1 January (unaudited) 2009 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2009 £'000
Unrestricted cash at bank and in hand	5,192	(12)	-	5,180
Restricted cash at bank and in hand	9,813	(2,800)	-	7,013
Debt due within one year	(128,535)	(14,646)	(37)	(143,218)
Net debt	<u>(113,530)</u>	<u>(17,458)</u>	<u>(37)</u>	<u>(131,025)</u>

Non cash movements in net debt relate to the amortisation of loan issue costs of £37,000 (2008 £30,000) for the Barclays loan held by Nations Healthcare (Nottingham) Limited. These loan costs are being amortised over the term of the loan.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

27. Capital commitments

There are no capital commitments at 31 December 2009 (2008 £nil)

28. 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 £166,000 (2008 £147,000). There were no outstanding or prepaid contributions as at 31 December 2009 (2008 £nil).

29. Operating lease commitments

At 31 December 2009 the Circle Health Group had annual commitments under non cancellable operating leases as follows

Group	Land and buildings		Other	
	2009 £'000	2008 £'000 (unaudited)	2009 £'000	2008 £'000
Expiry date				
Within one year	68	-	-	-
Between two and five years	3,010	3,431	3,866	3,578
After more than five years	3,394	808	-	-
	<u>6,472</u>	<u>4,239</u>	<u>3,866</u>	<u>3,578</u>

Two subsidiary undertakings, Nations Healthcare (North Bradford) Limited and Nations Healthcare (Burton) Limited have operating lease agreements with Orderbide Limited to lease buildings for the purpose of providing healthcare services contracted with the NHS. The leases are for five years each, commencing in January 2005 and July 2006 respectively. On 30 January 2010, Nations Healthcare (North Bradford) Limited signed a lease extension agreement for a further five months at a reduced rental.

On 28 August Circle Hospital (Bath) Limited, entered into a lease agreement with Circle International plc, the immediate parent undertaking, for the lease of clinical equipment to be used in Bath Hospital, commencing 1 January 2010. Circle International plc has undertaken a lease for this equipment from GE Capital Equipment Finance Limited under the same lease terms.

On 5 October 2009 Circle Hospital (Bath) Limited entered into an agreement to lease the Bath Hospital from Health Properties (Bath) Limited, a joint venture of the Health Investment Holdings Limited group.

The remainder of the commitments under the plant and machinery lease between Nations Healthcare (North Bradford) Limited and GE Capital Corporation (Leasing) Limited are recognised in full in prepayments (note 15). This covers the costs of the lease until its expiry on 11 April 2010 and there is no further commitments under this lease.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

29 Operating lease commitments (continued)

At 31 December 2009, the company had annual commitments under non cancellable operating leases as follows

Company	Land and buildings		Other	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
		(unaudited)		
Expiry date				
Within one year	-	-	-	5
During years two to five	-	-	-	-
After more than five years	222	140	-	-
	<u>222</u>	<u>140</u>	<u>-</u>	<u>5</u>

30. Related party transactions

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

	Group Amounts owed by related party £'000	Amounts owed to related party £'000	Company Amounts owed by related party £'000	Amounts owed to related party £'000
Circle International plc				
2009	2,790	64,999	2,310	38,925
2008 (unaudited)	1,892	60,063	1,412	37,490
Health Properties Limited				
2009	10,445	-	10,445	-
2008 (unaudited)	11,705	74	11,705	74
Health Properties Management Limited				
2009	2,069	-	2,069	-
2008 (unaudited)	1,345	-	1,345	-
Health Properties (Bath) Limited				
2009	1,750	1,591	-	-
2008 (unaudited)	1,750	-	-	-
Health Investment Holdings Limited				
2009	2,110	57,785	2,110	32,207
2008 (unaudited)	-	36,137	-	14,070
Health Estates Managers Limited				
2009	3	-	3	-
2008 (unaudited)	-	-	-	-

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

30. Related party transactions (continued)

	Group Amounts owed by related party £'000	Amounts owed to related party £'000	Company Amounts owed by related party	Amounts owed to related party £'000
Health Capital Limited				
2009	30	-	30	-
2008 (unaudited)	-	-	-	-
Nations Healthcare Limited				
2009	-	-	423	1,455
2008 (unaudited)	-	-	714	1,450
Nations Healthcare (Nottingham) Limited				
2009	-	-	12	7
2008 (unaudited)	-	-	182	-
Nations Healthcare (North Bradford) Limited				
2009	-	-	16	101
2008 (unaudited)	-	-	-	-
Nations Healthcare (Burton) Limited				
2009	-	-	-	-
2008 (unaudited)	-	-	5	-
Circle Clinics Limited				
2009	-	-	197	-
2008 (unaudited)	-	-	-	-
Windsor Hand Surgery Limited				
2009	-	-	-	18
2008 (unaudited)	-	-	-	-
Circle Hospital (Bath) Limited				
2009	-	-	8,985	-
2008 (unaudited)	-	-	-	-

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

30. Related party transactions (continued)

Circle International plc

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

Circle International plc has invested £17,500,000 (2008 £17,500,000) in preferred shares in Nations Healthcare Limited. During the year, Circle International plc accrued interest of £3,500,000 (2008 £3,471,000) on its investment and had an accumulated balance of interest due to Circle International plc of £8,574,000 (2008 £5,074,000). Further details of the preferred shares issued are set out in note 22.

Circle International plc has advanced a loan of £30,541,000 (2008 £32,330,000) 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 £3,244,000 (2008 £3,092,000) in respect of this loan and had an accumulated balance of interest due to Circle International plc of £8,384,000 (2008 £5,160,000).

The group recharged costs of £1,892,000 (2008 £1,892,000) to Circle International plc for expenses, at cost, £1,412,000 (2008 £1,412,000) of these have been recharged from the company.

The company has recorded a receivable from Circle International plc during the year for consortium relief of £898,000 (2008 £nil) relating to the tax credit in the company's current year result.

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

Health Properties Limited

Health Properties Limited is a wholly owned subsidiary of Health Investment Holdings Limited. During the year, the company advanced loans of £10,445,000 (2008 £11,705,000) 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 and do not attract interest. During the year £1,275,000 of loans were written off by the company as several sites were abandoned. Other amounts payable by the company and Group were £74,000 in 2008 for administrative costs.

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 £75,000 (2008 £75,000) in respect of property management services of which £278,000 (2008 £202,000) remained due at the year end. The company advanced loans of £1,791,000 (2008 £1,413,000) to Health Properties Management Limited, these loans are interest free, unsecured and payable on demand.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

30. Related party transactions (continued)

Health Properties (Bath) Limited

On 5 October 2009 a subsidiary of the Circle Health Group, Circle Hospital (Bath) Limited, entered into an agreement to lease Bath Hospital from Health Properties (Bath) Limited, a joint venture of the Health Investment Holdings Limited group. Under the lease agreement, the company has an annual rental commitment of £3,172,000 (2008: £nil) for a term of 25 years.

There is a rental deposit of £1,750,000 (2008: £1,750,000) in relation to the lease agreement which is held in a bank account of Health Properties (Bath) Limited.

During the year, Circle Hospital (Bath) Limited paid rent under this lease agreement of £800,000 (2008: £nil). At 31 December 2009, the Group has prepaid rental of £793,000 (2008: £nil) to Health Properties (Bath) Limited. This is held in prepayments (note 15).

The Group was recharged £1,591,000 for leasehold improvements that were incurred by Health Properties (Bath) Limited; this balance remains payable at 31 December 2009.

Health Investment Holdings Limited

Health Investment Holdings Limited is the ultimate parent undertaking.

Health Investment Holdings Limited is the ultimate parent undertaking. Health Investment Holdings Limited has invested £4,500,000 (2008: £4,500,000) in preferred shares in Nations Healthcare Limited. During the year, Health Investment Holdings Limited accrued interest of £900,000 (2008: £484,000) on its investment and had an accumulated balance of interest due to Health Investment Holdings Limited of £1,384,000 (2008: £484,000). Further details of the preferred shares issued are set out in note 22.

Health Investment Holdings Limited has advanced loans of £30,905,000 (2008: £13,550,000) to the company, bearing interest of 12%. Loans have also been advanced to group companies of £16,055,000 (2008: £16,055,000), bearing interest of 12%.

These loans are unsecured and payable on demand. During the year, the Circle Health Group paid interest of £3,394,000 (2008: £1,468,000) in respect of these loans and had an accumulated balance of interest due to Health Investment Holdings of £4,862,000 (2008: £1,468,000), of which £1,223,000 (2008: £440,000) related to the company loans.

The company and group incurred expenses during the year relating to Health Investment Holdings; these have been recharged at cost and at 31 December 2009 the balance receivable is £2,110,000 (2008: £nil). The company was recharged expenses, at cost, by Health Investment Holdings Limited of £79,000 in 2008; these remain unpaid.

Health Estate Managers Limited

Health Estate Managers Limited is a wholly owned subsidiary of the ultimate parent undertaking, Health Investment Holdings Limited. During the year the company recharged expenses, at cost in relation to the 2008 audit for £3,000 (2008: £nil).

Health Capital Limited

Health Capital Limited is a wholly owned subsidiary of the ultimate parent undertaking, Health Investment Holdings Limited. During the year the company and group advanced loans of £30,000 (2008: £nil). These loans are unsecured, interest free and payable on demand.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

30. Related party transactions (continued)

Nations Healthcare Limited (Group)

Circle Health holds a 61.3% (2008 50.1%) share in the Nations Healthcare Limited group of companies. During the year the companies were recharged administrative expenses, at cost, by Circle Health Limited that remain unpaid at 31 December 2009. Total balances at 31 December between Circle Health and Nations Healthcare Limited Group are debtors of £451,000 (2008 £901,000) and creditors of £188,000 (2008 £nil).

Included in the balance payable to Nations Healthcare Limited is an unsecured, interest free loan of £1,375,000 (2008 £1,450,000) 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 £944,000 (2008 £884,000) and £562,000 (2008 £425,000) respectively. The loans are interest free, unsecured and payable on demand. These balances were fully provided for in the prior year, although based on current cash flow forecasts the directors believe the remaining balance of £197,000 to be fully recoverable.

Windsor Hand Surgery Limited

Windsor Hand Surgery Limited is a wholly owned subsidiary of Circle Clinics Limited, and during the year the company recharged expenses, at cost, to the value of £18,000 (2008 £nil).

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 £7,225,000 (2008 £nil) and £5,292,000 (2008 £nil) for commissioning and other set up costs. Of these costs £3,532,000 was incurred in 2008 by Circle and fully provided for prior to being recharged to Circle Hospital (Bath) Limited in 2009.

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.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

31. Minority Interests

All minority interests relate to the investment in the Nations Healthcare Group which recorded a loss after tax of £10,053,000 (2008 £10,253,000)

Minority shareholder	Interest	2009 £'000	2008 £'000 (unaudited)
Minority interest at 1 January		3,916	-
Owned by			
Circle International plc	38.2% (2008 38.2%)	3,840	3,916
Nations Healthcare Inc	nil% (2008 11.7%)	-	1,200
Acquisition of 11.7% minority interest		-	-
Provision for minority interest		-	(1,200)
Minority Interest at 31 December		7,756	3,916

During 2009 the minority interest held by Nations Healthcare Inc was acquired by the Circle Health Limited (note 13). The minority interests previously held by Nations Healthcare Inc has been provided for in full.

No provision is recognised on the minority interest held by Circle International plc as they are obliged to fund these losses.

32. Post balance sheet events

The Group's new hospital in Bath opened for trading on 25 February 2010. This is operated by Circle Hospital (Bath) Limited.

33. Share based payments

The Company's ultimate parent, Health Investment Holdings Limited, has granted warrants to a Director of the Company. As a result of this a share based payment charge has been booked as detailed in the accounting policy note. Details of these warrants are shown below.

Health Trust (Jersey), of which Mr A Parsadoust, a Director of the Company, is a beneficiary, received 220,190 warrants 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. Warrants were issued that entitle the holder to acquire an equivalent number of Health Investment Holdings Limited ordinary shares with a subscription price of £59.67 per share, with no expiry date but lapse if the company is listed or sold. These were issued as additional consideration for the sale of 100% of the shares in Health Properties Limited to Health Investment Holdings Limited and are conditional on Mr A Parsadoust remaining with the Group for a specified period up to 48 months, with the warrants vesting over the course of this term.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

33. Share based payments (continued)

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

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding as at 1 January	267,680	£59.67	-	-
Granted during the year	-	-	267,680	£59.67
Outstanding as at 31 December	267,680	£51.545	267,680	£59.67

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. These were valued at the time of the acquisition and are expensed in the profit and loss account as share-based payments as the warrants vest over the specified period, an expense of £1,779,000 has been recognised in the current year (2008 £2,198,000)

The fair value of warrants granted is estimated at the date of grant using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2009

	2009	2008
Stock price	£59.68	£59.68
Strike price	£51.545	£59.67
Expected volatility	50%	50%
Risk free interest rate	5%	5%
Option life	10 years	10 years
Expected dividends	-	-

The expected life of the option is based on historical data 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.

Health Trust Option Pool

An additional share-based payment was made to Health Trust (Jersey) on 27 November 2009. 200,473 warrants to subscribe for ordinary shares in the company, at a strike price of £51.545 were granted to Health Trust (Jersey) and vest in 20 per cent increments upon the opening of the first 5 Circle hospitals in accordance with the following schedule:

- 40,095 warrants vested on the opening of the Circle Bath Hospital (25 February 2010)
- 40,094 warrants to vest on the opening of the second hospital
- 40,095 warrants to vest on the opening of the third hospital
- 40,094 warrants to vest on the opening of the fourth hospital
- 40,095 warrants to vest on the opening of the fifth hospital

In addition to the triggering events noted above it is a condition that Mr A Parsadoust remains an employee of the Group at the time of each triggering event.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

33. Share based payments (continued)

Health Trust Option Pool (continued)

During the year a charge of £305,000 (2008: £nil) has been recognised in the profit and loss account in relation to these warrants. These warrants have been valued using the Black-Scholes model, using the same inputs as noted above over the 5 years that the hospitals are expected to be opened during.

Circle Partnership

Circle Health is 49.9% owned by Circle Partnership Limited and 50.1% owned by Circle International plc. Circle Partnership has authorised capital of 100,000,000 shares which each have rights to 1/100th of the voting, dividend and capital of the company. These rights are subject to restrictions that vest over three years from the deemed date of issue of the share.

It is the intention to issue all of these shares to employees, Consultants and GPs who are contracted to contribute to the growth in value of Circle Health. This will allow those who contribute to Circle Health's success to be owners of the business and share in the growth in value.

Up to 31 December 2009 Circle Partnership had issued subscription letters for a total 31,398,206 shares (26,320,066 shares to 31 Dec 2008) 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 3 months of the issuance of the subscription letters.

There are no obligations on Circle Health or any member of the Group in relation to the Circle Partnership shares, including buy back obligations.

The issuance of these shares to employees is within the scope of FRS20 – Share based payments, although there is no resultant charge associated as a result of employees subscribing full market value.

As required under UITF 38 – Accounting for ESOP Trusts, the results of Circle Partnership Limited have been consolidated into those of the Health Investment Holdings Group. The Circle Partnership Limited is considered part of the Health Investment Holdings Limited Group owing to the nature of the share scheme as described in note 33 of the Health Investment Holdings Limited financial statements. As such no minority interest has been recognised for its share of the accrued losses of the Circle Health Limited group of companies.

Circle Health Limited

Notes to the financial statements for the year ended 31 December 2009 (continued)

34. Ultimate parent undertaking and controlling party

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

Health Investment Holdings Limited 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 group financial statements for Health Investment Holdings Limited may be obtained from 12 Castle Street, St Helier, JE2 3RT, Jersey

At 31 December 2009 the directors regard Health Investment Holdings Limited, a company registered in Jersey, as the company's ultimate parent undertaking and controlling party